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OFFERING CIRCULAR

Lotte Shopping Co., Ltd.

(a corporation with limited liability incorporated under the laws of the Republic of Korea)

₩303,600,000,000 U.S. Dollar-Settled Zero Coupon Exchangeable Bonds due 2023

Our ₩303,600,000,000 U.S. Dollar-Settled Zero Coupon Exchangeable Bonds due 2023 (the "Bonds") will be redeemed at maturity at the U.S. Dollar Equivalent (as defined herein), which will be determined based on the exchange rate then prevailing, of 102.53% of their principal amount, unless previously redeemed, repurchased and cancelled, or exchanged. Unless previously redeemed or repurchased and cancelled, the Bonds may be exchanged during the Exchange Period (as defined herein) into shares of common stock (the "Shares" or "Hi-mart Shares"), par value ₩5,000 per share, of LOTTE Himart Co., Ltd. ("Hi-mart") at the Exchange Price (as defined herein), which will initially be ₩85,840 per Share. The Bonds will be in registered form and will be issued in denominations of ₩200,000,000 or integral multiples thereof.

The Bonds may be redeemed on April 4, 2021 at their Early Redemption Amount (as defined herein) at the option of the Bondholders. Each holder of the Bonds also has the right, at such holder's option, to require us to redeem all or a part of such holder's Bonds at their Early Redemption Amount, if Hi-mart undergoes a Change of Control (as defined herein) or if the Hi-mart Shares officially cease to be listed or admitted for trading or are suspended for a period of at least 30 consecutive Trading Days (as defined herein) on the KRX KOSPI Market. The Bonds may be redeemed on or after April 4, 2021 until the 30th business day prior to maturity, at our option, in whole but not in part, at their Early Redemption Amount, provided that the Bonds may not be so redeemed unless the Closing Price (as defined herein) per Share has been at least 130% of the prevailing Early Redemption Amount divided by the prevailing Exchange Ratio (as defined herein) for a specified period. The Bonds may also be redeemed by us at their Early Redemption Amount, in whole but not in part, in the event of certain changes relating to taxation or in the event that at least 90% of the initial principal amount of the Bonds has been redeemed, repurchased and cancelled, or exchanged.

All amounts due under, and all claims arising out of or pursuant to, the Bonds and/or the Trust Deed (as defined herein) from or against us shall be payable and settled in U.S. dollars only. Based on an issue price of 100% of the principal amount of the Bonds and an exchange rate of ₩1,065.8 to US$1.00 (which was the exchange rate prevailing on March 14, 2018, the date of the Subscription Agreement (as defined herein)), the subscription amount payable in respect of each Bond of ₩200,000,000 in principal amount is US$187,652.47.

Approval in-principle has been received from the Singapore Exchange Securities Trading Limited (the "SGX-ST") for the listing and quotation of the Bonds on the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made, opinions expressed or reports contained herein. Approval in-principle from, admission to the Official List of, and listing and quotation of the Bonds on, the SGX-ST are not to be taken as an indication of our merits or the merits of the Bonds.

The Hi-mart Shares are listed and admitted for trading on the KRX KOSPI Market. The closing price of the Hi-mart Shares on the KRX KOSPI Market was ₩74,000 per Share on March 14, 2018, the date of the Subscription Agreement, and ₩74,000 per Share on March 27, 2018.

Investing in the Bonds or the Hi-mart Shares deliverable upon exchange of the Bonds involves risks. See "Risk Factors" beginning on page 15.

Issue Price:	100%

The Bonds and the Hi-mart Shares deliverable upon exchange of the Bonds have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the "Securities Act"). The Bonds are being offered and sold only outside the United States in reliance on Regulation S under the Securities Act ("Regulation S"). The Bonds and the Hi-mart Shares deliverable upon exchange of the Bonds are not transferable except in accordance with restrictions described herein. For a description of certain restrictions on resale or transfer, see "Terms and Conditions of the Bonds" and "Subscription and Sale."

The Bonds will be evidenced by a global bond certificate (the "Global Certificate"), without coupons, and will be deposited on or about April 4, 2018 with a common depositary for, and registered in the name of a nominee of, Euroclear Bank S.A./ N.V. ("Euroclear") and Clearstream Banking, S.A. ("Clearstream"). Except as described herein, beneficial interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear, Clearstream and their respective participants.

Joint Bookrunners and Joint Lead Managers

BNP PARIBAS **Nomura**

The date of this offering circular is March 29, 2018.

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NOTICE TO INVESTORS

You should rely only on the information contained in this offering circular. We have not authorized anyone to provide you with information that is different. This offering circular may only be used where it is legal to sell the Bonds. You should not assume that the information in this offering circular is accurate as of any date other than the date at the front of this offering circular. You are authorized to use this offering circular solely for the purpose of considering the purchase of the Bonds described in this offering circular. You may not reproduce or distribute this offering circular in whole or in part, and you may not disclose any of the contents of this offering circular or use any information herein for any purpose other than considering a purchase of the Bonds.

The offer and sale of the Bonds have not been, and the Bonds and the Hi-mart Shares will not be, registered under the Securities Act or the securities laws of any other jurisdiction. We are offering the Bonds in reliance on an exemption from registration under the Securities Act for offers and sales of securities that do not involve a public offering. We are not, and the Managers (as defined herein) are not, making an offer to sell the Bonds in any jurisdiction except where an offer or sale is permitted.

In making an investment decision, prospective investors must rely on their own examination of us and the terms of the offering of the Bonds, including the merits and risks involved. We are not making any representation to any purchaser of the Bonds regarding the legality of an investment in the Bonds by such purchaser under any legal investment or similar laws or regulations. Neither this offering circular nor any information supplied in connection with the issue of the Bonds should be considered as a recommendation or constituting an invitation or offer by us that any recipient of this offering circular should purchase any Bonds. The contents of this offering circular should not be construed as providing legal, business, accounting or tax advice.

No person is authorized in connection with any offering of the Bonds to give any information or make any representation other than as contained in this offering circular in connection with the offering of the Bonds and, if given or made, such information or representation must not be relied upon as having been authorized by us or by the Managers. Neither the delivery of this offering circular nor any sale made hereunder shall, under any circumstances, constitute a representation or create any implication that there have been no changes in our affairs since the date hereof. This offering circular does not constitute an offer to sell or a solicitation of an offer to buy any Bonds by any person except in compliance with all applicable laws and regulations. No representation, undertaking or warranty, express or implied, is made by the Managers or any of their affiliates or advisers as to the accuracy or completeness of the information contained herein, and nothing contained in this offering circular is, or shall be relied upon as a promise or representation by the Managers or their affiliates or advisers. The Managers assume no responsibility or liability for the accuracy or completeness of any such information or any other information (financial, legal or otherwise) provided by us in connection with the issue of the Bonds or their distribution.

Each person receiving this offering circular acknowledges that such person has not relied on the Managers or any person affiliated with the Managers in connection with investigation of the accuracy of such information or its investment decisions.

The distribution of this offering circular and the sale or offering of the Bonds in certain jurisdictions may be restricted by law. It may not be used for or in connection with any offer to, or solicitation by, anyone in any jurisdiction in which it is unlawful to make such an offer or solicitation. Persons into whose possession this document may come are required by us and the Managers to inform themselves about and to observe such restrictions, and are deemed to have knowledge of and to have represented and warranted to us and the Managers that they have observed and complied with such restrictions. No action is being taken in any jurisdiction to permit an offering to the general public of the Bonds or the distribution of this document in any jurisdiction where action would be required for such purposes. For a description of certain further restrictions on offers and resales of the Bonds and the Hi-mart Shares and distribution of this offering circular, see "Subscription and Sale."

We reserve the right to withdraw this offering of the Bonds at any time. We and the Managers also reserve the right to reject any offer to purchase the Bonds in whole or in part for any reason and to allocate to any prospective investor less than the full amount of Bonds sought by such investor.

THE BONDS HAVE NOT BEEN REGISTERED UNDER THE FINANCIAL INVESTMENT SERVICES AND CAPITAL MARKETS ACT OF KOREA (THE "FSCMA"). ACCORDINGLY, THE BONDS MAY NOT BE OFFERED, SOLD OR DELIVERED, DIRECTLY OR INDIRECTLY, IN THE REPUBLIC OF KOREA ("KOREA") OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, ANY RESIDENT OF KOREA (AS SUCH TERM IS DEFINED UNDER THE FOREIGN EXCHANGE TRANSACTION LAW OF KOREA AND ITS ENFORCEMENT DECREE), FOR A PERIOD OF ONE YEAR FROM THE DATE OF ISSUANCE OF THE BONDS, EXCEPT AS OTHERWISE PERMITTED UNDER APPLICABLE KOREAN LAWS AND REGULATIONS. IN ADDITION, UNTIL THE EXPIRATION OF ONE YEAR AFTER THE ISSUANCE OF THE BONDS, THE BONDS MAY NOT BE TRANSFERRED TO ANY RESIDENT OF KOREA.

Any purchase or acquisition of the Bonds is in all respects conditional on the satisfaction of certain conditions set out in the Subscription Agreement (as defined herein) and the issue of the Bonds by us to the Managers pursuant to the Subscription Agreement. Any offer, invitation to offer or agreement made in connection with the purchase or acquisition of the Bonds pursuant to this offering circular shall (without liability or responsibility on the part of us or the Managers) lapse and cease to have any effect if (for any other reason whatsoever) the Bonds are not issued by us to the Managers pursuant to the Subscription Agreement.

NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED KINGDOM

THIS COMMUNICATION IS ONLY BEING DISTRIBUTED TO AND IS ONLY DIRECTED AT (I) PERSONS WHO ARE OUTSIDE THE UNITED KINGDOM OR (II) INVESTMENT PROFESSIONALS FALLING WITHIN ARTICLE 19(5) OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2005, AS AMENDED (IN THIS PARAGRAPH, THE "ORDER") OR (III) HIGH NET WORTH ENTITIES, FALLING WITHIN ARTICLE 49(2)(A) TO (D) OF THE ORDER, AND OTHER PERSONS TO WHOM IT MAY OTHERWISE LAWFULLY BE COMMUNICATED (ALL SUCH PERSONS TOGETHER BEING REFERRED TO IN THIS PARAGRAPH AS "RELEVANT PERSONS"). THE BONDS ARE ONLY AVAILABLE TO, AND ANY INVITATION, OFFER OR AGREEMENT TO SUBSCRIBE, PURCHASE OR OTHERWISE ACQUIRE SUCH BONDS WILL BE ENGAGED IN ONLY WITH, RELEVANT PERSONS. ANY PERSON WHO IS NOT A RELEVANT PERSON SHOULD NOT ACT OR RELY ON THIS DOCUMENT OR ANY OF ITS CONTENTS.

PROHIBITION OF SALES TO EUROPEAN ECONOMIC AREA RETAIL INVESTORS

The Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("EEA"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "MiFID II"); or (ii) a customer within the meaning of Directive 2002/92/EC (as amended, the "Insurance Mediation Directive"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the "PRIIPs Regulation") for offering or selling the Bonds or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Bonds or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPS Regulation.

CERTAIN DEFINED TERMS AND CONVENTIONS

Market data and certain industry forecasts used throughout this offering circular, including under the headings "Summary—Our Company," "Summary—Hi-mart," "Risk Factors—Risks Relating to the Retail Industry," "Risk Factors—Risks Relating to Hi-mart" and "Business," were obtained from internal surveys, market research, publicly available information and industry publications published by third parties, including the Korea National Statistical Office, Retail Magazine and the Korea Exchange. Such information has been accurately reproduced herein and, as far as we are aware and are able to ascertain from information published by such third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading. Industry publications generally state that the information that they contain has been obtained from sources believed to be reliable but that the accuracy and completeness of that information is not guaranteed. Similarly, internal surveys, industry forecasts and market research, while believed to be reliable, have not been independently verified, and neither we nor the Managers make any representation as to the accuracy or completeness of this information.

In this offering circular, unless otherwise specified or the context otherwise requires:

- references to the "Issuer," "Company," "Lotte Shopping," "we," "us" and "our" are to Lotte Shopping Co., Ltd. and, unless the context otherwise requires, our consolidated subsidiaries (including Hi-mart); and
- references to "Hi-mart" are to LOTTE Himart Co., Ltd. and, unless the context otherwise requires, its consolidated subsidiaries.

All references to "Korea" or the "Republic" are references to the Republic of Korea.

All references to "Won" or "₩" are to the lawful currency of the Republic of Korea, all references to "U.S. dollar" or "US$" are to the lawful currency of the United States of America, and all references to "Singapore dollars" or "S$" are to the lawful currency of Singapore.

All exchange rate data between the Won and the U.S. dollar contained in this offering circular, unless otherwise specified, has been derived using the market average exchange rate announced by Seoul Money Brokerage Services, Ltd. (the "Market Average Exchange Rate").

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

All financial information, descriptions and other information in this offering circular regarding our and Hi-mart's activities, financial condition and results of operations are, unless otherwise indicated or required by context, presented on a consolidated basis. The consolidated financial statements included in this offering circular were prepared in accordance with International Financial Reporting Standards as adopted by Korea ("Korean IFRS").

On October 1, 2017, we effected a spin-off and merger transaction (the "Spin-off/Merger"), pursuant to which (i) each of we and our affiliates Lotte Chilsung Beverage Co., Ltd. and Lotte Food Co., Ltd. spun off its investment operations (including, in our case only, the rights and obligations relating to our treasury shares owned prior to the effective date of such spin-off, as well as treasury shares acquired as a result of the exercise of appraisal rights by dissenting shareholders) (the "Spun-off Businesses") into a new company (each, a "Newco"), (ii) our affiliate Lotte Confectionery Co., Ltd. (which was subsequently re-named Lotte Corporation) spun off its business operations into a new company (which subsequently assumed the name Lotte Confectionery Co., Ltd.) and retained only its investment operations and (iii) the Newcos were merged with and into Lotte Corporation, which would serve as a new holding company for the Lotte Group. Pursuant to the Spin-off/Merger, we transferred to Lotte Corporation all active and passive assets and liabilities, rights and obligations and any other items of value (including all licenses and permits, employment relationships, contractual relationships and litigations) relating to our Spun-off Businesses (collectively, the "Spun-off Assets and Liabilities"), other than those that were required to remain with us due to their nature or pursuant to applicable law.

The Spun-off Assets and Liabilities included our equity investment in certain consolidated subsidiaries and associates. As a result, the shares we owned in such consolidated subsidiaries and associates prior to the Spin-off/Merger were transferred to Lotte Corporation, and the operations of our former subsidiaries and associates that constituted part of our Spun-off Businesses were accounted for as discontinued operations in our audited consolidated statement of comprehensive income for the year ended December 31, 2017, and our consolidated statement of comprehensive income for the year ended December 31, 2016 included in our consolidated financial statements as of and for the years ended December 31, 2017 and 2016 has been correspondingly restated. Such restated consolidated statement of comprehensive income appearing elsewhere in this offering circular was prepared by us for period-to-period comparison purposes only and has not been audited by our independent auditors. Due to the Spin-off/Merger, our financial information derived from our audited consolidated financial statements as of and for the years ended December 31, 2015 and 2016 is not directly comparable to our financial information derived from our audited consolidated financial statements as of and for the year ended December 31, 2017. See Note 43 of the notes to our consolidated financial statements as of and for the years ended December 31, 2017 and 2016 included elsewhere in this offering circular for information regarding the accounting treatment of the Spin-off/Merger.

We derive sales revenues principally through direct sales and "specific sales" of merchandise as well as through concessions, whereby we lease space in our department stores and discount stores to certain tenants. Direct merchandise sales comprise sales of purchased merchandise, on which we bear the full inventory risk. Specific sales comprise sales of merchandise supplied to us on a conditional basis which we can return to the supplier for a full refund either at any time, on which we bear no inventory risk, or during a specified period (prior to the end of the relevant season, for seasonal merchandise, or within 90 days of supply, for non-seasonal merchandise), following which period we bear inventory risk on unreturned merchandise. Prior to 2017, we recognized the gross amount of specific sales of conditionally supplied merchandise that may be returned for a refund during a specified period without deducting the cost of such merchandise (but net of "sales allowances," which mainly comprise discounts, generally up to 5%, provided from time to time on a promotional basis on purchases made by customers with specified credit cards), and the cost of such merchandise was included in our cost of sales, while specific sales of conditionally supplied merchandise that may be returned at any time were reported in our statements of comprehensive income on a net basis, after deducting the cost of such specific sales. However, pursuant to our adoption of Korean IFRS 1115, Revenue from Contracts with Customers, for 2017, commencing such year, all of our specific sales are recognized on a net basis after deducting the cost of the conditionally supplied merchandise, regardless of whether such merchandise may be returned at any time or during a specified period. In addition, certain logistics-related sales previously recognized on a gross basis are recognized on a net basis, after deducting the cost of the relevant goods, commencing in 2017. Certain related adjustments were also made to the amounts of our inventories and trade and other payables as of December 31, 2017. As we have not applied Korean IFRS 1115 retrospectively for prior years, our consolidated sales and cost of sales for 2015 and 2016 are not directly comparable to corresponding amounts for 2017, and our inventories and trade and other payables (as well as our total assets and liabilities) as of December 31, 2015 and 2016 are not directly comparable to corresponding amounts as of December 31, 2017. See Note 3 of the notes to our consolidated financial statements as of and for the years ended December 31, 2017 and 2016 included elsewhere in this offering circular.

In addition to such net sales based on Korean IFRS, where specified, we also use "gross" sales figures (which do not comply with Korean IFRS) prior to deduction of the cost of specific sales (but net of sales allowances) to represent relevant sales figures in this offering circular. Such gross sales are different from, and not directly comparable with, the net sales figures used in our consolidated financial statements. However, we believe that gross sales are a helpful measure of our overall sales performance, consistent with Korean retail industry practice, as it measures the total revenue generated by our marketing and sales activities without regard to the terms of supply of the merchandise sold. Rental payments by our tenants on concessions we granted to them are calculated either as a percentage of the net sales generated at the concession or as a fixed monthly amount. Such rental payments are recorded as "other operating revenues" which is a component of sales.

Any discrepancies in any table between the totals and sums of the amounts listed are due to rounding.

DOCUMENTS INCORPORATED BY REFERENCE

Our audited separate annual financial statements as of and for the years ended December 31, 2017 and 2016 and the notes thereto (the "2017 Separate Financial Statements"), which were filed with the Financial Supervisory Service of Korea on March 14, 2018, shall be deemed to be incorporated in, and to form part of, this offering circular. An English version of the 2017 Separate Financial Statements is publicly available over the internet at our investor relations website at http://www.lotteshoppingir.com. Prospective purchasers of the Bonds should carefully review the entire offering circular, including the 2017 Separate Financial Statements incorporated by reference herein, before making an investment decision. No information or material which is, or may become from time to time, available on our website other than the 2017 Separate Financial Statements shall be deemed to be incorporated in, or to form part of, this offering circular.

SUMMARY

The following summary highlights information appearing elsewhere in this offering circular and does not contain all of the information you should consider in making your investment decision. You should read this summary together with the more detailed information, including the financial statements and related notes, appearing elsewhere in this offering circular. You should carefully consider, among other things, the matters discussed in "Risk Factors."

Our Company

We are one of the leading retail companies in Korea, with a strategically expanding overseas presence. Since opening our first department store in downtown Seoul in 1979, we have built a portfolio of over 1,050 stores worldwide in a variety of retail formats as of December 31, 2017. We operate most of our stores under the Lotte brand name, which is widely recognized in Korea and becoming increasingly recognized in the other markets in which we operate.

We conduct our core retail operations primarily in two formats, which are department stores and discount stores.

Department Stores. We operate the largest department store chain in Korea in terms of both sales and number of stores, accounting for an estimated 39.6% of the total sales of the department store segment of the Korean retail market in 2017 (excluding sales from outlet stores), according to the Korea National Statistical Office and our internal data. As of December 31, 2017, we operated 33 department stores throughout Korea, which included 30 department stores which we owned and operated under the brand names Lotte Department Store, Avenuel, Young Plaza and elCube and three department stores owned by our consolidated subsidiaries and affiliates which we operated under the brand name Lotte Department Store. As of the same date, we also operated 21 outlet stores in Korea under the brand names Lotte Outlet, Lotte Premium Outlet and Lotte Factory Outlet. Our department stores offer customers a wide variety of merchandise, including apparel, accessories, cosmetics and household goods, catering to affluent, fashion-conscious customers in Korea's major cities. Our department stores also include retail shops, restaurants, food outlets, clinics, beauty parlors and jewelers operated as third-party concessions. Our department store business in Korea generated gross sales of ₩8,538 billion, ₩8,686 billion and ₩8,292 billion, representing 28.3%, 28.2% and 33.8% of our total consolidated gross sales (excluding sales of our Spun-off Businesses for 2017), in 2015, 2016 and 2017, respectively.

Discount Stores. We operate the third largest discount store chain in Korea in terms of sales, accounting for an estimated 23.6% of the total sales of the discount store segment of the Korean retail market in 2017, according to public disclosure filings of our competitors and our internal data. As of December 31, 2017, we operated 118 discount stores throughout Korea under the brand name Lotte Mart. Our Lotte Mart stores are designed to provide a "one-stop" shopping experience by offering, at competitive prices, a wide assortment of food products, apparel, consumer electronics and general merchandise for budget-minded yet quality-conscious customers. In addition, we also operate five membership-based, warehouse-format discount stores in Seoul and its surrounding areas operated under the brand name VICMarket. Our discount store business in Korea generated gross sales of ₩5,976 billion, ₩5,960 billion and ₩6,013 billion, representing 19.8%, 19.4% and 24.5% of our total consolidated gross sales (excluding sales of our Spun-off Businesses for 2017), in 2015, 2016 and 2017, respectively.

In addition to our core retail operations in Korea, we have retail operations in overseas markets, including nine department stores located in China, Vietnam, Indonesia and Russia (two of which are owned by associates) and 158 discount stores in various locations in China, Indonesia and Vietnam as well as 13 supermarkets in China as of December 31, 2017. Our business portfolio also includes Korea's largest chain of electronics retail stores under the Hi-mart brand name; three supermarket chains in Korea, which are operated under the Lotte Super, Market 999 and Lotte Premium Food Market brand names; a home shopping, catalogue and online retail sales business operating under the brand name Lotte Home Shopping; a chain of multiplex movie theaters operating under the brand name Lotte Cinema; a chain of health and beauty retail stores operating under the brand name LOHB's; and certain other businesses. See "Business—Operations" and "Hi-mart."

By operating our stores in a variety of retail formats, we believe we are well positioned to capture shifts in consumer spending that may result from changes in economic conditions and the spending patterns of our existing and prospective customers. In addition, our portfolio of different businesses enables us to maximize synergies by offering a complementary mix of products and services at many of our retail locations, such as operating our movie theaters in close proximity to our department stores or discount stores and operating our category killer stores as shop-in-shop units within our discount stores in order to attract more customers.

Our consolidated sales (excluding discontinued operations in 2017) amounted to ₩29,128 billion, ₩29,526 billion and ₩18,180 billion, while our consolidated gross sales (excluding discontinued operations in 2017) amounted to ₩30,156 billion, ₩30,753 billion and ₩24,549 billion, in 2015, 2016 and 2017, respectively. Our consolidated loss amounted to ₩346 billion in 2015, our consolidated profit amounted to ₩247 billion in 2016, and our consolidated loss from continuing operations amounted to ₩444 billion in 2017. Our consolidated sales and gross sales for 2015 and 2016 are not directly comparable to those for 2017 due to the effects of the Spin-off/Merger effected by us in 2017 and the classification of our Spun-off Businesses as discontinued operations. See "Presentation of Financial and Other Information" and "— History — Spin-off/Merger." In addition, due to the effects of our adoption of Korean IFRS 1115 commencing in 2017, our consolidated sales for 2015 and 2016 are not directly comparable to our consolidated sales for 2017.

Hi-mart

Hi-mart is the largest consumer electronics specialty retailer in Korea, with the largest sales and store network. It specializes in consumer electronics products and household appliances and offers a diverse selection of domestic and international brands through a nationwide chain of retail stores. Since opening its first electronics retail store in 1987, Hi-mart has built a nationwide chain of 462 stores that it directly operates in all nine provinces and major cities in Korea. Hi-mart operates all of its stores under the Hi-mart brand name, which has been recognized by Chosun Biz as the most popular consumer electronics retailer brand in Korea in each of the past 8 years.

Hi-mart believes its brand recognition, broad product selection, dedicated and knowledgeable sales consultants, effective brand marketing strategies and distinct store formats differentiate it from its competitors by positioning its stores as the preferred destination for consumer electronics products and household appliances in a shopping environment that is informative and designed to capture customers' attention. Hi-mart has achieved its market leading position through a nationwide chain of retail stores that provides a "one-stop" shopping experience by offering at competitive prices a wide selection of consumer electronics products and household appliances, including portable electronics, computers, mobile communication devices and various household and kitchen appliances, for price-sensitive yet quality conscious customers. Hi-mart's stores are staffed by highly-trained sales consultants who have undertaken Hi-mart's rigorous in-house training programs to ensure that they are well-equipped to provide its customers with a quality shopping experience. Hi-mart carries a wide selection of approximately 26,000 products, comprising approximately 1,850 brands sourced from approximately 790 suppliers in Korea and overseas. The large amounts of purchases that Hi-mart makes enable it to reduce its purchasing costs through volume discounts.

Hi-mart believes that its position as the largest specialty retailer in the Korean consumer electronics retail industry, its marketing expertise and distribution know-how will continue to differentiate it as a provider of quality retail services and help it to take advantage of attractive growth opportunities. Hi-mart plans to continue to selectively expand its nationwide retail network, enhance the competitiveness of its existing stores, maintain flexibility with respect to store locations and property ownership, and improve its operating efficiency and profitability through further utilizing economies of scale, expanding the pool of its domestic and international suppliers and improving its IT systems. Hi-mart also plans to continue to focus on enhancing its online presence in order to more effectively target younger customers who are familiar with the e-commerce retail environment.

Hi-mart was established in 1987 as Korea Credit Distribution Co., Ltd. primarily to engage in the distribution of Daewoo Electronics products. In 2000, Hi-mart changed its corporate name to Hi-mart Co., Ltd. and launched an online electronics shopping mall, to capitalize on growing e-commerce opportunities and to enable it to more effectively target younger consumers with a high propensity to use the internet. Hi-mart was listed on the KRX KOSPI Market of the Korea Exchange in June 2011. In October 2012, Hi-mart became our consolidated subsidiary upon our acquisition of a 65.25% equity interest in Hi-mart from certain of its shareholders, and we changed the company's name to LOTTE Hi-mart Co., Ltd., while electing to continue operating the company's stores under the brand name Hi-mart.

Hi-mart's revenue amounted to ₩4,099 billion in 2017 compared to ₩3,939 billion in 2016 and ₩3,896 billion in 2015. Hi-mart's net income amounted to ₩148 billion in 2017 compared to ₩121 billion in 2016 and ₩107 billion in 2015. Hi-mart had total assets of ₩3,205 billion and total equity of ₩2,026 billion as of December 31, 2017. Due to the effects of Hi-Mart's adoption of Korean IFRS 1115 commencing in 2017, its sales for 2015 and 2016 are not directly comparable to its sales for 2017. See Note 3 of the notes to Hi-mart's financial statements as of and for the years ended December 31, 2017 and 2016 included elsewhere in this offering circular.

The Offering

Terms used below and not otherwise defined have the meanings given to them in "Terms and Conditions of the Bonds."

Issuer	Lotte Shopping Co., Ltd.
Issue	₩303,600,000,000 U.S. Dollar-Settled Zero Coupon Exchangeable Bonds due 2023, exchangeable into Hi-mart Shares
Shares	Shares of common stock, par value ₩5,000 per share, of LOTTE Himart Co., Ltd., which are listed on the KRX KOSPI Market
Issue Price	100% of the principal amount of the Bonds
Subscription Amount	The subscription amount payable in respect of each Bond of ₩200,000,000 in principal amount is US$187,652.47, based on an exchange rate of ₩1,065.8 to US$1.00, the exchange rate prevailing on March 14, 2018, the date of the Subscription Agreement.
Offering	The Bonds are being offered by the Managers outside the United States in reliance on Regulation S. We have not registered, and will not register, under the securities laws of the United States, the Bonds or any of the Hi-mart Shares deliverable upon exchange of the Bonds.
Interest	The Bonds will not bear any interest.
Exchange	Each Bondholder has the right to exchange any of its Bonds or any portion thereof (being ₩200,000,000 in principal amount or an integral multiple thereof) into Hi-mart Shares at any time during the Exchange Period referred to below, subject to compliance with certain restrictions and exchange procedures. The Hi-mart Shares deliverable upon exchange will rank *pari passu* in all respects with the Hi-mart Shares then outstanding.
Exchange Period	From and including May 14, 2018 up to and including March 24, 2023 (or, if the Bonds shall have been called for redemption by us prior to maturity, seven Business Days prior to the redemption date). See "Terms and Conditions of the Bonds—Exchange—Exchange Right."
Exchange Price	The initial Exchange Price will be ₩85,840 per Share. The Exchange Price will be subject to adjustment in certain circumstances as described in "Terms and Conditions of the Bonds—Exchange—Adjustments to Exchange Price."
Redemption at Maturity	Unless previously redeemed, repurchased and cancelled, or exchanged, the Bonds will be redeemed at the U.S. Dollar Equivalent of 102.53% of their principal amount on April 4, 2023. See "Terms and Conditions of the Bonds—Redemption, Purchase and Cancellation—Maturity."

Redemption at Our Option	We may, at our option at any time on or after April 4, 2021, until the 30th business day prior to the Maturity Date, redeem the Bonds, in whole but not in part, at their Early Redemption Amount, if the Closing Price of a Share for each of 20 Trading Days in the period of 30 consecutive Trading Days ending on the Trading Day immediately prior to the date of our redemption notice, is at least 130% of the prevailing Early Redemption Amount divided by the prevailing Exchange Ratio. In addition, in the event that at least 90% of the initial principal amount of the Bonds have been redeemed, repurchased and cancelled, or exchanged, we may, prior to their maturity, redeem, in whole but not in part, the remaining outstanding Bonds at their Early Redemption Amount. See "Terms and Conditions of the Bonds—Redemption, Purchase and Cancellation — Redemption at the Option of the Issuer."
Redemption for Taxation Reasons	We may at any time redeem the Bonds, in whole but not in part, at their Early Redemption Amount in the event of certain changes relating to taxation in Korea that would require us to gross up for any payments on the Bonds. This redemption right is subject to the right of each Bondholder to forego such gross-up amounts and leave its respective Bonds outstanding. See "Terms and Conditions of the Bonds — Redemption, Purchase and Cancellation — Redemption for Taxation Reasons."
Redemption at the Option of the Bondholders	Until and unless previously redeemed, repurchased and cancelled, or exchanged, on April 4, 2021, each of the Bondholders has the right, at the option of such holder, to require us to redeem all or a portion (in an aggregate principal amount of at least ₩200,000,000 or an integral multiple thereof) of such holder's Bonds at their Early Redemption Amount. See "Terms and Conditions of the Bonds — Redemption, Purchase and Cancellation — Redemption at the Option of the Bondholders."
Repurchase in the Event of Delisting	In the event that the Hi-mart Shares officially cease to be listed or admitted for trading or are suspended for a period of at least 30 consecutive Trading Days on the KRX KOSPI Market, each Bondholder shall have the right, at such Bondholder's option, to require us to repurchase at their Early Redemption Amount all or a portion of such holder's Bonds (in an aggregate principal amount of at least ₩200,000,000 or an integral multiple thereof). See "Terms and Conditions of the Bonds — Redemption, Purchase and Cancellation —Delisting Put Right."
Redemption of the Bonds in the Event of Change of Control	If a Change of Control occurs with respect to Hi-mart, each Bondholder shall have the right, at such Bondholder's option, to require us to repurchase at their Early Redemption Amount all or a portion of such holder's Bonds (in an aggregate principal amount of at least ₩200,000,000 or an integral multiple thereof) on the date set by us for such repurchase, which shall not be less than 30 nor more than 60 days after the occurrence of a Change of Control or if later, the date on which we notify the Bondholders of the Change of Control, at their Early Redemption Amount. See "Terms and Conditions of the Bonds—Redemption, Purchase and Cancellation—Redemption for Change of Control."

Early Redemption Amount	The Early Redemption Amount of a Bond means the U.S. Dollar Equivalent of an amount that is determined so that it represents for such Bond a gross yield of 0.5% per annum, compounded on a semi-annual basis. See "Terms and Conditions of the Bonds — Redemption, Purchase and Cancellation —Early Redemption Amount."
Securities Lending	We have entered into securities lending agreements dated March 14, 2018 (the "Securities Lending Agreements") with affiliates of each of the Managers (each such affiliate, a "Borrower") under which we will loan to the Borrowers up to an aggregate of 1,768,406 Hi-mart Shares from time to time. The purpose of the Securities Lending Agreements is to facilitate on-lending transactions with investors in the Bonds, which will be used by these investors to establish their hedge positions in respect of the Bonds. Under the Securities Lending Agreements, we have the right to terminate the loans (i) upon the earlier of the third anniversary of the Closing Date (as defined herein) and the date on which the Bonds have been redeemed in full, or (ii) when we cease to have a majority voting right with respect to the Hi-mart Shares as a result of the securities lending transactions or the delivery of such Shares upon exchange of the Bonds, to the extent necessary to keep our majority voting right with respect to the Hi-mart Shares.
Status	The Bonds will constitute our direct, unsubordinated, unconditional and (subject to the negative pledge provisions) unsecured obligations and shall at all times rank *pari passu* and ratably without preference or priority among themselves and at least equally with all our other present and future direct, unconditional, unsubordinated and unsecured obligations, except as may be required by mandatory provisions of law.
Negative Pledge	Subject to certain exceptions, we will not, and will not permit any Principal Subsidiary to, create or permit to be outstanding any security interest in respect of International Investment Securities without equally and ratably securing the Bonds. See "Terms and Conditions of the Bonds—Negative Pledge."
Form and Denomination and Trading of the Bonds	The Bonds will be originally issued in registered form, without coupons, in denominations of ₩200,000,000 or integral multiples thereof. The Bonds will be evidenced by the Global Certificate, without coupons, which will be deposited on or about the Closing Date with, and registered in the name of a nominee of, The Bank of New York Mellon, London Branch, as common depositary for Euroclear and Clearstream. For so long as the Bonds are listed on the SGX-ST and the rules of the SGX-ST so require, the Bonds, if traded on the SGX-ST, will be traded in a minimum board lot size of S$200,000 (or its equivalent in foreign currencies). Accordingly, the Bonds, if traded on the SGX-ST, will be traded in a minimum board lot size of ₩200,000,000.

Governing Law	English law.
Transfer Restrictions	The Bonds may not be offered, sold or otherwise transferred to a Korean resident on or prior to April 4, 2019, the first anniversary of the Closing Date. To exercise the right of exchange with respect to a Bond, a Bondholder must also make the representations in the Exchange Notice described in "Terms and Conditions of the Bonds—Exchange."
Listing of Bonds and Hi-mart Shares	Approval in-principle has been received from the SGX-ST for the listing and quotation of the Bonds on the SGX-ST. For so long as the Bonds are listed on the SGX-ST and the rules of the SGX-ST so require, the Bonds, if traded on the SGX-ST, will be traded in a minimum board lot size of S$200,000 (or its equivalent in foreign currencies). Accordingly, the Bonds, if traded on the SGX-ST, will be traded in a minimum board lot size of ₩200,000,000. The Hi-mart Shares, including Shares deliverable upon exchange of the Bonds, are listed and admitted for trading on the KRX KOSPI Market.
Trustee	The Bank of New York Mellon, London Branch
Clearance and Settlement of Bonds	The Bonds will clear and settle solely through the book-entry transfer facilities maintained by Euroclear and Clearstream.
Lockup	We and Hi-mart have agreed that we and Hi-mart will not, without the prior written consent of the Managers, until 90 days following the Closing Date (and will not announce an intention to), (a) issue, offer, sell, pledge, contract to sell or otherwise dispose of or grant options, issue warrants or offer rights entitling persons to subscribe for or purchase any interest in, or any securities convertible into, exchangeable for or which carry rights to subscribe for or purchase, the Hi-mart Shares or securities of the same class as the Hi-mart Shares or other instruments representing interests in the Hi-mart Shares or other securities of the same class as them or (b) enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of the ownership of the Hi-mart Shares (settled by delivery of Hi-mart Shares or other securities, in cash or otherwise), subject to certain exceptions. See "Subscription and Sale."
ISIN	XS1794196888
Common Code	179419688

SUMMARY CONSOLIDATED FINANCIAL INFORMATION

The following tables present our summary consolidated financial information and that of Hi-mart. This information has been derived from, and should be read in conjunction with, the consolidated financial statements and related notes included elsewhere in this offering circular, which have been prepared in accordance with Korean IFRS.

As a result of the Spin-off/Merger and our adoption of Korean IFRS 1115, Revenue from Contracts with Customers, commencing in 2017, our financial information as of and for the years ended December 31, 2015 and 2016 is not directly comparable to our financial information as of and for the year ended December 31, 2017 (except as otherwise noted below). See “Presentation of Financial and Other Information.”

Lotte Shopping Co., Ltd.

Statement of Comprehensive Income (Loss) Information	For the Year Ended December 31, 2015	2016[1]	2016[2]	2017[3][4]
	(in billions of Won, except earnings per share)			
Sales	₩ 29,128	₩ 29,526	₩ 24,114	₩ 18,180
Cost of sales	(20,217)	(20,196)	(16,243)	(10,544)
Gross profit	8,911	9,330	7,872	7,636
Selling, general and administrative expenses	(8,057)	(8,390)	(7,108)	(7,106)
Operating profit	854	940	763	530
Other income	82	161	133	110
Other expenses	(853)	(495)	(463)	(734)
Finance income	271	213	196	362
Finance costs	(440)	(392)	(371)	(506)
Share of profit of associates and joint ventures	7	61	61	68
Profit (loss) before income tax	(80)	489	320	(170)
Income tax expense	(266)	(243)	(195)	(273)
Profit (loss) from continuing operations	(346)	247	125	(444)
Discontinued operations				
Profit from discontinued operations	—	—	122	423
Profit (loss) for the year	(346)	247	247	(21)
Other comprehensive income:				
Items that will not be reclassified to profit or loss:				
Remeasurements of net defined benefit liabilities	(17)	12	12	9
Share of other comprehensive income of associates	(1)	(2)	(2)	0
Income tax on items that will not be reclassified to profit or loss	5	(4)	(4)	(3)
Total items that will not be reclassified to profit or loss	(13)	7	7	7
Items that may be subsequently reclassified to profit or loss:				
Changes in the fair value of available-for-sale financial assets	(100)	(16)	(16)	(23)

Statement of Comprehensive Income (Loss) Information	For the Year Ended December 31, 2015	2016[1]	2016[2]	2017[3][4]
	(in billions of Won, except earnings per share)			
Exchange rate differences on translating foreign operations	₩ 38	₩ 9	₩ 9	₩ (32)
Gain (loss) on valuation of derivatives	(3)	5	5	2
Share of other comprehensive income of associates	12	(16)	(16)	(29)
Income tax on items that may be reclassified to profit or loss	24	7	7	11
Total items that may be subsequently reclassified to profit or loss	(29)	(12)	(12)	(71)
Other comprehensive income for the year	(42)	(5)	(5)	(63)
Total comprehensive income (loss) for the year	₩ (388)	₩ 242	₩ 242	₩ (84)
Profit (loss) attributable to:				
Owners of the Parent Company	(383)	168	168	(136)
Profit (loss) from continuing operations	(383)	168	57	(548)
Profit from discontinued operations	—	—	111	412
Non-controlling interests	38	79	79	116
Profit from continuing operations	38	79	68	104
Profit from discontinued operations	—	—	11	11
	₩ (346)	₩ 247	₩ 247	₩ (21)
Total comprehensive income (loss) attributable to:				
Owners of the Parent Company	(406)	166	166	(183)
Non-controlling interests	18	75	75	99
	₩ (388)	₩ 242	₩ 242	₩ 84
Earnings (loss) per share in Won				
Basic earnings (loss) per share – Continuing operations	(13,393)	5,257	1,491	(19,184)
Diluted earnings (loss) per share – Continuing operations	(13,611)	5,246	1,491	(19,201)
Basic earnings per share – Discontinued operations	—	—	3,766	14,082
Diluted earnings per share – Discontinued operations	—	—	3,756	14,074

(1) Figures are derived from our consolidated financial statements as of and for the years ended December 31, 2016 and 2015 included elsewhere in this offering circular and are prior to the classification of the operations of our former subsidiaries and associates that constituted part of our Spun-off Businesses as discontinued operations. See "Presentation of Financial and Other Information."

(2) Figures are derived from restated amounts set forth in our consolidated financial statements as of and for the years ended December 31, 2017 and 2016 included elsewhere in this offering circular and reflect the classification of the operations of our former subsidiaries and associates that constituted part of our Spun-off Businesses as discontinued operations. Such restated amounts have not been audited by our independent auditors and were provided for comparison purposes only. See "Presentation of Financial and Other Information."

(3) Figures are derived from our consolidated financial statements as of and for the years ended December 31, 2017 and 2016 included elsewhere in this offering circular and reflect the classification of the operations of our former subsidiaries and associates that constituted part of our Spun-off Businesses as discontinued operations. See "Presentation of Financial and Other Information."

(4) Pursuant to our adoption of Korean IFRS 1115, Revenue from Contracts with Customers, for the year ended December 31, 2017, commencing in such year, certain changes were made to the recognition method for our sales and cost of sales. Such changes included, among others, the recognition of all of our "specific sales" of conditionally supplied merchandise on a net basis, after deducting the cost of such merchandise, instead of recognition on a net basis of specific sales of only such merchandise that can be returned at any time to our suppliers. As we have not applied Korean IFRS 1115 retrospectively for prior years, our sales and cost of sales for the year ended December 31, 2017 are not directly comparable to corresponding amounts for the years ended December 31, 2015 and 2016. See "Presentation of Financial and Other Information." If Korean IFRS 1115 had not been adopted, our sales and gross profit for the year ended December 31, 2017 would have increased by ₩4,828 billion and ₩136 billion, respectively. For further information, see Note 3 of the notes to our consolidated financial statements as of and for the years ended December 31, 2017 and 2016 included elsewhere in this offering circular.

Statement of Financial Position Information	As of December 31, 2015	2016	2017(1) (2)
	(in billions of Won)		
Assets			
Cash and cash equivalents	₩ 1,751	₩ 2,269	₩ 2,626
Trade and other receivables	919	1,031	870
Other financial assets	9,673	9,979	1,246
Inventories	3,266	3,324	1,354
Income tax refund receivable	3	3	2
Other non-financial assets	385	323	193
Non-current assets held for sale	0	2	4
Total current assets	15,997	16,932	6,295
Investments in associates and joint ventures	1,275	1,337	443
Other financial assets	2,089	2,319	1,702
Property, plant and equipment, net	15,759	15,932	14,918
Investment property, net	521	692	1,149
Goodwill	2,716	2,592	1,924
Intangible assets, net	863	765	502
Other non-financial assets	1,414	1,278	997
Deferred tax assets	60	69	17
Total non-current assets	24,696	24,984	21,653
Total assets	₩ 40,693	₩ 41,916	₩ 27,948
Liabilities			
Borrowings and debentures, net of issuance costs	₩ 4,267	₩ 5,059	₩ 3,079
Trade and other payables	5,466	5,785	3,494
Other financial liabilities	534	626	504
Income tax payables	134	154	123
Unearned revenues	218	221	133
Provisions	60	69	55
Other non-financial liabilities	1,240	1,471	1,157
Total current liabilities	11,919	13,386	8,545
Borrowings and debentures, net of issuance costs	9,816	9,424	4,589
Other financial liabilities	280	260	152
Net of defined benefit liabilities and other long-term employee benefits	81	69	35
Deferred tax liabilities	1,366	1,342	1,134
Unearned revenues	8	11	8
Provisions	32	40	3
Other non-financial liabilities	103	119	132
Total non-current liabilities	11,687	11,266	6,053
Total liabilities	23,606	24,652	14,597
Equity			
Share capital	157	157	141
Capital surplus	3,911	3,911	3,506
Hybrid securities	269	269	269
Capital adjustments	(79)	(116)	(2,904)
Retained earnings	11,894	11,996	11,730
Accumulated other comprehensive income (loss)	96	88	(83)

Statement of Financial Position Information	As of December 31, 2015	2016	2017(1) (2)
	(in billions of Won)		
Equity attributable to owners of the Parent Company	₩ 16,247	₩ 16,305	₩ 12,659
Non-controlling interest	840	960	693
Total equity	17,088	17,264	13,351
Total liabilities and equity	₩ 40,693	₩ 41,916	₩ 27,948

(1) Figures exclude our Spin-off Assets and Liabilities, which were transferred in the Spin-off/Merger. See "Presentation of Financial and Other Information."

(2) Pursuant to our adoption of Korean IFRS 1115, Revenue from Contracts with Customers, for the year ended December 31, 2017, commencing in such year, certain changes were made to the recognition method for our sales and cost of sales, and certain related adjustments were also made to the amounts of our inventories and other trade payables recognized. As we have not applied Korean IFRS 1115 retrospectively for prior years, our inventories and trade and other payables (as well as our total assets and total liabilities) as of December 31, 2017 are not directly comparable to corresponding amounts as of December 31, 2015 and 2016. See "Presentation of Financial and Other Information." If Korean IFRS 1115 had not been adopted, both our inventories and our total assets would have been higher by ₩1,379 billion, and our trade and other payables and our total liabilities would have been higher by ₩1,379 billion and ₩1,326 billion, respectively, as of December 31, 2017. For further information, see Note 3 of the notes to our consolidated financial statements as of and for the years ended December 31, 2017 and 2016 included elsewhere in this offering circular.

LOTTE Himart Co., Ltd.

Statement of Comprehensive Income Information	For the Year Ended December 31, 2015	2016	2017 (1)
	(in billions of Won, except earnings per share)		
Sales	₩ 3,896	₩ 3,939	₩ 4,099
Cost of sales	(2,933)	(2,926)	(3,038)
Gross profit	963	1,013	1,061
Selling, general and administrative expenses	(803)	(839)	(854)
Operating profit	160	175	207
Other income	6	7	7
Other expenses	(5)	(7)	(6)
Finance income	8	6	6
Finance costs	(26)	(18)	(16)
Profit before income tax	143	163	199
Income tax expense	(37)	(41)	(51)
Profit for the year	107	121	148
Other comprehensive income for the year, net of tax	(1)	2	(7)
Total comprehensive income	₩ 105	₩ 123	₩ 142
Earnings per share in Won:			
Basic earnings per share	4,515	5,144	6,288

(1) Pursuant to Hi-mart's adoption of Korean IFRS 1115, Revenue from Contracts with Customers, for the year ended December 31, 2017, commencing in such year, among other things, certain changes were made to the recognition method for its sales, cost of sales and selling, general and administrative expenses. As Hi-mart has not applied Korean IFRS 1115 retrospectively for prior years, Hi-mart's sales, cost of sales and selling, general and administrative expenses for the year ended December 31, 2017 are not directly comparable to corresponding amounts for the years ended December 31, 2015 and 2016. See Note 3 of the notes to Hi-mart's financial statements as of and for the years ended December 31, 2017 and 2016 included elsewhere in this offering circular.

Statement of Financial Position Information	As of December 31, 2015	2016	2017
	(in billions of Won)		
Assets			
Cash and cash equivalents	₩ 130	₩ 158	₩ 329
Inventories	416	462	478
Trade and other receivables	69	91	93
Other current financial assets	2	16	21
Other current non-financial assets	23	4	8
Total current assets	640	730	930
Property and equipment, net	422	413	403
Investment property, net	3	3	3
Goodwill	1,683	1,683	1,683
Intangible assets, net	21	21	25
Other financial assets	128	148	150
Deferred tax assets	—	0	3
Other non-financial assets	8	7	8
Total non-current assets	2,265	2,275	2,275
Total assets	₩ 2,905	₩ 3,005	₩ 3,205
Liabilities			
Trade and other payables	280	369	397
Short-term borrowings, net of issuance costs	100	—	—
Corporate bonds	185	—	330
Other financial liabilities	2	3	2
Income taxes payable	23	30	35
Provisions	0	1	2
Other current non-financial liabilities	49	47	81
Total current liabilities	638	450	847
Employee benefit obligations	12	9	8
Debentures, net of issuance costs	469	649	320
Other financial liabilities	1	1	1
Deferred income tax liabilities	1	—	—
Provisions	0	0	3
Other non-financial liabilities	0	0	0
Total non-current liabilities	484	659	332
Total liabilities	1,122	1,109	1,179
Equity			
Common stock	118	118	118
Capital surplus	1,045	1,045	1,045
Other components of equity	10	10	10
Accumulated other comprehensive income (loss)	1	0	(10)
Retained earnings	608	722	862
Total equity	1,783	1,896	2,025
Total liabilities and equity	₩ 2,905	₩ 3,005	₩ 3,205

RISK FACTORS

You should carefully consider the following risks as well as the other information contained in this offering circular before purchasing the Bonds. These risks could materially affect our ability to meet our obligations under the Bonds or the trading price of the Bonds or the Hi-mart Shares. In such case, you may lose all or part of your original investment in, and the expected return on, the Bonds or the Hi-mart Shares.

Risks Relating to the Retail Industry

The retail industry in Korea is highly competitive.

The Korean retail industry in general, and the department store and discount store segments in particular, are intensely competitive. We compete principally with national and international operators of retail chains in Korea, such as Shinsegae Co., Ltd. and Hyundai Department Store Co., Ltd. in the department store segment, and E-Mart Co., Ltd. and Homeplus Co., Ltd. in the discount store segment. We also face increasing competition from television home shopping and online retailers which are able to sell directly to consumers at significantly lower operating costs than traditional retailers such as us. See "—Our core retail businesses may face increasing competition from online and home shopping sales." Competition occurs principally on the basis of merchandise selection and quality, price, store location and design, customer service and amenities, inventory and advertising. We also compete, to a lesser extent, with small local retailers, such as traditional open markets, particularly in the supermarket segment, as well as with specialty retailers, including in the electronics and health and beauty segments. See "Business—Competition."

Actions taken by our competitors, as well as actions taken by us to maintain our competitiveness and reputation, have placed and will continue to place pressure on our growth strategy, margins and profitability. In particular segments of the Korean retail market, some of our competitors may have greater financial resources, greater purchasing economies of scale and lower cost bases, any of which may give them a competitive advantage over us. Certain of our competitors continue to modernize and expand their operations in Korea and abroad. Our competitors may own and operate newer, better located and more attractive retail stores than us. An increase in the number of such competing stores, particularly in close proximity to our stores, may increase competition for customer traffic and reduce the relative attractiveness of our stores. These and other actions by our competitors may cause us to respond by incurring additional costs in order to make our stores (including our online shopping malls) more appealing to customers, adopting more aggressive marketing or pricing initiatives or seeking to grow more rapidly, all of which may be unsuccessful. Any erosion in our market position in the Korean retail industry as a result of our inability to compete effectively would have a material and adverse effect on our business, financial condition and results of operations.

Discount stores, which account for a significant part of our overall sales, are generally less profitable than other modern retail formats.

Gross sales of our discount stores in Korea account for a significant part of our overall gross sales, representing 19.8%, 19.4% and 24.5% of our total consolidated gross sales (excluding sales of our Spun-off Businesses for 2017) for 2015, 2016 and 2017, respectively. Due to intense competition in this market segment, primarily in the area of price, our profit margins are generally lower for discount stores than for our department stores. In the event that the percentage of our sales generated by discount stores grows as a result of acquisitions, new store openings or otherwise, we may experience a decline in our overall profit margins in the future, which may have an adverse effect on our business, financial condition and results of operations.

Our core retail businesses may face increasing competition from online and home shopping sales.

In recent years, retail sales through online (including mobile) and home shopping television channels have increased significantly in Korea. Such retailers are able to sell directly to consumers, diminishing the importance of traditional distribution channels. Certain online, home shopping and other non-store retailers have significantly lower operating costs than traditional retailers such as us because they do not rely on an expensive network of retail points of sale or a large sales force. As a result, such retailers are able to offer their products at lower costs than we do and in certain cases are able to bypass retailing intermediaries and deliver high quality merchandise directly to consumers. We believe that our target customers in our core discount store and department store segments are increasingly using online and home shopping channels to shop for merchandise, in particular consumer electronics products and other household goods, at competitive prices, and that they are likely to continue doing so. We have in recent years made significant efforts to capitalize on growing e-commerce opportunities, including through the activities of our consolidated subsidiary Woori Home Shopping & Television Co., Ltd. and by enhancing the online and mobile sales capabilities of our core retail segments, including our Lotte Department Store, Lotte Mart, Lotte Super and Lotte Home Shopping websites and mobile applications, to complement our retail store operations. However, if e-commerce and retail sales through online and home shopping channels continue to grow, consumers' reliance on traditional distribution channels, which comprise a substantial majority of our business, could be materially diminished and, to the extent we are unable to increase our sales through our online and home shopping channels to offset the decrease in sales from our retail store operations, our financial condition, results of operations and business prospects would be materially and adversely affected. Furthermore, our sales of merchandise through our online and home shopping channels are at prices that are, on average, lower than for sales of similar merchandise through our retail stores and therefore generate lower margins. Accordingly, the diversion of our traditional retail store sales to our online and home shopping channels may adversely impact the overall profitability of our retail businesses.

Our retail businesses are susceptible to seasonal fluctuations and extreme or unseasonable weather conditions.

Our retail businesses are susceptible to seasonal fluctuations. Although such fluctuations historically have not been large, past experience indicates that, in the department store segment, peaks in sales occur during the fourth quarter of the year, primarily due to a concentration of promotional sales and other promotional events in the months of October and December, and the comparatively higher unit price of winter products. We have historically also reported higher sales in the months of January and April, primarily due to our post-winter and pre-summer clearance sales. In the discount store segment, peaks in sales occur during the third quarter of the year, primarily due to the summer and Korean Thanksgiving holidays. We incur additional expenses in advance of peak selling periods to acquire additional inventory and carry out marketing and advertising activities. If sales during our peak selling periods are significantly lower than we expect for any reason, we may be unable to adjust our expenses in a timely manner and may be left with a substantial amount of unsold inventory, especially in seasonal merchandise that is difficult to liquidate after the applicable season.

In addition, extreme weather conditions in the areas in which our stores are located may have a material adverse effect on our business, financial condition and results of operations. For example, heavy snowfall, typhoons or other extreme weather conditions over a prolonged period might make it difficult for our customers to travel to our stores. Our business is also susceptible to unseasonable weather conditions. For example, extended periods of unseasonably warm temperatures during the winter season or cool weather during the summer season could render a portion of our inventory, particularly our discount store inventory, incompatible with such unseasonable conditions. These prolonged unseasonable weather conditions could adversely affect our business, financial condition and results of operations.

Slowing growth of the department and discount store segments in Korea could impair our ability to grow profitably.

We believe that the Korean department store segment has substantially matured and its growth potential as a whole may be limited. The total number of department stores in Korea (excluding outlet stores) increased significantly to reach a peak in the late 1990s and has since plateaued. In addition, in recent years, department stores have faced increasing competition from alternative modern retail formats such as discount stores, internet shopping malls, home shopping networks and specialty stores, as well as from a growing number of outlet stores. As a result of these and other factors, sales of low-end products have shifted over time from department stores to such alternative retail formats, particularly discount stores. Furthermore, the Korean discount store segment has also shown signs of slowing growth in sales in recent years, including due to increasing market saturation and competition from alternative modern retail formats. We cannot assure you that we will be able to sustain or achieve future growth in same store sales of our department stores (including outlet stores) or discount stores. Due to Korea's concentrated population and the relatively high degree of penetration of both its department store and discount store segments, our growth prospects in these segments are likely to depend to a large extent on future growth in Korean gross domestic product, acquisitions of existing stores or overseas expansion, and we cannot give you any assurance that any of these events will occur.

Further consolidation in the Korean retail industry may adversely affect our market position.

The retail industry in Korea has been undergoing consolidation over the past two decades, with large national and international retail chains gaining market share at the expense of smaller regional or local retail chains and independently-operated retail stores. For example, in 2006, Shinsegae acquired the 16 discount stores in Korea previously operated by Wal-Mart, and E-Land acquired the 32 discount stores in Korea previously operated by Carrefour, which were resold by E-land to Homeplus in 2008. In May 2010, we acquired three department stores and 14 discount stores from GS Retail. In January 2012, we acquired a 97.4% equity interest in CS Mart Co., Ltd., which operated a chain of 237 supermarkets in Korea as of January 31, 2012. In October 2012, we acquired a 65.25% equity interest in Hi-mart. In December 2014, we acquired a department store from Daewoo International Co., Ltd. See "Business—History." We believe that further consolidation will likely occur as competition intensifies and economies of scale become increasingly important. Future consolidation may occur rapidly and materially alter the competitive landscape in Korea. Some of our current competitors and potential future competitors, including international operators of retail chains that seek to enter the Korean market, may be larger and better capitalized than we are and, as a result, may be better positioned to take advantage of strategic acquisition and consolidation opportunities. There can be no assurance that such industry consolidation will not occur to the material detriment of our market position or that such developments will not materially and adversely affect our business, financial condition and results of operations.

Risks Relating to Our Business

Purchases of the merchandise that we sell are generally discretionary and are therefore particularly susceptible to economic slowdowns.

Many of the items that we sell at our department stores and discount stores, particularly luxury apparel, accessories and other fashion products, represent discretionary purchases for consumers. Consumers are generally more able and willing to make discretionary purchases during periods in which favorable economic conditions prevail. A general slowdown in the Korean economy or an uncertain economic outlook may adversely affect consumer confidence and spending levels. Moreover, because many of the items that we sell are discretionary purchases, we may experience a decline in sales that is proportionally greater than the level of general economic decline. Challenging macroeconomic conditions may also impact our customers' ability to obtain consumer credit. Accordingly, adverse changes in consumer confidence, employment levels, interest rates, inflation, tax rates, the real estate or financial markets, consumer debt levels and energy costs or other aspects of the Korean economy that affect retail customers could result in decreased purchases of merchandise at our stores, which would negatively affect our business, results of operations and financial condition.

The success of our business depends on our ability to anticipate and respond to constantly changing fashion trends and consumer demands in a timely manner.

Our success depends in large part on our ability to identify fashion trends as well as to anticipate, gauge and react to changing consumer demands in a timely manner. The merchandise that we sell must appeal to consumers whose preferences cannot be predicted with certainty and are subject to rapid change. Consequently, we depend in part upon the continuing favorable market response to the creative efforts of our purchasing and marketing teams as well as the expertise of our suppliers to anticipate trends and fashions that will appeal to our customer base. We and our suppliers make decisions regarding the purchase of merchandise well in advance of the season in which it will be sold. Any failure on our part and on the part of our suppliers to anticipate, identify and respond effectively to changing consumer demands and fashion trends will adversely affect our sales.

There can be no assurance that our orders for merchandise will match actual demand. If we or our suppliers are unable to successfully predict or respond to sales demand or to changing styles or trends, our sales will decrease and we may be forced to rely on additional markdowns or promotional sales to dispose of excess or slow-moving inventory, which could have a material adverse effect on our business, financial condition and results of operations. At the same time, if we fail to purchase a sufficient quantity of popular merchandise in a timely manner, particularly luxury designer merchandise that we import from Europe, orders for which need to be placed well in advance of the season in which it will be sold, we may experience inventory shortfalls. This may cause us to lose sales.

There can be no assurance that future store openings will be successful.

As part of our strategy, we plan to selectively open additional department stores, discount stores and supermarkets in Korea and overseas markets in the future, particularly in Southeast Asia where a relatively high rate of economic growth is expected, subject to market conditions. There can be no assurance that these stores, or any other stores that we might open in the future, will open on time or be successful or that our overall gross profit will increase as a result of opening these stores. In addition, the opening of new stores could result in the diversion of sales from our existing stores in certain cases, which may cause a reduction in our gross profit.

Successful execution of our future store openings will depend upon a number of factors, including:

- the identification and securing of prime store sites;
- the negotiation of acceptable financial terms for land purchases, leases, construction, product purchases, insurance and other transactions;
- the hiring, training and retention of qualified personnel;
- the level of existing and future competition in areas where new stores are to be located, including expansion within our established markets where new stores may draw sales away from our existing stores;
- our ability to integrate new stores into our operations on a profitable basis;
- the capability of our existing distribution system to accommodate new stores;
- local and regional economic conditions; and
- general macroeconomic conditions in Korea and other countries where our new stores are to be located and trade and diplomatic relations between Korea and such countries.

Our failure to predict accurately the demographic or retail environment in implementing our future store openings could have a material adverse effect on our business, financial condition and results of operations. There can be no assurances that we will be able to open new stores on a timely or profitable basis.

Regulatory and other impediments to the expansion of our overseas operations could adversely affect our business prospects.

We have overseas retail operations in China, Vietnam, Indonesia and Russia. As of December 31, 2017, we operated five department stores, 99 discount stores and 13 supermarkets in China, two department stores (one of which is owned by an associate) and 13 discount stores in Vietnam, one department store and 46 discount stores in Indonesia, and one department store (owned by an associate) in Russia. See "Business—Operations—Other Businesses—Overseas Businesses." We plan to selectively increase the number of our department stores and discount stores in key overseas markets, particularly in Southeast Asia where higher economic growth is expected, and may seek to enter other overseas markets, in each case subject to market conditions. Our ability to successfully execute our overseas expansion plan depends in large part on how effectively we can identify and respond to the lifestyle and fashion preferences of our target customer base in these markets. We are also subject to other risks associated with doing business abroad, including:

- inability to adapt to local business customs and practices and competitive dynamics;
- difficulty in obtaining licenses or other regulatory approvals;
- inability to secure new store sites on acceptable terms;
- sluggish or negative economic growth and consumer demand;
- adverse changes in laws and policies affecting labor, trade, environmental compliance, investment and property development;
- varying standards and practices of the regulatory, tax, judicial and administrative bodies of the relevant foreign jurisdiction;
- delays in shipments or deliveries;
- inability to maintain a consistent level of quality for the products and services we provide;
- inability to successfully market our brand;
- difficulty hiring and retaining qualified store managers and other employees;
- deterioration in economic and diplomatic relations between Korea and countries in which we operate;
- political strife, social turmoil or deteriorating economic conditions;
- military hostilities or acts of terrorism; and
- epidemics or outbreaks such as avian or swine flu.

Our overseas expansion plans will also require significant capital expenditures, which may exceed our current expectations. The realization of any or all of these risks, individually or in the aggregate, in any existing overseas markets or new markets we enter may have a material adverse effect on our business, financial condition and results of operations. For example, in March 2017, the Korean government confirmed that a golf course owned and operated by one of our Lotte Group affiliates would be the site for the deployment of a Terminal High Altitude Area Defense ("THAAD") system in Korea by the United States, which had been vigorously opposed by China. Such deployment, which was completed in April 2017, led to a rapid deterioration in economic and diplomatic relations between Korea and China, as a result of which certain of our retail operations in China, particularly our discount stores, have been facing significant operational difficulties. Such difficulties included an extraordinary level of regulatory scrutiny regarding our discount store operations by the Chinese government, which has resulted in various fines and orders for temporary closures of our discount stores in China due to alleged violations of health and safety regulations, as well as mass boycotts of our stores coordinated by Chinese consumers expressing anti-Korean and anti-Lotte Group sentiments. Due mainly to such developments, our discount store operations in China recorded a net loss in 2017, which in turn has adversely affected our overall performance. As of December 31, 2017, 86 of our 99 discount stores in China remained closed due to such regulatory sanctions and boycotts, and we are currently seeking a sale of our discount store operations (including 13 supermarkets) in China. Total gross sales of our discount store operations in China amounted to ₩1,341 billion, ₩1,139 billion and ₩255 billion in 2015, 2016 and 2017, respectively, while the total assets of such operations amounted to ₩593 billion as of December 31, 2017. There is no assurance that we will successfully complete the sale of our discount store operations in China on commercially reasonable terms in the near future or at all. Furthermore, we may incur additional losses or liabilities with respect to such operations (including in connection with a sale or liquidation) which, if significant, may have a material adverse effect on our results of operations and financial condition.

Our operations are concentrated in the Seoul metropolitan area and in our Seoul flagship department stores in particular.

As of December 31, 2017, 20 out of our 33 department stores in Korea were located in the Seoul metropolitan area (which includes Seoul and its surrounding satellite cities in Gyeonggi-do), where approximately 50% of Korea's population resides. In addition, as of such date, 55 out of our 123 discount stores in Korea were located in the Seoul metropolitan area. Our business will be materially and adversely affected if we experience a significant decrease in revenues from these stores. Changes in the demographic or retail environment of our Seoul stores, particularly our two flagship department stores in Myungdong and Jamsil, could result in a significant decrease in our sales. In addition, sales of our Seoul area stores are highly sensitive to events and conditions in the Seoul metropolitan area, and any prolonged period of extreme or unseasonable weather conditions, natural or man-made disasters, sustained downturn in economic conditions, significant decrease in foreign tourists visiting the area or increased local competition, could cause our Seoul area stores to suffer a decrease in sales and materially and adversely affect our business, financial condition and results of operations.

The reputation of, and value associated with, our brand name are critical to our business and if we are unable to enforce our intellectual property rights, or if we are accused of infringing on a third party's intellectual property rights, our business may suffer.

The Lotte brand name is an important asset of our business. We co-own our significant trademarks and service marks, including the "Lotte" and "Lotte Mart" marks and the "3L" logo, with Lotte Corporation, Hotel Lotte Co., Ltd. and Lotte Confectionery Co., Ltd., and other affiliates within the Lotte Group. See "Lotte Group." We also independently own certain other marks including "LOTTE Avenuel" and "LOTTE YOUNG PLAZA." Our trademarks and service marks are registered in Korea, as well as Russia, China, Japan, Vietnam and Indonesia. Maintaining the reputation of, and value associated with, the Lotte name is central to the success of our business but there can be no assurance that our business strategy and its implementation will accomplish this objective. One or more of our affiliates which co-own our trademarks and service marks may engage in activities that jeopardize our ability to protect the brand name or may engage in activities that damage the brand reputation. Moreover, we are unable to predict the effect that any future foreign or domestic intellectual property legislation or regulation may have on our ability to enforce our intellectual property rights. The loss or reduction of any of our significant proprietary rights, or any substantial erosion in the reputation of, or value associated with, the Lotte name, could have a material adverse effect on our business, financial condition and results of operations.

We are not aware of any claims of infringement or other challenges to our right to register or use our marks in Korea or any other jurisdiction. However, there can be no assurance that third parties will not assert claims against us alleging infringement, misappropriation or other violations of their trademark or other proprietary rights, whether or not such claims have merit. Such claims may be time consuming and expensive to defend and could result in our being required to cease using the trademark or other rights and selling the allegedly infringing products. This might have a significant impact on our sales and cause us to incur significant litigation or licensing costs and expenses.

We depend on a limited number of facilities for the distribution of merchandise to our discount stores and supermarkets.

We own and operate three distribution centers for our discount stores in Gimhae, Yangsan and Osan, and two additional distribution centers for our supermarkets in Shingal and Gwangleung. We also have one distribution center located in Bundang, which we use on a limited basis during specific times of the year to warehouse merchandise for our department stores. However, our department stores mostly receive deliveries directly from suppliers. We also lease ten additional distribution centers, most of which are owned by our affiliate Lotte Logistics Co., Ltd., in connection with our discount store, supermarket, home shopping and health and beauty store businesses. Any major breakdown of plant or equipment, or accidents such as a serious fire or flood, in our distribution centers might significantly impact our ability to distribute products to our stores and maintain an adequate product supply chain. In addition, we may open new distribution centers (including in the overseas markets where we operate) or relocate or close our current distribution centers in the future as our discount store, supermarket and other retail operations continue to evolve. Any significant disruption to the operations of our current distribution facilities, or during and after the transition to new facilities which we may open in the future, could have an adverse effect on the in-store inventory of our discount stores, supermarkets and other retail operations, and therefore could materially and adversely affect our business, financial condition and results of operations.

Our department store business is dependent in part on our relationships with popular designers and other suppliers.

Merchandise assortment is a critical competitive factor in the luxury retail business. Our success in the department store business depends in part on initiating and maintaining strong relationships with popular designers and other suppliers. Most of these relationships are not subject to exclusive contractual arrangements and we have no legal assurance that these relationships will continue. Moreover, most of the brands of our most popular designers and other suppliers are sold by our competitors and many of our designers and other suppliers also have their own dedicated retail stores. While we do not rely on any specific designer or supplier for a material portion of our retail operations, if one or more of our designers or other suppliers were to cease providing us with adequate supplies of merchandise or, conversely, were to increase sales of merchandise through its own stores or to the stores of our competitors, our business, financial condition and results of operations could be adversely affected. In addition, any decline in the popularity of any of the main brands we sell could also have such an effect upon us.

The interests of our controlling shareholders could conflict with those of holders of the Bonds.

Members of the Shin family, including Messrs. Kyuk-ho Shin, Dong-ju Shin and Dong-bin Shin and Ms. Young-ja Shin, and companies controlled by them collectively owned, directly or indirectly, approximately 60.4% of our outstanding common shares as of December 31, 2017. As a result, they are in a position to elect and remove our directors and control the outcome of most matters submitted to our shareholders' meetings for a vote. These controlling shareholders are able to control or significantly influence the outcome of any vote on any proposed amendment to our articles of incorporation, merger proposal, proposed substantial sale of assets or other major corporate transactions. The interests of our controlling shareholders could conflict with the interests of holders of the Bonds. In addition, any significant conflicts or disputes among our controlling shareholders, such as those which have occurred between Mr. Dong-bin Shin, our standing director and the chairman of the Lotte Group, and Mr. Dong-ju Shin, may have a negative effect on our business or reputation.

We are dependent on key management and other personnel.

Our future success depends, in large part, on the continued service of our key executive officers and managers who possess significant expertise and knowledge of our business, customers and markets. Our dependence on such key management and other personnel may become more pronounced as we continue to execute our plans to expand our overseas operations as well as our newer retail formats, such as shopping malls and specialty stores (including category killer stores). Any loss or interruption of the services of these individuals, or failure to attract and retain other qualified new personnel, could significantly reduce our ability to effectively manage our operations. There can be no assurance that we would be able to find appropriate replacements on a timely basis or at all for our key executive officers and managers should the need arise.

The pending criminal proceedings against our controlling shareholders and senior management could have a material adverse effect on our business and reputation.

In June 2016, the Seoul Central Prosecutor's Office commenced investigations of various Lotte Group companies, including us, our current and former senior management and our controlling shareholders, the Shin family, based on allegations of criminal misconduct. From July to October 2016, following several months of investigations, the Seoul Central Prosecutor's Office charged Mr. Dong-bin Shin, our standing director and the chairman of the Lotte Group, Mr. Dong-ju Shin, the former vice chairman of Lotte Holdings, Mr. Kyuk-ho Shin, the founder and former chairman of the Lotte Group, and Ms. Young-ja Shin, our former non-standing director, with various allegations of embezzlement, breach of trust and tax evasion. Furthermore, various members of senior management of several Lotte Group companies were also charged with alleged breach of trust in connection with the alleged misconduct by the Shin family. In December 2017, the Seoul Central District Court sentenced Mr. Dong-bin Shin to one year and eight months in prison (which was suspended for two years), Mr. Kyuk-ho Shin to four years in prison and a fine of ₩3.5 billion and Ms. Young-ja Shin to two years in prison, while Mr. Dong-ju Shin and all but one of the other members of senior management of the Lotte Group companies were acquitted. Both the prosecution and each of Mr. Dong-bin Shin, Mr. Kyuk-ho Shin and Ms. Young-ja Shin have appealed the Seoul Central District Court's judgment, and such appeals are currently pending before the Seoul High Court.

Moreover, in April 2017, the Seoul Central Prosecutor's Office charged Mr. Dong-bin Shin with alleged bribery, in connection with a donation made in March 2016 to a non-profit foundation over which the former President Geun-hye Park was purported to have substantial influence. In February 2018, the Seoul Central District Court sentenced Mr. Dong-bin Shin to a prison term of two and a half years. Mr. Dong-bin Shin, who currently serves as our non-executive standing director and is not involved in our day-to-day management, has appealed such decision, and the appeal is currently pending before the Seoul High Court.

In addition, in November 2017, the Seoul Central District Court sentenced Mr. Hyun-Gu Kang, the former president of our consolidated subsidiary Woori Home Shopping & Television, to 18 months in prison (which was suspended for two years) for embezzlement and various other acts of criminal misconduct in connection with the previous renewal of the company's cable television broadcast license in 2015, and the court also imposed a ₩20 million fine on Woori Home Shopping & Television. Mr. Kang has also been charged with alleged bribery, for payments purportedly made to a non-profit organization of which a former member of the National Assembly served as honorary chairman, in connection with such license renewal in 2015, and the case is currently pending before the trial court. See "– Risks Relating to Regulation – We are subject to numerous laws and regulations that could affect our operations."

We cannot be certain at this time what the outcome will be on each of the pending proceedings described above. An unfavorable outcome in, or delayed resolution of, such proceedings, or the occurrence of similar proceedings in the future involving members of our senior management or our controlling shareholders may result in unfavorable publicity, management uncertainty and diversion of management attention and may adversely affect our business and reputation.

Our corporate credit ratings or the credit ratings on our outstanding debt securities may be lowered or withdrawn in the future.

Our corporate credit rating and the credit ratings of our outstanding public debt by any rating agency may decline in the future if in its judgment any event or circumstance so warrants, including in the event we incur additional indebtedness for any purpose. There is no assurance that our corporate rating or the ratings for any of our outstanding debt securities will not decline or be withdrawn in the future. Any such rating decline or withdrawal could adversely affect the market price of the Bonds and may adversely impact our ability to raise new funds or refinance maturing debt on commercially reasonable terms.

We are exposed to foreign currency fluctuations.

Our business is subject to risks due to fluctuations in exchange rates. In recent years, the value of the Won relative to major foreign currencies, including the U.S. dollar and Chinese Renminbi, has fluctuated significantly. Although we may benefit from any weakening in the exchange rates of these foreign currencies against the Won to the extent we generate sales primarily in Won and incur costs denominated in these foreign currencies with respect to products or services we purchase from overseas suppliers, we could be adversely affected by future unfavorable shifts in exchange rates, such as the depreciation of the Won, if our foreign currency exposure is not hedged through derivative financial instruments. A majority of our long-term financial liabilities denominated in foreign currencies are hedged through derivative financial instruments. In addition, we seek to reduce our exposure to foreign exchange rate risk by matching, as far as possible, receipts and payments in the individual currency and also by borrowing in currencies other than Won (such as U.S. dollars, Japanese Yen and Chinese Renminbi) to meet our capital expenditure requirements denominated in such currencies. We cannot assure you that such hedging and other actions we take to reduce our foreign exchange rate risk will always be effective. Accordingly, a depreciation of the Won against the U.S. dollar or other foreign currencies in which our current or future liabilities are denominated may result in foreign exchange losses with respect to unhedged or ineffectively hedged positions, and, to the extent the cost increases resulting from such depreciation of the Won cannot be passed through to our customers or such depreciation of the Won does not result in an offsetting increase in the Won value of our sales generated overseas in foreign currencies, could adversely affect our results of operations and financial condition.

We may experience difficulties in securing adequate access to capital in the future.

As of December 31, 2017, we had a working capital deficit, which represents current assets net of current liabilities, of ₩2,250 billion. Current liabilities mainly comprised trade and other payables of ₩3,494 billion and short-term borrowings and debentures, net of debenture issuance costs, of ₩3,079 billion. In the event that we are unable to generate sufficient cash flow from our operations to meet our operating expenditure needs, our operations will have to be funded by other financing activities. In addition, in order to secure the funding required for our overseas expansion plans, capital expenditures and our other capital requirements, we may need to incur additional debt or issue additional equity to finance these and future investments. We may not be able to secure such funding, on acceptable terms or at all, due to a number of factors such as general market and economic conditions, a decline in our creditworthiness and deterioration in our business prospects. Our inability to fund our current operations or to finance new stores, future acquisitions and other investments could affect the viability of our business and lead to a decline in our competitiveness or the loss of potential business opportunities, which may have a material adverse effect on our business, financial condition and results of operations.

A disruption in our information technology systems could adversely affect our operations.

Our business activities rely to a significant degree on the efficient and uninterrupted operation of our various computer and communications systems and those of third parties. The primary site for our computer and communications systems is located at Seoul. All of our stores are linked through a common computer network that facilitates the flow of information among the stores and to our management. We maintain backup systems for our computer and communication systems at our primary site. We also have an off-site disaster recovery center in Daejeon. Although we take protective measures and endeavor to modify them as circumstances warrant, our computer systems, software and networks may be vulnerable to unauthorized access, computer viruses or other malicious programs and other events. In addition, any significant breakdown of plant or equipment, accidents such as a serious flood or fire or other significant disruption to the operations of these facilities could affect our ability to manage our information technology ("IT") systems, which in turn could adversely affect our business.

We cannot assure you that we will be able to maintain and upgrade our IT systems in a manner that will avoid interruptions or disruptions of such systems. A failure or inability to maintain and upgrade our IT systems may have an adverse effect on our business.

Failure to protect personal, confidential or proprietary information being sent to or received from a customer, a supplier or other counterparty could result in legal liability, regulatory action or reputational harm.

We routinely transmit and receive personal, confidential and proprietary information through electronic means, and we have accumulated a database of customer information, including gender, age and purchase pattern. We are exposed to risks arising from the interception of personal, confidential or proprietary information sent to or received from, or the misuse or mishandling of personal, confidential or proprietary information by, our employees, as well as agents, suppliers, service providers and other third parties who may receive such information from us, and the controls implemented by us or these third parties to protect such information may not be effective. Interception or mishandling of personal, confidential or proprietary information being sent to or received from a customer, a supplier or other counterparty could result in legal liability, regulatory action or reputational harm.

The use of individually identifiable data by us and our business associates is regulated under the relevant Korean laws and regulations. The costs of compliance with consumer protection laws and costs resulting from consumer fraud may be substantial. While we have made investments in information security systems and adopted procedures to protect customer data and other confidential information, there can be no assurance that our systems and procedures will be effective in preventing security breaches and loss or misuse of personal, confidential or proprietary information in the future. If any such breaches, loss or misuse were to occur, it could have a material adverse effect on our business and reputation.

Labor disruptions could affect our results of operations.

As of December 31, 2017, approximately 26.1% of our employees in Korea (excluding those of our subsidiaries) were union members, and sales employees accounted for substantially all of these members. We have a collective bargaining agreement with our labor union, which is negotiated once every two years. Wage rate increases are also negotiated once every year. We believe that overall our relationship with our employees and the union is good. Since the formation of our first union in 1987, we have not experienced any work slowdowns, work stoppages or strikes. However, there can be no assurance that a work slowdown, work stoppage or strike will not occur, in particular prior to or upon the expiration of our labor agreements. Work slowdowns, stoppages or other labor-related developments affecting us could have a material adverse effect on our business, financial condition and results of operations.

Complaints or litigation from customers and other third parties could adversely affect us.

We are subject to complaints and litigation from our customers, employees or other third parties, alleging health, environmental, safety or operational concerns, nuisance, negligence or failure to comply with applicable laws and regulations. For example, we are currently involved in a series of product liability claims relating to our previous sale of humidifier disinfectant products containing toxic chemicals. See "— Risks Relating to Regulation — We face the risk of exposure to product liability claims and adverse publicity in connection with the sale of products." These claims, even if successfully disposed of without direct adverse financial effect, could have a material adverse effect on our reputation and divert our financial and management resources from more beneficial uses. While we do not believe that any of the claims to which we are currently subject will have a material adverse effect on us, there is no guarantee that we will not be subject to future claims that may have such an effect on our business, financial conditions and results of operations.

Employee and agent misconduct is difficult to deter and could harm our business, results of operations or financial condition.

Employee and agent misconduct could result in violations of law by us, regulatory sanctions, litigation or serious reputational or financial harm. Misconduct could include engaging in misrepresentation or fraudulent activities when selling products to its customers, hiding unauthorized or unethical activities, resulting in unknown and unmanaged risks or reputational harm, or not complying with laws or its control policies or procedures.

While we closely monitor our activities to detect any such misconduct, we cannot always deter employee or agent misconduct, and the precautions we take to prevent and detect these activities may not be effective in all cases. We have in the past experienced employee and agent misconduct that has resulted in internal disciplinary action against, or termination of, the employees or agents in question. We cannot assure you that employee or agent misconduct or our failure to detect and address such misconduct will not lead to considerable harm to our reputation and adversely affect our business, results of operations and financial condition.

Risks Relating to Regulation

We are subject to numerous laws and regulations that could affect our operations.

Our operations are subject to governmental regulation concerning, among other things:

- our competitive and marketplace conduct, including fair trade;
- establishment or acquisition of stores, including large-scale stores and supermarkets;
- export and import restrictions and other customs regulations;
- consumer, data and personal information protection;
- the advertisement, promotion and sale of merchandise;
- product safety;
- national and local environmental laws and regulations;
- the health, safety and working conditions of our employees;
- the safety of our food products; and
- the sanitation and safety of our stores and their accessibility for the disabled.

Although we undertake to monitor changes in these laws and regulations, if we fail to promptly implement any action required by any change in these laws or regulations or if any such laws or regulations are violated by us or by third parties that supply goods or services to us, we could experience delays in shipments and receipt of goods or be subject to fines, injunctions or other penalties under the controlling laws and regulations. Any of these events could have a material adverse effect on our business, reputation, financial condition and results of operations.

In particular, under the amendments to the Distribution Industry Development Act of Korea (the "DIDA") which became effective in November 2010 for a period of five years and was renewed for another five years in November 2015, local governmental authorities in Korea may restrict or impose burdensome conditions on large retailers in opening and operating stores in certain areas designated for the protection of small local retailers or traditional open markets, and an increasing number of local governmental authorities have implemented or are implementing such protective measures. The DIDA was amended in June 2011 to expand the geographic scope of areas designated for the protection of traditional open markets and, effective from January 2012, further amended to allow local governmental authorities to impose mandatory closure times and/or days to semi-large stores and stores registered as a large-scale marketplace, subject to certain conditions. As a result, certain local governmental authorities (including those in the Seoul metropolitan area) have implemented requirements for discount stores and supermarkets operated by large retailers to close on certain designated days (such as every other Sunday). In January 2013, the National Assembly of Korea passed additional amendments to the DIDA which further expanded the powers of local governmental authorities to control the operating hours of semi-large stores and stores registered as a large-scale marketplace, including the authority to impose two days of mandatory closure during public holidays (including Sundays) each month. In 2017, 122 of our 123 domestic discount stores were required to be closed for two or more days to comply with such measures. Furthermore, an amendment to the Act on the Promotion of Collaborative Cooperation between Large Enterprises and Small-Medium Enterprises, which became effective in January 2011, allows small- and medium-sized retailers (acting through a recognized industry association or in groups) to bring regulatory proceedings against large corporations that open new stores (directly or indirectly through stores that are owned and operated by individual franchisees but are at least 51% funded by large corporations) in the vicinity of their businesses, which may result in various restrictions on the opening or expansion of stores by large corporations such as us. In addition, in January 2012, the Act on Fair Dealings in Large-Scale Distribution Business (the "Large-Scale Distribution Business Act"), which prohibits large-scale distribution businesses such as us from engaging in various activities specified as unfair business dealings (such as certain reductions of payments to suppliers or refusals or delays in accepting products from suppliers), came into effect. See "Business — Regulations." Such regulatory restrictions may impair our ability to expand our supermarket and discount store businesses, which may have a material adverse effect on our results of operations and financial condition. Similar regulatory restrictions may also be imposed in the future on our other retail operations, such as shopping malls, and there is no assurance that such future restrictions will not have a material adverse effect on our results of operations and financial condition.

We also require licenses to undertake certain of our activities, and any loss of, restrictions on, or delays in obtaining renewal of, these licenses could have an adverse effect on our business. For example, we require a license to broadcast cable television programming of our home shopping business, which is operated by our consolidated subsidiary Woori Home Shopping & Television. The current term of Woori Home Shopping & Television's license will expire in May 2018. While we have applied for the renewal of such license with the Ministry of Science and ICT of Korea, there is no assurance that we will be able to obtain such renewal on favorable terms or at all. In November 2017, the Seoul Central District Court sentenced Mr. Hyun-Gu Kang, the former president of Woori Home Shopping & Television, to 18 months in prison (which was suspended for two years) for embezzlement and various other acts of criminal misconduct in connection with the previous renewal of the company's cable television broadcasting license in 2015, and the court also imposed a ₩20 million fine on Woori Home Shopping & Television. Mr. Kang has also been charged with alleged bribery, for payments purportedly made to a non-profit organization of which a former member of the National Assembly served as honorary chairman, in connection with such license renewal in 2015, and the case is currently pending before the trial court. Such prior instances of misconduct by the company and its management may negatively affect the Korean government's willingness to renew Woori Home Shopping & Television's expiring cable television broadcast license.

In addition, in May 2016, the Ministry of Science and ICT ordered Woori Home Shopping & Television to suspend its broadcasts from 8am to 11am and 8 pm to 11pm each day for six months starting September 2016, in light of the misconduct by the company and Mr. Kang as described above in connection with the license renewal in 2015. Following the filing of an administrative lawsuit by Woori Home Shopping & Television to seek the cancellation of such administrative penalty imposed by the Ministry of Science and ICT, the Seoul Administrative Court issued an order to suspend the implementation of such penalty in August 2016 and ruled in favor of Woori Home Shopping & Television to cancel such penalty in September 2017. Such decision was appealed by the Ministry of Science and ICT, and the appeal is currently pending before the appellate court. We cannot predict the outcome of such proceeding at this time. An unfavorable outcome in such proceeding may require Woori Home Shopping & Television to temporarily suspend its broadcasts each day for six months as originally ordered, which may adversely affect our results of operations.

We are also subject to national and local environmental laws and regulations. These environmental laws and regulations are constantly changing, as are the priorities of those who enforce them. We cannot assure you that environmental conditions relating to prior, existing or future properties will not have a material adverse effect on our business, financial condition or results of operations.

Our transactions with our subsidiaries, affiliates and other member companies of the Lotte Group may be restricted under Korean fair trade and tax regulations.

Our business operations and transactions with our subsidiaries, affiliates and other companies within the Lotte Group are subject to ongoing scrutiny by the Korean Fair Trade Commission (the "FTC"), as to, among other things, whether such transactions constitute undue financial support among companies of the same business group. Our material business transactions with our subsidiaries, affiliates and member companies of the Lotte Group are subject to approval by our board of directors and require public disclosure. Any future determinations by the FTC that we have engaged in transactions that violated the relevant laws and FTC regulations may have an adverse effect on our business and reputation.

Furthermore, under Korean tax law, there is an inherent risk that our transactions with related parties (or any person or company that is related to us) may be challenged by the Korean tax authorities if such transactions are viewed as having been made on terms that were not on an arm's-length basis. If the Korean tax authorities determine that certain of our transactions with related parties were not made on an arm's-length basis, we would not be permitted to deduct the amount equivalent to such undue financial support as expenses.

In addition, our retail business operations are subject to ongoing scrutiny by the FTC in connection with potential violations of relevant laws and FTC regulations governing the retail industry. We are not permitted, among other things, to (i) unduly return products, in whole or in part, that we have purchased from our suppliers, (ii) unduly reduce the purchase price after we have purchased products from our suppliers, (iii) delay payment of the purchase price to our suppliers or our store lessees without justifiable reasons, (iv) make any undue and coercive demands for special discounts or free gifts to our suppliers or our store lessees or (v) unduly charge product promotion costs to our suppliers. Since 2015, we have received seven corrective orders from the FTC for engaging in certain of these and other unfair business practices, pursuant to which we took corrective measures and paid a total of ₩4.7 billion in penalties. If the FTC determines in the future that we have engaged in these or any other types of unfair business practices, we may be subject to additional corrective measures, ordered to publicize such corrective measures and/or pay a fine, which may have an adverse effect on our business and reputation.

We face the risk of exposure to product liability claims and adverse publicity in connection with the sale of products.

The manufacture, processing, distribution and sale of products entail an inherent risk of product liability, product recall and adverse publicity. In Korea, product liability is divided into two types: primary liability, which applies to manufacturers, processors and importers of products, and secondary liability, which applies to sellers of products. A party found liable in a product liability case will be obligated to compensate for the death, injury or property damage of a consumer that results from the product defect. We may be subject to primary liability as a processor of food products, an importer of products and a seller of goods manufactured by third parties but packaged and sold under our label. For example, in April 2016, a group of consumers, together with the National Health Insurance Service of Korea and the Korean Environmental Industry & Technology Institute, filed a series of lawsuits against us and certain other manufacturers and sellers of humidifier disinfectants, alleging that such products produced or sold by the defendants, including certain humidifier disinfectants packaged and sold under our private label in our Lotte Mart discount stores between 2006 and 2011, contained toxic chemicals that caused serious and, in some cases, fatal lung damage. The cases are currently pending before the trial court, and we are continually evaluating the merits of the respective claims. We are negotiating settlements with some of the plaintiffs whose claims have been verified by the Korean Environmental Industry & Technology Institute and have established provisions of ₩9.1 billion as of December 31, 2017 in connection with potential damages. However, there is no assurance that additional claims of a similar nature will not be brought by other customers who purchased the same products between 2006 and 2011, or that such claims will not have a material adverse effect on our business, results of operations, financial condition and reputation. In addition, certain of our former employees, including the former head of our Lotte Mart operations, were criminally charged with negligent homicide and, following appeal, were sentenced with prison terms of two and a half to four years by the Seoul High Court in August 2017, which decision was affirmed by the Supreme Court of Korea in January 2018, in connection with the sale of such humidifier disinfectants.

Secondary liability attaches in product liability cases where the seller of goods is unwilling or unable to identify the manufacturer of a defective product. In such a case, since the consumer cannot identify the manufacturer who is the primary party responsible for the product defect, the consumer may pursue an action for secondary product liability against the seller. If we know, or should know, the identity of the manufacturer of a defective product sold by us and yet we do not reveal the identity of such manufacturer, we may be exposed to product liability claims even though we did not manufacture, process or import the defective product.

There can be no assurance that product liability claims of in the future will not be asserted against us or that we will not be obligated to perform recalls in the future. If a product liability claim is successful, our insurance may not be adequate to cover all liabilities we may incur, and we may not be able to continue to maintain such insurance, or obtain comparable insurance at a reasonable cost, if at all. If we do not have adequate insurance or contractual indemnification available to us, product liability claims relating to defective food products could have a material adverse effect on our ability to successfully market our products and on our business, financial condition and results of operations.

In addition, even if a product liability claim is not successful or is not fully pursued, the negative publicity surrounding any assertion that the products we sell caused illness or injury could have a material adverse effect on our reputation with existing and potential customers and on our business, financial condition and results of operations.

Restrictions on our ability to dismiss non-full-time employees may result in increases of labor costs and severance payment reserves.

As of December 31, 2017, we employed 25,982 people in Korea (excluding employees of our subsidiaries), of which 16,631 were full-time members of our staff (including contract-based employees), 8,999 were part-time employees and 352 were temporary employees. Contract-based employees typically perform more specialized tasks and services compared to the regular members of our staff and include, among others, in-store nurse practitioners, public address system announcers and designers. Because our staffing requirements fluctuate during the year as a result of the seasonality of the retail industry, we typically also employ temporary workers, including full-time interns and part-time point-of-sale, or POS, technicians. Because we hire contract-based and temporary employees, we are subject to the restrictions posed by the Act on Protection of Fixed-Term or Part-Time Employees (the "Non-regular Employee Act"). Under the Non-regular Employee Act, we are prohibited from discriminating, without justifiable grounds, against fixed-term employees who perform the same or similar duties as those of the regular employees in respect of wages and other labor conditions. In particular, if we hire fixed-term employees for a period exceeding two years, we must treat them as regular employees in terms of wages and benefits and may not terminate their employment without justifiable grounds, even after the expiration of the fixed-term employment contract. These and other restrictions on our treatment of non-full-time employees could result in increased labor costs and severance payment reserves, which may have an adverse effect on our business, financial condition and results of operations.

Our income tax expenses may increase as a result of changes to Korean corporate income tax laws.

Pursuant to an amendment to the Corporate Income Tax Law of Korea which became effective in January 2018, the corporate income tax rate applicable to the portion of the taxable income of companies that exceeds ₩300 billion has been raised from 22% to 25%. In addition, pursuant to an amendment to the Special Tax Treatment Control Law of Korea in January 2018, large corporations with net equity in excess of ₩50 billion, including us and certain of our subsidiaries, are subject to a 20% additional levy on corporate income if a certain portion of their taxable income is not used for investments or wage increases. Such changes in Korean income tax laws may result in an increase in our and our subsidiaries' income tax expenses, which, depending on the magnitude of such increase, may have a material adverse effect on our and their results of operations.

Risks Relating to Hi-mart

The risks described above relating to our industry, business and regulatory environment also apply generally to Hi-mart, our consolidated subsidiary. In addition, Hi-mart is subject to risks specific to it and its electronics retail store operations, including the following.

The consumer electronics retail industry in Korea is highly competitive, which will continue to put pressure on Hi-mart's business performance and profitability.

The Korean consumer electronics retail industry is intensely competitive. Competition in the electronics retail industry is based on a number of factors, including customer service, brand recognition, product selection and availability, price and store location and design. Hi-mart competes principally with consumer electronics specialty retailers, which include well-known manufacturer-owned retailers and independent specialty electronics retailers, discount stores and department stores, as well as agency stores that sell exclusively a single brand of products and independently-operated specialized retail complexes that focus on consumer electronics products and household appliances. In addition, competition has intensified in recent years with increasing competition from online retailers, including those that target a younger customer base that is more familiar with the e-commerce retail environment, as well as other alternative non-traditional retail formats such as home shopping channels.

Manufacturer-owned agency retailers primarily consist of Samsung Electronics Sales, which is operated by Samsung Electronics, and Hi-Plaza, which is operated by LG Electronics. Independent specialty retailers include Electro Land, which is a multi-brand consumer electronics retailer with a nationwide chain of stores. Hi-mart's primary discount store competitors include E-Mart operated by Shinsegae, Lotte Mart operated by us, and Home Plus, which is owned by MBK Partners, an Asian private equity fund. Hi-mart's primary department store competitors include us, Shinsegae and Hyundai. Agency stores sell exclusively a single brand of products pursuant to a franchise agreement with the manufacturer. Specialized retail complexes consisting of independently operated retail stores include Techno Mart and Yongsan Electronics Market.

Some of the leading online retailers include Gmarket, a subsidiary of eBay Inc., 11th Street, Auction, Coupang and Interpark. Some of the leading home shopping channels (other than our Lotte Home Shopping business) include GS Home Shopping, CJ O Shopping and Hyundai Home Shopping. Certain online retailers and home shopping channels have significantly lower operating costs than traditional retailers because they do not rely on costly networks of stores or large sales forces, which in turn enable them to offer more competitive pricing on some of the items they offer. In addition, the internet and mobile applications enable online customers to readily perform price comparisons, and some of the more price-conscious consumers may elect to compare products physically at retail stores such as Hi-mart's but purchase them online if the online retailers offer the same or similar products at lower prices. While Hi-mart operates an online shopping mall, which has grown rapidly in recent years, Hi-mart continues to rely on its retail stores for a significant portion of its sales. If e-commerce and home shopping channels continue to grow as a more compelling alternative to traditional retail channels in the future, consumers' reliance on traditional retailers such as Hi-mart could be further diminished.

Actions taken by Hi-mart's competitors have placed and will continue to place pressure on Hi-mart's strategy, margins and profitability. Some of Hi-mart's competitors, which are also operated by member companies of large conglomerates, may have access to greater financial resources, greater purchasing economies of scale and lower cost bases, any of which may give them a competitive advantage over Hi-mart. Hi-mart's competitors may also own and operate better located and more attractive retail stores than Hi-mart. An increase in the number of such competing stores, particularly in close proximity to Hi-mart stores, may increase competition for customer traffic and reduce the relative attractiveness of such stores. These and other actions by Hi-mart's competitors may cause it to incur additional costs in order to make its stores more appealing to customers, adopt more aggressive marketing or pricing initiatives, broaden its product offerings or alter its strategy, all of which may prove to be unsuccessful.

In addition, some of the retail chains have undergone consolidation in the past, with large retail chains gaining market share at the expense of smaller regional or local retail stores. Further consolidation may occur as competition intensifies and economies of scale become increasingly important. Future consolidation may materially alter the competitive landscape of the Korean consumer electronics retail industry, and there can be no assurance that such industry consolidation will not materially weaken Hi-mart's market position. Any erosion in

Hi-mart's market position in the Korean consumer electronics retail industry that may result, for instance, from its inability to compete effectively, would have a material adverse effect on its business, financial condition and results of operations.

A decline in consumer discretionary spending or other conditions may negatively affect Hi-mart's business and profitability.

Hi-mart's business and profitability are affected by general economic and market conditions in Korea. A slowdown in the Korean economy would, and an uncertain economic outlook may, adversely affect consumer confidence and spending levels. Challenging economic conditions in Korea may also impact Hi-mart's customers' ability to obtain consumer credit in a timely manner. Purchases of consumer electronics products and household appliances that Hi-mart sells are generally viewed as discretionary. As a result, Hi-mart's sales are susceptible to economic slowdowns, and it may experience a decline in sales that is proportionately greater than the level of general economic decline. Accordingly, adverse changes in consumer confidence, employment levels, interest rates, inflation, tax rates, the real estate or financial markets, consumer debt levels and energy costs or other aspects of the Korean economy that affect retail customers could result in decreased purchases of Hi-mart's products, which would negatively affect its business, results of operations and financial condition.

Failure to appropriately anticipate and respond to constantly changing consumer demands and technologies in a timely manner could adversely affect Hi-mart's business and profitability.

Hi-mart's business depends, in large part, on its ability to successfully offer new products and technologies to Korean consumers, the frequency of such new product offerings, the level of consumer acceptance, and the related impact on the demand for existing products and technologies. The consumer electronics products and household appliances that Hi-mart sells must appeal to consumers whose preferences cannot be predicted with certainty and are subject to change. Consequently, Hi-mart depends in part upon the continued favorable consumer response to the efforts of its merchandising specialists as well as the expertise of its suppliers to introduce products that will have broad appeal to Hi-mart's consumer base and enable Hi-mart to maintain or further enhance its overall profit margins. There can be no assurance that Hi-mart's products purchased from suppliers will match actual demand. If Hi-mart or its suppliers are unable to successfully predict or respond to constantly changing consumer tastes, preferences, spending patterns and other lifestyle decisions, Hi-mart's sales may decrease, which in turn could have a material adverse effect on its business, results of operations and reputation with its customers.

Hi-mart's business could be negatively affected by adverse developments in its relationships with a limited number of key suppliers or other factors that negatively affect such suppliers.

Hi-mart's strategy depends to a large extent on its ability to offer customers a broad selection of well-known brand products. Therefore, Hi-mart's success is dependent upon satisfactory and stable relationships with qualified suppliers who meet its standards and supply an adequate volume of high-quality products on commercial terms satisfactory to it and in a timely manner. Although Hi-mart sources its products from a large number of suppliers, it relies on a limited number of manufacturers for a significant portion of the products it sells in its stores. Hi-mart's five largest suppliers accounted for approximately 65.7% of the products it sold in 2015, 65.7% in 2016 and 66.8% in 2017, with the top two suppliers (Samsung Electronics and LG Electronics) representing 53.4% of total products sold in 2015, 52.7% in 2016 and 53.8% in 2017.

Hi-mart generally does not have long-term supply contracts with its key suppliers, and Hi-mart has no assurance that these suppliers will continue to supply their products to it. Hi-mart's relationships with major suppliers are typically governed by written contracts that specify general terms and conditions applicable to purchase orders. Such contracts are automatically renewable for an additional year absent objection from either party. In addition, most of the products from Hi-mart's suppliers are sold by its competitors and many of its suppliers, including Samsung Electronics and LG Electronics, also have their own dedicated or franchised retail stores that compete with Hi-mart. If one or more of Hi-mart's key suppliers, especially Samsung Electronics and LG Electronics, cease to provide it with adequate supplies of products or increase sales of products through their own stores or to Hi-mart's competitors, Hi-mart may experience inventory shortfalls and lose sales opportunities.

Hi-mart's results of operations and financial condition are materially affected by the prices at which it sells its products, which are related to the costs of its suppliers and the buying margin, or "markup," Hi-mart negotiates with its suppliers on an individual basis for their products, which in turn may be impacted by the volume of products Hi-mart purchases from such suppliers. If Hi-mart fails to obtain products from its key suppliers in a manner commercially acceptable to Hi-mart, it would have a negative impact on Hi-mart's operating margins.

In addition, timely product procurement, especially of popular products, is critical to Hi-mart's business. Product quality issues, product safety concerns and work stoppages of the manufacturers, and trade restrictions, tariffs, foreign currency exchange rates, transportation capacity and costs and other factors relating to foreign trade, are beyond Hi-mart's control. These and other issues affecting its suppliers and their inability to supply products in a timely manner could result in loss of sales opportunities that may materially adversely affect Hi-mart's business, financial condition and results of operations.

Hi-mart's growth is dependent on the effectiveness of its expansion strategy, and there can be no assurance that its expansion strategy will increase its market share or improve its profitability or otherwise be successful as planned.

Since its inception, Hi-mart has achieved growth by aggressively expanding its retail network into desirable locations and continually renovating and relocating stores to maximize its commercial appeal and reach. Hi-mart plans to continue to selectively expand its network of retail stores, including Hi-mart stores located within our Lotte Mart discount stores under a "shop-in-shop" format, subject to market conditions. In addition, Hi-mart is planning to expand, reconstruct or relocate a number of its existing stores to add more selling space, as well as further expand its product offerings and selectively diversify into new complementary non-electronics segments.

Successful execution of Hi-mart's expansion plans will depend upon a number of factors, including:

- the identification and securing of prime store sites and the level of competition in the surrounding area;
- obtaining acceptable financial terms for purchases or leases of land and retail space;
- the hiring, training and retention of qualified personnel, including sales consultants;
- Hi-mart's ability to integrate new stores and new products into its operations on a profitable basis;
- the capacity of Hi-mart's existing distribution system to accommodate new stores; and
- local, regional and general macroeconomic conditions in Korea.

There can be no assurance that the stores that Hi-mart may open in the future would open on a timely basis and enhance its overall market share. Even if Hi-mart were able to do so, there can be no assurance that such new stores would be commercially successful and enhance its overall profitability. The opening of new stores could result in the diversion of sales from Hi-mart's existing stores in certain cases, which may result in a reduction in its overall profit margins. Hi-mart's failure to successfully implement its expansion plans could have a material adverse effect on its business, financial condition and results of operations.

The reputation of, and value associated with, the Hi-mart brand name are critical to Hi-mart's business, and any substantial erosion of its reputation or brand could materially and adversely affect its business, financial condition and results of operations.

Chosun Biz, the online business newspaper of Chosun Ilbo, has recognized the Hi-mart brand as the most popular consumer electronics retailer brand in Korea in each of the past 8 years. With an established reputation for high quality customer service, Hi-mart believes that its brand power has contributed to building a broad nationwide customer base. Hi-mart has invested substantially in building its brand name, and maintaining the reputation of, and value associated with, the brand is critical to its business. Any substantial erosion in the reputation of, or value associated with, the Hi-mart brand name, could have a material adverse effect on Hi-mart's business, financial condition and results of operations.

Failure to control costs and expenses could have a material adverse impact on Hi-mart's profitability.

The average selling prices of some of Hi-mart's key products, including LCD and LED televisions, have decreased significantly in recent years, which makes it more challenging for Hi-mart to maintain or increase profit margin per unit on these products. The overall impact from such decrease in selling prices could be offset by an increase in sales volume of such products as well as introduction of additional higher margin products. In order to maintain its profit margin levels, Hi-mart will also need to continue to control its cost and expense structure. Hi-mart's inability to increase the sales volume of key products that are experiencing decreasing sales prices or replace such key products with higher margin products, as well as any unplanned increases in wages, advertising and marketing expenses or indirect spending that cannot be passed on to customers, could delay or prevent Hi-mart from increasing its profitability or otherwise have a material adverse impact on its business, financial condition and results of operations.

Hi-mart depends on third-party vendors for the distribution of products to its stores and customers.

As of December 31, 2017, Hi-mart operated 13 distribution centers located throughout Korea, which are supplemented by a nationwide network of logistics vendors that provide outsourced services. Hi-mart works closely with its third-party vendors to provide ongoing training programs and resources for the personnel employed by the vendors so that they can meet Hi-mart's service quality standards. Although Hi-mart has worked with reputable third-party logistics service providers for a number of years, there can be no assurance that these third-party vendors will be able to continue to effectively provide logistics services without delays or interruptions. The financial instability of, contractual disputes with, or labor disruptions at, such vendors could disrupt the distribution and installation of Hi-mart's products in a timely manner. In addition, any major breakdown of, or accidents such as a serious fire or flood that affect, Hi-mart's distribution centers or outsourced vendors may significantly impact Hi-mart's ability to optimally operate its product supply chain. The occurrence of any such events that disturb Hi-mart's supply chain management may materially and adversely affect its business, reputation, financial condition and results of operations.

Failure to manage its inventory effectively could adversely impact Hi-mart's profitability.

Hi-mart depends on strong and stable supplier relationships and accurate forecasts of customer demand in order to effectively manage its inventory. Reduced consumer spending or lack of consumer interest in Hi-mart's product offerings could lead to excess inventory levels. In addition, Hi-mart may inaccurately forecast product life cycles or end-of-life products, leaving it with excess inventory. In the event Hi-mart has accumulated an oversupply of inventory, it typically relies on additional markdowns or promotional sales to dispose of such excess or other slow-moving inventory. To date, Hi-mart has not experienced significant difficulties in maintaining satisfactory inventory levels, but there can be no assurance that it will continue to be able to do so in the future. Hi-mart's failure to manage its inventory effectively could adversely impact its business, financial condition and results of operations.

Hi-mart's results of operations could materially deteriorate if it fails to attract, develop and retain qualified sales consultants.

Hi-mart's business is dependent on attracting and retaining qualified employees who are able to provide high-quality services to Hi-mart's customers. In particular, Hi-mart depends to a significant extent on the effectiveness of its sales consultants. As of December 31, 2017, Hi-mart's sales staff consisted of 2,782 sales consultants, excluding sales consultants provided by Hi-mart's suppliers and vendors. See "Hi-mart - Retail Store Operations - Store Personnel - Sales Consultants." Competition to hire and retain sales consultants with demonstrated ability to successfully sell consumer electronics and home appliances is high, and Hi-mart has experienced continuing turnover among sales consultants. Hi-mart competes for sales consultants primarily on the basis of compensation and retirement benefits and its reputation, as well as training and support services provided to them.

Hi-mart has undertaken, and expects to continue to undertake, various initiatives and measures to retain and attract productive sales consultants, and it has not experienced significant difficulties in attracting and retaining qualified sales consultants to date. However, we cannot assure you that these initiatives will continue to succeed in attracting new sales consultants or retaining existing sales consultants. In particular, the salaries and benefits of the sales consultants provided by Hi-mart's suppliers and vendors are typically paid by them, which are beyond Hi-mart's control. A decrease in the number of sales consultants provided by its suppliers and vendors to Hi-mart may result in an increase in the hiring of its own sales consultants, which would increase its cost of sales, which in turn could have a material adverse effect on its results of operations. If Hi-mart is unable to retain and strengthen its core group of highly productive sales consultants at the level it plans to maintain, its business, results of operation and financial condition could be materially and adversely affected.

A disruption in its IT systems could adversely affect Hi-mart's operations.

Hi-mart's business activities rely to a significant degree on the secure processing, storage and transmission of information through its various IT systems and those of third parties. Hi-mart's sales support system provides real-time sales data, as well as analysis of profitability of each store, product and manufacturer, to Hi-mart's management to improve the efficiency of Hi-mart's operations and enhance its sales strategy. Hi-mart's IT systems also provide Hi-mart with up-to-date information that enables it to manage its inventory, negotiate more effectively with its suppliers, monitor consumer trends and otherwise improve overall operating efficiency. In addition, Hi-mart's extensive customer relationship management database enables Hi-mart to better focus its marketing efforts.

Hi-mart's primary IT systems and their backup systems are located in Seoul. Although Hi-mart takes protective measures and endeavors to modify them as circumstances warrant, its computer systems, software and networks may be vulnerable to unauthorized access, computer viruses or other malicious programs and other events. In addition, any significant breakdown of equipment, accidents such as a serious flood or fire or other significant disruption to the operations of Hi-mart's existing facilities could affect its ability to manage its IT systems, which in turn could adversely affect its business. If one or more such events occur, it could jeopardize confidential information processed and stored in, and transmitted through, Hi-mart's computer systems and networks, or otherwise cause interruptions or malfunctions in Hi-mart's operations or those of its suppliers or third parties, which could result in significant losses or reputational damage to Hi-mart. Hi-mart may be required to expend significant additional resources in order to modify its protective measures or to investigate and remedy vulnerabilities or other exposures, and Hi-mart may be subject to litigation and financial losses against which it is not insured. The failure of Hi-mart's IT systems to perform as Hi-mart anticipates could also disrupt the operations of its business and could result in decreased sales, increased overhead costs and excess or out-of-stock inventory levels.

Hi-mart may not be able to further expand its online retail operations successfully.

Hi-mart operates an online shopping mall to capitalize on growing e-commerce opportunities, complement its off-line retail operations and enable it to more effectively target young customers who are familiar with the e-commerce retail environment and to compete more effectively with its competitors in the online retail market, which has been growing significantly in the past decade. In recent years, Hi-mart's online business has grown rapidly, and Hi-mart expects to continue to invest in its online retail operations. These efforts are intended to attract new customers and increase sales from existing customers, but they could also result in Hi-mart's existing customers making fewer visits to its retail stores. In order to minimize such effects, Hi-mart offers products online that are no longer offered in its retail stores with additional markdowns or through promotional sales in order to dispose of excess or slow-moving inventory, as well as basic consumer electronics products to price-sensitive consumers at substantial discounts, the cost of which will be partially offset by lower overhead costs of the online sales channel. Hi-mart also plans to continue to market and develop demand for additional complementary products. Online consumers in Korea are able to readily perform price comparisons and the online retail market in Korea is characterized by competitive pricing. While Hi-mart continues to focus on strategies that provide an enhanced shopping experience to its online customers, there can be no assurance that Hi-mart will be able to further expand its online retail operations successfully. Even if Hi-mart were able to do so, such efforts could result in lower margins as well as a reduction in sales from Hi-mart's retail store operations, which could negatively impact its overall business, financial condition and results of operations.

Hi-mart's business is susceptible to seasonal fluctuations and related instability in cash flows.

Hi-mart's business is susceptible to seasonal fluctuations and related instability in cash flows. Although such fluctuations historically have not been significant, past experience indicates that peaks in sales occur during the third and fourth quarters of each calendar year. For example, in the early summer months, Hi-mart typically experiences increased sales of air conditioners, and in the months leading into the winter and the holiday shopping season, it typically experiences increased sales of kimchi refrigerators as well as holiday gift items. Hi-mart incurs additional expenses in advance of peak selling periods to acquire additional inventory as well as carry out nationwide advertising and marketing activities, which in turn require it to spend a higher level of cash in its operating activities during such periods. In addition, unexpected events or developments such as extended periods of unseasonably warm temperatures during the winter season or cool weather during the summer season, extreme weather conditions such as heavy snowfall or typhoons over a prolonged period that might make it difficult for Hi-mart's customers to travel to its stores, or result in product sourcing issues or adverse economic conditions during its peak selling periods, could have a material adverse effect on its business, financial condition and results of operations.

Our interests as Hi-mart's largest shareholder could conflict with your interests or those of Hi-mart's other shareholders.

As of the date of this offering circular, we hold approximately 65.25% of Hi-mart's outstanding common shares. As a result, we are in a position to elect and remove Hi-mart's directors and control the outcome of most matters submitted to Hi-mart's shareholders' meetings for a vote. We would be able to control or significantly influence the outcome of any vote on any proposed amendment to Hi-mart's articles of incorporation, merger proposal, proposed substantial sale of assets or other major corporate transactions. Our interests as Hi-mart's controlling shareholder could conflict with your interests, including with respect to the form and substance of business cooperation between us and Hi-mart, which could adversely affect your investment in the Bonds and the Hi-Mart Shares.

Hi-mart's substantial amount of debt may limit the cash flow available for its operations.

Hi-mart has a substantial amount of debt. As of December 31, 2017, Hi-mart had total outstanding debt of ₩649 billion and was subject to certain financial covenants in connection with its debt. Hi-mart's indebtedness has important consequences to an investment in Hi-mart Shares. For example, Hi-mart's indebtedness may:

- require Hi-mart to use a substantial portion of its cash flow from operations to pay interest and principal on its debt, which would reduce the funds available to use for working capital, expansion plans and other general corporate purposes;
- limit Hi-mart's ability to pay future dividends;
- limit Hi-mart's ability to obtain additional financing for working capital, expansion plans and other investments;
- adversely affect Hi-mart's credit rating and result in higher interest expense if interest rates increase on its floating rate borrowings;

- heighten Hi-mart's vulnerability to downturns in its business, the electronics retail industry or in the Korean economy and limit its flexibility in planning for changes in its industry; and
- prevent Hi-mart from taking advantage of business opportunities as they arise or successfully carrying out its plans to expand its store base, product offerings and sales channels.

We cannot assure you that Hi-mart's business will generate sufficient cash flow from operations in amounts sufficient to enable it remain in compliance with applicable financial covenants, make payments on its indebtedness or to fund its operations. In the event that Hi-mart is unable to generate sufficient cash flow from its operations to meet its operating expenditure needs, its operations will have to be funded by other financing activities, including incurrence of additional debt or equity financing. Hi-mart may not be able to secure such funding, on acceptable terms or at all, due to a number of factors including the level of its outstanding indebtedness, general market and economic conditions, a decline in its creditworthiness or deterioration in its business prospects. Hi-mart's inability to fund its current operations or to finance new stores, future acquisitions and other investments could affect the viability of its business and lead to a decline in its competitiveness or the loss of potential business opportunities, which may have a material adverse effect on its business, financial condition and results of operations.

Hi-mart carries a substantial amount of goodwill, and impairment of goodwill may result in a material decrease in its total assets and have a material adverse impact on its results of operations.

Goodwill represents the excess of the cost of an acquisition over the fair value of the company's share of the net identifiable assets of the acquired company at the date of acquisition. Hi-mart incurred a significant amount of goodwill in 2008 in connection with the acquisition of Hi-mart by a consortium led by Eugene Corporation. Pursuant to Korean IFRS, Hi-mart tests annually whether goodwill has suffered any impairment, and it carries goodwill at cost less accumulated impairment losses. Goodwill is allocated to cash generating units for the purpose of impairment testing. The recoverable amounts are determined by cash generating units, which calculations require the use of accounting estimates. The recoverable amount of a cash generating unit is determined based on the calculated amount of value in use. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the perpetual growth rate of 1.7%.

As of December 31, 2017, the key assumptions used by Hi-mart's management for the calculation of value in use over the estimated period from 2018 to 2022 were as follows:

- Gross profit as a percentage of total sales, or gross margin: 26.2% to 26.3%
- Growth rate of sales: 3.2% to 3.6%
- Discount rate: 7.8%

Pursuant to the impairment tests conducted by Hi-mart's management, Hi-mart determined that no impairment was necessary as of December 31, 2015, 2016 or 2017, and Hi-mart carried goodwill of ₩1,683 billion under Korean IFRS as of December 31, 2017. In the event that Hi-mart fails to achieve the budgeted gross margin or growth rate or experiences a substantial increase in market interest rates, it may need to impair its goodwill. In addition, a reasonably possible change in the key assumptions used by Hi-mart's management for the calculation of value in use may result in impairment of goodwill. Impairment of goodwill may result in a material decrease in Hi-mart's total assets and have a material adverse impact on its results of operations.

Hi-mart may be obligated to hire sales consultants provided by its suppliers and vendors as its employees, and its ability to dismiss non-full-time employees may be restricted, which may result in an increase in labor costs and severance payment reserves.

Slightly less than half of the sales consultants who work in Hi-mart's retail stores are provided by some of its main suppliers and vendors through human resource firms engaging in the worker dispatch business. The salaries and benefits of sales consultants provided by Hi-mart's suppliers and vendors are paid by them. Such sales consultants may be characterized as "dispatched workers" under Korean labor laws if (i) there exists an actual dispatch relationship between Hi-mart and the human resource firm that has dispatched the relevant workers and (ii) Hi-mart exerts actual control over such workers. If these conditions are satisfied and Hi-mart's use of such sales consultants continues for more than two years, Hi-mart may be obligated to hire them directly as its own employees even if they are not legally employed by Hi-mart, and it will not be able to terminate their employment without justifiable cause.

In addition, as of December 31, 2017, Hi-mart employed 3,873 people in Korea of which 3,638 were full-time employees and 235 were contract-based employees. Under Korean labor laws, if a contract employee hired under a fixed-term contract remains employed under the contract for a period exceeding two years, such employee will be deemed to be a full-time employee subject to certain exceptions, and the employer will not be able to terminate the employment without justifiable cause. Such determination under Korean labor laws would result in an increase in labor costs and severance payment reserves that may have an adverse effect on Hi-mart's business, financial condition and results of operations.

Risks Relating to Korea

If economic conditions in Korea deteriorate, our and Hi-mart's current business and future growth could be materially and adversely affected.

We and Hi-mart are incorporated in Korea and a significant portion of our and Hi-mart's operations and assets are located in Korea. As a result, we are subject to political, economic, legal and regulatory risks specific to Korea. The economic indicators in Korea in recent years have shown mixed signs of growth and uncertainty, and future growth of the Korean economy is subject to many factors beyond our control, including developments in the global economy.

Adverse conditions and volatility in the worldwide financial markets, fluctuations in oil and commodity prices and the general weakness of the global economy have in the past contributed to the uncertainty of global economic prospects in general and adversely affected, and may in the future adversely affect, the Korean economy. The value of the Won relative to major foreign currencies has fluctuated widely, and there has been significant volatility in the stock prices of Korean companies, in recent years. Future declines in the Korea Composite Stock Price Index ("KOSPI") and large amounts of sales of Korean securities by foreign investors and subsequent repatriation of the proceeds of such sales may adversely affect the value of the Won, the foreign currency reserves held by financial institutions in Korea, and the ability of Korean companies to raise capital. Any future deterioration of the Korean or global economy could adversely affect our business, financial condition and results of operations. Developments that could have an adverse impact on Korea's economy include:

- adverse conditions or uncertainty in the economies of countries and regions that are important export markets for Korea, such as China, the United States, Europe and Japan, or in emerging market economies in Asia or elsewhere, as well as increased uncertainty in light of a future Brexit;
- adverse changes or volatility in foreign currency reserve levels, commodity prices (including oil prices), exchange rates (including fluctuation of the U.S. dollar, the euro or the Japanese yen exchange rates or revaluation of the Chinese renminbi), interest rates, inflation rates or stock markets;
- deterioration in economic or diplomatic relations between Korea and its trading partners or allies, including deterioration resulting from territorial or trade disputes or disagreements in foreign policy (such as the recent controversy between Korea and China, which is Korea's largest export market, regarding the deployment of a THAAD system in Korea by the United States commencing in March 2017 and the ensuing economic and other retaliatory actions by China);
- increased sovereign default risks in select countries and the resulting adverse effects on the global financial markets;

- the investigations of several Korean conglomerates and their senior management for bribery, embezzlement and other possible misconduct relating to the impeachment and dismissal of former President Park Geun-hye;
- a continuing rise in the level of household debt and increasing delinquencies and credit defaults by consumer or small- and medium-sized enterprise borrowers in Korea;
- declines in consumer confidence and a slowdown in consumer spending in the Korean or global economy;
- social and labor unrest;
- decreases in the market prices of Korean real estate;
- the economic impact of any pending or future free trade agreements or of any changes to existing free trade agreements;
- a decrease in tax revenue and a substantial increase in the Korean government's expenditures for fiscal stimulus measures, unemployment compensation and other economic and social programs that, together, would lead to an increased government budget deficit;
- financial problems or lack of progress in the restructuring of Korean conglomerates, other large troubled companies (including those in the construction, shipbuilding and shipping sectors) and their suppliers;
- loss of investor confidence arising from corporate accounting irregularities, allegations of corruption and corporate governance issues concerning certain conglomerates;
- increases in social expenditures to support an aging population in Korea or decreases in economic productivity due to the declining population size in Korea;
- geo-political uncertainty and the risk of further attacks by terrorist groups around the world;
- natural or man-made disasters that have a significant adverse economic or other impact on Korea or its major trading partners;
- the occurrence of severe health epidemics in Korea or other parts of the world (such as the Middle East Respiratory Syndrome outbreak in Korea in 2015);
- political uncertainty or increasing strife among or within political parties in Korea;
- hostilities or political or social tensions involving oil producing countries in the Middle East and Northern Africa and any material disruption in the global supply of oil or sudden increase in the price of oil;
- an increase in the level of tensions or an outbreak of hostilities between North Korea and Korea or the United States; and
- changes in financial regulations in Korea.

Escalations in tensions with North Korea could have an adverse effect on us and the market value of the Bonds.

Relations between Korea and North Korea have been tense throughout Korea's modern history. The level of tension between the two Koreas has fluctuated and may increase abruptly as a result of current and future events. In particular, there have been heightened security concerns in recent years stemming from North Korea's nuclear weapon and ballistic missile programs as well as its hostile military actions against Korea. Some of the significant incidents in recent years include the following:

- North Korea renounced its obligations under the Nuclear Non-Proliferation Treaty in January 2003 and conducted six rounds of nuclear tests since October 2006, including claimed detonations of hydrogen bombs, which are more powerful than plutonium bombs, and warheads that can be mounted on ballistic missiles. Over the years, North Korea has also conducted a series of ballistic missile tests, including missiles launched from submarines and intercontinental ballistic missiles that it claims can reach the United States mainland. In response, the Korean government has repeatedly condemned the provocations and flagrant violations of relevant United Nations Security Council resolutions. In February 2016, the government also closed the inter-Korea Gaeseong Industrial Complex in response to North Korea's fourth nuclear test in January 2016. Internationally, the United Nations Security Council has passed a series of resolutions condemning North Korea's actions and significantly expanding the scope of sanctions applicable to North Korea, most recently in December 2017, in response to North Korea's intercontinental ballistic missile test in November 2017. Over the years, the United States and the European Union have also expanded their sanctions applicable to North Korea.

- In August 2015, two Korean soldiers were injured in a landmine explosion near the Korean demilitarized zone. Claiming the landmines were set by North Koreans, the Korean army reinitiated its propaganda program toward North Korea utilizing loudspeakers near the demilitarized zone. In retaliation, the North Korean army fired artillery rounds on the loudspeakers, resulting in the highest level of military readiness for both Koreas.
- In March 2010, a Korean naval vessel was destroyed by an underwater explosion, killing many of the crewmen on board. The Korean government formally accused North Korea of causing the sinking, while North Korea denied responsibility. Moreover, in November 2010, North Korea fired more than one hundred artillery shells that hit Korea's Yeonpyeong Island near the Northern Limit Line, which acts as the de facto maritime boundary between Korea and North Korea on the west coast of the Korean peninsula, causing casualties and significant property damage. The Korean government condemned North Korea for the attack and vowed stern retaliation should there be further provocation.

North Korea's economy also faces severe challenges, which may further aggravate social and political pressures within North Korea. There can be no assurance that the level of tensions affecting the Korean peninsula will not escalate in the future. Any further increase in tensions, which may occur, for example, if North Korea experiences a leadership crisis, high-level contacts between Korea and North Korea break down or military hostilities occur, could have a material adverse effect on the Korean economy and on our business, financial condition and results of operations and the market value of the Bonds and the Hi-mart Shares.

There are special risks involved with investing in securities of Korean companies, including the possibility of restrictions being imposed by the Korean government in emergency circumstances.

As we and Hi-mart are Korean companies and operate in a business and cultural environment that is different from that of other countries, there are risks associated with investing in our securities, including the Bonds and the Hi-mart Shares, that are not typical for investments in securities of companies in other jurisdictions.

Under the Korean Foreign Exchange Transaction Law, if the government deems that certain emergency circumstances, including sudden fluctuations in interest rates or exchange rates, extreme difficulty in stabilizing the balance of payments or substantial disturbance in the Korean financial and capital markets, are likely to occur, it may impose any necessary restriction such as requiring Korean or foreign investors to obtain prior approval from the Minister of Strategy and Finance for the acquisition of Korean securities or for the repatriation of interest, dividends or sales proceeds arising from Korean securities or from disposition of such securities or other transactions involving foreign exchange.

Risks related to the Bonds and the Hi-mart Shares

Holders of the Bonds will bear the risk of fluctuations in the price of Hi-mart Shares.

The market price of the Bonds will be affected by, among other things, the fluctuations in the trading price of Hi-mart Shares. No assurance can be given as to the future trading price of Hi-mart Shares or the Bonds. The trading price of Hi-mart Shares will be influenced by, among other things, Hi-mart's results of operations, sales of additional shares of Hi-mart or securities exchangeable for or convertible into Hi-mart Shares, as well as political, economic, financial and other factors in the Korean market, all of which are beyond the control of us and Hi-mart. Any future sales of a significant number of Hi-mart Shares by us or other shareholders of Hi-mart, or the perception that these events may occur, could cause the trading price of Hi-mart Shares to decrease or to be lower than it might be in the absence of these events or perceptions. In addition, a material decrease in our ownership interest in Hi-mart may prompt changes in Hi-mart's management or business in general, result in the loss of synergy from the combined expertise and resources of Hi-mart and other companies in the Lotte Group, or lead to a decline in our and/or Hi-mart's market reputation, which could materially and adversely affect the trading price of the Bonds and the Hi-mart Shares.

Holders of the Bonds will have no rights as holders of Hi-mart Shares until the exchange of the Bonds for Hi-mart Shares

Unless and until the holders of the Bonds acquire Hi-mart Shares upon exchange, the holders of the Bonds will have no rights with respect to the Hi-mart Shares, including any voting rights or rights to receive any dividends or other distributions with respect to the Hi-mart Shares. Holders who exchange the Bonds for Hi-mart Shares will be entitled to exercise the rights as holders of the Hi-mart Shares only as to actions for which the applicable record date occurs after the date of the exchange.

Fluctuations in the exchange rate between the Won and the U.S. dollar may have a material adverse effect on the value of the Bonds or the Hi-mart Shares in U.S. dollar terms.

Although the principal amount of the Bonds is denominated in Won, all amounts due under the Bonds will be settled in U.S. dollars based on prevailing exchange rates. Furthermore, the Hi-mart Shares are traded and quoted in Won as such shares are listed on the KRX KOSPI Market of the Korea Exchange. In addition, cash dividends, if any, in respect of the Hi-mart Shares will be paid in Won. As a result, fluctuations in the exchange rate between the Won and the U.S. dollar will affect, among other things, the amounts payable under the Bonds, as well as the secondary market price of the Bonds, the market value of the Hi-mart Shares and the value of any cash dividends paid in respect of the Hi-mart Shares expressed in U.S. dollars.

Certain transactions may dilute the potential ownership interest in the Hi-mart Shares to which the holders of the Bonds are entitled.

The number of Hi-mart Shares that holders of the Bonds are entitled to receive when they exchange their Bonds for Hi-mart Shares held by us is subject to adjustment for certain events, including but not limited to free distribution or subdivision, consolidation or re-classification of the Hi-mart Shares, issuance of options, rights or warrants to purchase the Hi-mart Shares, distribution of cash, assets, evidence of indebtedness and share dividends and other similar dilutive actions that Hi-mart may undertake to modify its capital structure. The number of Hi-mart Shares to be received will not be adjusted for other events, such as certain offerings or issuances of options, warrants, rights or certain other securities to Hi-mart's directors, officers or employees that may adversely affect the price of the Hi-mart Shares and therefore the secondary market prices of the Bonds. See "Terms and Conditions of the Bonds." We cannot give any assurance that Hi-mart will not take any of the foregoing actions, or that it will not make offerings of, or that shareholders of Hi-mart will not sell, any Hi-mart Shares in the future, or as to the amount of any such offerings or sales. In particular, we, as the controlling shareholder of Hi-mart, may take actions in such capacity that may not be in the best interest of holders of the Bonds.

The Bonds are unsecured obligations, and our assets may not be sufficient to pay amounts due on any of the Bonds.

Because the Bonds are unsecured obligations, their repayment may be compromised if:

- we enter into bankruptcy, liquidation, reorganization or other winding-up proceedings;
- there is a default in payment under our future secured indebtedness or other unsecured indebtedness; or

- there is an acceleration of any of our indebtedness.

If any of these events occurs, our assets may not be sufficient to pay amounts due on any of the Bonds.

The Bonds are subject to transfer restrictions.

The Bonds have not been and will not be registered under the FSCMA. The Bonds have not been offered, sold or delivered and will not be offered, sold or delivered in Korea, directly or indirectly, for the account or benefit of, any resident of Korea (as defined in the Foreign Exchange Transaction Law of Korea and its Enforcement Decree), or to any other person for reoffering, resale or re-delivery, directly or indirectly, in Korea or to, or for the account or benefit of, any resident of Korea, except as otherwise permitted by applicable Korean laws and regulations. In addition, until the expiration of one year after the issuance of the Bonds, the Bonds may not be transferred to any resident of Korea, except as otherwise permitted by applicable Korean laws and regulations.

There is no trading market for the Bonds and, therefore, the Bonds offer limited liquidity.

The Bonds constitute a new issue of securities for which there is no existing market. Approval in-principle has been received from the SGX-ST for the listing and quotation of the Bonds on the SGX-ST. The offer and sale of the Bonds is not conditioned on obtaining a listing of the Bonds on the SGX-ST or any other exchange. Although the Managers have advised us that they currently intend to make a market in the Bonds, they are not obligated to do so, and any market-making activity with respect to the Bonds, if commenced, may be discontinued at any time without notice at their sole discretion. See "Plan of Distribution."

No assurance can be given as to the liquidity of, or the development and continuation of an active trading market for, the Bonds. If an active trading market for the Bonds does not develop or is not maintained, the liquidity and market price of the Bonds may be adversely affected. If such a market were to develop, the Bonds could trade at prices that may be higher or lower than the price at which the Bonds are issued depending on many factors, including:

- prevailing interest rates;
- our results of operations and financial condition;
- political and economic developments in and affecting Korea, the United States, the European Union and China;
- the market conditions for similar securities; and
- the financial condition and stability of the retail sector in Korea and other parts of the world.

Risks Relating to Forward-Looking Statements

This offering circular contains forward-looking statements that are our management's present expectations of future events and are subject to certain factors and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements.

In addition to the risks related to our business discussed above, other factors could cause actual results to differ materially from those described in the various forward-looking statements contained in this offering circular. These factors include, but are not limited to, the following:

- our ability to successfully implement our strategy;
- our exposure to market risks;
- our leverage and our ability to meet our debt obligations;

- general economic, business and political conditions;
- the availability and cost of land in desirable areas;
- adverse trends in regulatory, legislative and judicial developments;
- labor costs and availability;
- the ability of third parties to perform in accordance with contractual terms and specifications;
- declines in consumer confidence;
- changes in competitive conditions in the retail industry;
- weather conditions, significant natural disasters and other environmental factors; and
- conditions in the financial markets.

By their nature, certain disclosures relating to these and other risks are only estimates and should one or more of these uncertainties or risks, among others, materialize, actual results may vary materially from those estimated, anticipated or projected, as well as from historical results. Specifically, but without limitation, revenues could decrease, costs could increase, capital costs could increase, capital investment could be delayed and anticipated improvements in performance might not be fully realized.

We caution you not to place undue reliance on the forward-looking statements, which speak only as of the date of this offering circular. Except as required by law, we are not under any obligation, and expressly disclaim any obligation, to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise. All subsequent forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section.

USE OF PROCEEDS

We expect to use the net proceeds from the sale of the Bonds for the repayment of our existing indebtedness and for general corporate purposes.

CAPITALIZATION

The following table sets forth our consolidated capitalization (defined as the sum of long-term debt and equity) as of December 31, 2017, on an actual basis and as adjusted to give effect to the issuance of the Bonds offered hereby.

You should read the information set forth below in conjunction with "Selected Consolidated Financial Data" and our consolidated financial statements and the notes thereto included elsewhere in this offering circular.

	As of December 31, 2017	
	Actual	As Adjusted
	(in billions of Won)	
Long-term debt:		
Long-term borrowings, net of discount	₩ 1,099	₩ 1,099
Long-term debentures, net of discount	3,490	3,490
Bonds offered hereby	—	304
Total long-term debt	₩ 4,589	₩ 4,893
Equity:		
Share capital	₩ 141	₩ 141
Capital surplus	3,506	3,506
Hybrid securities	269	269
Capital adjustments	(2,904)	(2,904)
Retained earnings	11,730	11,730
Accumulated other comprehensive income	(83)	(83)
Non-controlling interests	693	693
Total equity	₩ 13,351	₩ 13,351
Total capitalization	₩ 17,940	₩ 18,244

EXCHANGE RATES

The table below sets forth, for the periods and dates indicated, information concerning the Market Average Exchange Rate, announced by Seoul Money Brokerage Services, Ltd., between Won and dollars and rounded to the nearest tenth of one Won. No representation is made that the Won or U.S. dollar amounts referred to herein could have been or could be converted into U.S. dollars or Won, as the case may be, at any particular rate or at all.

Period	At End of Period	Average Rate(1)	High	Low
	(Won per US$1.00)			
2012	1,071.1	1,126.9	1,181.8	1,071.1
2013	1,055.3	1,095.0	1,159.1	1,051.5
2014	1,099.2	1,053.2	1,118.3	1,008.9
2015	1,172.0	1,131.5	1,203.1	1,068.1
2016	1,208.5	1,160.5	1,240.9	1,093.2
2017	1,071.4	1,130.8	1,208.5	1,071.4
July	1,119.1	1,134.4	1,155.8	1,112.5
August	1,122.8	1,130.8	1,146.3	1,118.0
September	1,146.7	1,131.6	1,146.7	1,122.7
October	1,125.0	1,131.6	1,145.7	1,124.7
November	1,082.4	1,105.0	1,121.2	1,082.4
December	1,071.4	1,085.8	1,093.4	1,071.4
2018 (through March 27)	1,081.2	1,072.4	1,094.3	1,061.3
January	1,071.5	1,066.7	1,071.5	1,061.3
February	1,071.0	1,079.6	1,094.3	1,068.0
March (through March 27)	1,081.2	1,072.3	1,081.9	1,064.3

Source: Seoul Money Brokerage Services, Ltd.

(1) The average rate for each period is calculated as the average of the Market Average Exchange Rates on each business day during the relevant period (or portion thereof).

SELECTED CONSOLIDATED FINANCIAL DATA

The following tables present our selected consolidated financial data and that of Hi-mart. These data have been derived from, and should be read in conjunction with, the consolidated financial statements and related notes included elsewhere in this offering circular, which have been prepared in accordance with Korean IFRS.

As a result of the Spin-off/Merger and our adoption of Korean IFRS 1115, Revenue from Contracts with Customers, commencing in 2017, our financial information as of and for the years ended December 31, 2015 and 2016 is not directly comparable to our financial information as of and for the year ended December 31, 2017 (except as otherwise noted below). See "Presentation of Financial and Other Information."

Lotte Shopping Co., Ltd.

Statement of Comprehensive Income (Loss) Information	For the Year Ended December 31, 2015	2016[1]	2016[2]	2017[3][4]
	(in billions of Won, except earnings per share)			
Sales	₩ 29,128	₩ 29,526	₩ 24,114	₩ 18,180
Cost of sales	(20,217)	(20,196)	(16,243)	(10,544)
Gross profit	8,911	9,330	7,872	7,636
Selling, general and administrative expenses	(8,057)	(8,390)	(7,108)	(7,106)
Operating profit	854	940	763	530
Other income	82	161	133	110
Other expenses	(853)	(495)	(463)	(734)
Finance income	271	213	196	362
Finance costs	(440)	(392)	(371)	(506)
Share of profit of associates and joint ventures	7	61	61	68
Profit (loss) before income tax	(80)	489	320	(170)
Income tax expense	(266)	(243)	(195)	(273)
Profit (loss) from continuing operations	(346)	247	125	(444)
Discontinued operations				
Profit from discontinued operations	—	—	122	423
Profit (loss) for the year	(346)	247	247	(21)
Other comprehensive income:				
Items that will not be reclassified to profit or loss:				
Remeasurements of net defined benefit liabilities	(17)	12	12	9
Share of other comprehensive income of associates	(1)	(2)	(2)	0
Income tax on items that will not be reclassified to profit or loss	5	(4)	(4)	(3)
Total items that will not be reclassified to profit or loss	(13)	7	7	7
Items that may be subsequently reclassified to profit or loss:				
Changes in the fair value of available-for-sale financial assets	(100)	(16)	(16)	(23)
Exchange rate differences on translating foreign operations	38	9	9	(32)
Gain (loss) on valuation of derivatives	(3)	5	5	2
Share of other comprehensive income of associates	12	(16)	(16)	(29)
Income tax on items that may be reclassified to profit or loss	24	7	7	11
Total items that may be subsequently reclassified to profit or loss	(29)	(12)	(12)	(71)
Other comprehensive income for the year	(42)	(5)	(5)	(63)
Total comprehensive income (loss) for the year	₩ (388)	₩ 242	₩ 242	₩ (84)

Statement of Comprehensive Income (Loss) Information	For the Year Ended December 31, 2015	2016[1]	2016[2]	2017[3][4]
	(in billions of Won, except earnings per share)			
Profit (loss) attributable to:				
Owners of the Parent Company	₩ (383)	₩ 168	₩ 168	₩ (136)
Profit (loss) from continuing operations	(383)	168	57	(548)
Profit from discontinued operations	—	—	111	412
Non-controlling interests	38	79	79	116
Profit from continuing operations	38	79	68	104
Profit from discontinued operations	—	—	11	11
	₩ (346)	₩ 247	₩ 247	₩ (21)
Total comprehensive income (loss) attributable to:				
Owners of the Parent Company	(406)	166	166	(183)
Non-controlling interests	18	75	75	99
	₩ (388)	₩ 242	₩ 242	₩ 84
Earnings (loss) per share in Won				
Basic earnings (loss) per share – Continuing operations	(13,393)	5,257	1,491	(19,184)
Diluted earnings (loss) per share – Continuing operations	(13,611)	5,246	1,491	(19,201)
Basic earnings per share – Discontinued operations	—	—	3,766	14,082
Diluted earnings per share – Discontinued operations	—	—	3,756	14,074

(1) Figures are derived from our consolidated financial statements as of and for the years ended December 31, 2016 and 2015 included elsewhere in this offering circular and are prior to the classification of the operations of our former subsidiaries and associates that constituted part of our Spun-off Businesses as discontinued operations. See "Presentation of Financial and Other Information."

(2) Figures are derived from restated amounts set forth in our consolidated financial statements as of and for the years ended December 31, 2017 and 2016 included elsewhere in this offering circular and reflect the classification of the operations of our former subsidiaries and associates that constituted part of our Spun-off Businesses as discontinued operations. Such restated amounts have not been audited by our independent auditors and were provided for comparison purposes only. See "Presentation of Financial and Other Information."

(3) Figures are derived from our consolidated financial statements as of and for the years ended December 31, 2017 and 2016 included elsewhere in this offering circular and reflect the classification of the operations of our former subsidiaries and associates that constituted part of our Spun-off Businesses as discontinued operations. See "Presentation of Financial and Other Information."

(4) Pursuant to our adoption of Korean IFRS 1115, Revenue from Contracts with Customers, for the year ended December 31, 2017, commencing in such year, certain changes were made to the recognition method for our sales and cost of sales. Such changes included, among others, the recognition of all of our "specific sales" of conditionally supplied merchandise on a net basis, after deducting the cost of such merchandise, instead of recognition on a net basis of specific sales of only such merchandise that can be returned at any time to our suppliers. As we have not applied Korean IFRS 1115 retrospectively for prior years, our sales and cost of sales for the year ended December 31, 2017 are not directly comparable to corresponding amounts for the years ended December 31, 2015 and 2016. See "Presentation of Financial and Other Information." If Korean IFRS 1115 had not been adopted, our sales and gross profit for the year ended December 31, 2017 would have increased by ₩4,828 billion and ₩136 billion, respectively. For further information, see Note 3 of the notes to our consolidated financial statements as of and for the years ended December 31, 2017 and 2016 included elsewhere in this offering circular.

Statement of Financial Position Information	As of December 31,		
	2015	2016	2017 (1)(2)
	(in billions of Won)		
Assets			
Cash and cash equivalents	₩ 1,751	₩ 2,269	₩ 2,626
Trade and other receivables	919	1,031	870
Other financial assets	9,673	9,979	1,246
Inventories	3,266	3,324	1,354
Income tax refund receivable	3	3	2
Other non-financial assets	385	323	193
Non-current assets held for sale	0	2	4
Total current assets	15,997	16,932	6,295
Investments in associates and joint ventures	1,275	1,337	443
Other financial assets	2,089	2,319	1,702
Property, plant and equipment, net	15,759	15,932	14,918
Investment property, net	521	692	1,149
Goodwill	2,716	2,592	1,924
Intangible assets, net	863	765	502
Other non-financial assets	1,414	1,278	997
Deferred tax assets	60	69	17
Total non-current assets	24,696	24,984	21,653
Total assets	₩ 40,693	₩ 41,916	₩ 27,948
Liabilities			
Borrowings and debentures, net of issuance costs	₩ 4,267	₩ 5,059	₩ 3,079
Trade and other payables	5,466	5,785	3,494
Other financial liabilities	534	626	504
Income tax payables	134	154	123
Unearned revenues	218	221	133
Provisions	60	69	55
Other non-financial liabilities	1,240	1,471	1,157
Total current liabilities	11,919	13,386	8,545
Borrowings and debentures, net of issuance costs	9,816	9,424	4,589
Other financial liabilities	280	260	152
Net of defined benefit liabilities and other long-term employee benefits	81	69	35
Deferred tax liabilities	1,366	1,342	1,134
Unearned revenues	8	11	8
Provisions	32	40	3
Other non-financial liabilities	103	119	132
Total non-current liabilities	11,687	11,266	6,053
Total liabilities	23,606	24,652	14,597
Equity			
Share capital	157	157	141
Capital surplus	3,911	3,911	3,506
Hybrid securities	269	269	269
Capital adjustments	(79)	(116)	(2,904)
Retained earnings	11,894	11,996	11,730
Accumulated other comprehensive income (loss)	96	88	(83)
Equity attributable to owners of the Parent Company	16,247	16,305	12,659
Non-controlling interest	840	960	693
Total equity	17,088	17,264	13,351
Total liabilities and equity	₩ 40,693	₩ 41,916	₩ 27,948

(1) Figures exclude our Spin-off Assets and Liabilities, which were transferred in the Spin-off/Merger. See "Presentation of Financial and Other Information."
(2) Pursuant to our adoption of Korean IFRS 1115, Revenue from Contracts with Customers, for the year ended December 31, 2017, commencing in such year, certain changes were made to the recognition method for our sales and cost of sales, and certain related adjustments were also made to the amounts of our inventories and other trade payables recognized. As we have not applied Korean IFRS 1115 retrospectively for prior years, our inventories and trade and other payables (as well as our total assets and total liabilities) as of December 31, 2017 are not directly comparable to corresponding amounts as of December 31, 2015 and 2016. See "Presentation of Financial and Other Information." If Korean IFRS 1115 had not been adopted, both our inventories and our total assets would have been higher by ₩1,379 billion, and our trade and other payables and our total liabilities would have been higher by ₩1,379 billion and ₩1,326 billion, respectively, as of December 31, 2017. For further information, see Note 3 of the notes to our consolidated financial statements as of and for the years ended December 31, 2017 and 2016 included elsewhere in this offering circular.

LOTTE Himart Co., Ltd.

Statement of Comprehensive Income Information	For the Year Ended December 31, 2015	2016	2017 (1)
	(in billions of Won, except earnings per share)		
Sales	₩ 3,896	₩ 3,939	₩ 4,099
Cost of sales	(2,933)	(2,926)	(3,038)
Gross profit	963	1,013	1,061
Selling, general and administrative expenses	(803)	(839)	(854)
Operating profit	160	175	207
Other income	6	7	7
Other expenses	(5)	(7)	(6)
Finance income	8	6	6
Finance costs	(26)	(18)	(16)
Profit before income tax	143	163	199
Income tax expense	(37)	(41)	(51)
Profit for the year	107	121	148
Other comprehensive income for the year, net of tax	(1)	2	(7)
Total comprehensive income	₩ 105	₩ 123	₩ 142
Earnings per share in Won:			
Basic earnings per share	4,515	5,144	6,288

(1) Pursuant to Hi-mart's adoption of Korean IFRS 1115, Revenue from Contracts with Customers, for the year ended December 31, 2017, commencing in such year, among other things, certain changes were made to the recognition method for its sales, cost of sales and selling, general and administrative expenses. As Hi-mart has not applied Korean IFRS retrospectively for prior years, Hi-mart's sales, cost of sales and selling, general and administrative expenses for the year ended December 31, 2017 are not directly comparable to corresponding amounts for the years ended December 31, 2015 and 2016. See Note 3 of the notes to Hi-mart's financial statements as of and for the years ended December 31, 2017 and 2016 included elsewhere in this offering circular.

Statement of Financial Position Information	As of December 31, 2015	2016	2017
	(in billions of Won)		
Assets			
Cash and cash equivalents	₩ 130	₩ 158	₩ 329
Inventories	416	462	478
Trade and other receivables	69	91	93
Other current financial assets	2	16	21
Other current non-financial assets	23	4	8
Total current assets	640	730	930
Property and equipment, net	422	413	403
Investment property, net	3	3	3
Goodwill	1,683	1,683	1,683
Intangible assets, net	21	21	25
Other financial assets	128	148	150
Deferred tax assets	—	0	3
Other non-financial assets	8	7	8
Total non-current assets	2,265	2,275	2,275
Total assets	₩ 2,905	₩ 3,005	₩ 3,205
Liabilities			
Trade and other payables	280	369	397
Short-term borrowings, net of issuance costs	100	—	—
Corporate bonds	185	—	330
Other financial liabilities	2	3	2
Income taxes payable	23	30	35
Provisions	0	1	2
Other current non-financial liabilities	49	47	81
Total current liabilities	638	450	847
Employee benefit obligations	12	9	8
Debentures, net of issuance costs	469	649	320
Other financial liabilities	1	1	1
Deferred income tax liabilities	1	—	—
Provisions	0	0	3
Other non-financial liabilities	0	0	0
Total non-current liabilities	484	659	332
Total liabilities	1,122	1,109	1,179
Equity			
Common stock	118	118	118
Capital surplus	1,045	1,045	1,045
Other components of equity	10	10	10
Accumulated other comprehensive income (loss)	1	0	(10)
Retained earnings	608	722	862
Total equity	1,783	1,896	2,025
Total liabilities and equity	₩ 2,905	₩ 3,005	₩ 3,205

TERMS AND CONDITIONS OF THE BONDS

The following other than the words in italics is the text of the Terms and Conditions of the Bonds which will appear on the reverse of each of the definitive certificates evidencing the Bonds:

The issue of KRW303,600,000,000 in aggregate principal amount of U.S. Dollar-Settled Zero Coupon Exchangeable Bonds due 2023 (the "Bonds") of Lotte Shopping Co., Ltd. (the "Issuer") was authorized by a resolution of the Board of Directors of the Issuer passed on March 14, 2018. The Bonds are constituted by a trust deed (as amended or supplemented from time to time) (the "Trust Deed") dated April 4, 2018 (the "Closing Date") and made between the Issuer and The Bank of New York Mellon, London Branch as trustee for the holders of the Bonds (the "Trustee", which term shall, where the context so permits, include all other persons for the time being acting as trustee or trustees under the Trust Deed). The Issuer has entered into a paying, exchange and transfer agency agreement (as amended or supplemented from time to time) (the "Agency Agreement") dated April 4, 2018 with the Trustee, The Bank of New York Mellon, London Branch as principal paying, and exchange agent (the "Principal Agent" and the "Exchange Agent"), The Bank of New York Mellon SA/NV, Luxembourg branch, as registrar and transfer agent (the "Registrar" and the "Transfer Agent") and the other paying, exchange and transfer agents appointed under it (each a "Paying Agent", "Exchange Agent", "Transfer Agent" (references to which shall include the Registrar) and together with the Registrar and the Principal Agent, the "Agents" (which shall, where applicable, include the Singapore Agent (as defined in Condition 18))) relating to the Bonds. References to the "Principal Agent", "Registrar" and "Agents" below are references to the principal agent, registrar and agents for the time being for the Bonds. All amounts due under, and all claims arising out of or pursuant to, the Bonds and/or the Trust Deed from or against the Issuer shall be payable and settled in U.S. dollars only in accordance with the provisions of these Conditions and of the Trust Deed.

The statements in these terms and conditions (these "Conditions") include summaries of, and are subject to, the detailed provisions of the Trust Deed. Unless otherwise defined, terms used in these Conditions have the meaning specified in the Trust Deed. Copies of the Trust Deed and the Agency Agreement are available for inspection following prior written request and proof of holding at the registered office of the Principal Agent being on the date hereof at One Canada Square, London E14 5AL, United Kingdom. The Bondholders are entitled to the benefit of the Trust Deed and are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Agency Agreement applicable to them. Any redemption or repurchase, whether upon change of control or otherwise, and any adjustment to the Exchange Price (as defined in Condition 6.1.3) in accordance with the terms and conditions contained herein will be subject to, and done in accordance with, applicable law.

1. Status

The Bonds constitute direct, unsubordinated, unconditional and (subject to the provisions of Condition 4) unsecured obligations of the Issuer and shall at all times rank pari passu and rateably without any preference or priority among themselves. The payment obligations of the Issuer under the Bonds shall, save for such exceptions as may be provided by mandatory provisions of applicable law and subject to Condition 4, at all times rank at least equally with all of its other present and future direct, unsubordinated, unconditional and unsecured obligations.

2. Form, Denomination and Title

2.1 Form and Denomination

The Bonds are issued in registered form without coupons and only in denominations of KRW200,000,000 each or in integral multiples thereof. A Bond certificate (each a "Certificate") will be issued to each Bondholder in respect of its registered holding of Bonds. Each Bond and each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the register of Bondholders which the Issuer will procure to be kept by the Registrar.

Upon issue, the Bonds will be represented by a global certificate (the "Global Certificate") in registered form which will be registered in the name of a nominee of, and deposited with a common depositary for, Euroclear Bank S.A./N.V. and Clearstream Banking, S.A.. The Conditions are modified by certain provisions contained in the Global Certificate. Except in the limited circumstances described in the Global Certificate, owners of interests in Bonds represented by the Global Certificate will not be entitled to receive definitive Certificates in respect of their individual holdings of Bonds. The Bonds are not issuable in bearer form.

2.2 Title

Title to the Bonds passes only by transfer and registration in the register of Bondholders as described in Condition 3. The holder of any Bond will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it or any writing on, or the theft or loss of, the Certificate issued in respect of it) and no person will be liable for so treating the holder. In these Terms and Conditions "Bondholder" and (in relation to a Bond) "holder" mean the person in whose name a Bond is registered.

3. Transfers of Bonds; Issue of Certificates

3.1 Register

The Issuer will cause to be kept at the specified office of the Registrar outside the United Kingdom and in accordance with the terms of the Agency Agreement a register on which shall be entered the names and addresses of the holders of the Bonds and the particulars of the Bonds held by them and of all transfers, redemptions and exchanges of the Bonds (the "Register").

Each Bondholder shall be entitled to receive only one Certificate in respect of its entire holding.

3.2 Transfers

Subject to Conditions 3.5 and 3.6 and the terms of the Agency Agreement, a Bond may be transferred or exchanged by delivery of the Certificate issued in respect of that Bond, with the form of transfer on the back duly completed and signed by the holder or his attorney duly authorised in writing, to the specified office of the Registrar or any of the Transfer Agents, provided that a Bond may be transferred only if the principal amount of such Bond being transferred is KRW200,000,000 or an integral multiple thereof. No transfer of title to a Bond will be valid unless and until entered on the Register.

Transfers of interests in the Bonds evidenced by the Global Certificate will be effected in accordance with the rules of the relevant clearing systems.

3.3 Delivery of New Certificates

3.3.1 The relevant transfer or exchange will be registered by the Registrar within five business days and each new Certificate to be issued upon a transfer or exchange of Bonds will, within five business days (at the place of the relevant specified office) of receipt by the Registrar or, as the case may be, any other relevant Transfer Agent of the original Certificate and the form of transfer duly completed and signed, be made available for collection at the specified office of the Registrar or such other relevant Transfer Agent or, if so requested in the form of transfer, be mailed by uninsured mail at the risk of the holder entitled to the Bonds (free of charge to the holder but if mailed otherwise than by ordinary mail at the request of the transferee or, as the case may be, the transferor, then at the expense of the transferee or, as the case may be, the transferor) to the address specified in the form of transfer.

3.3.2 Where only part of a principal amount of the Bonds (being that of one or more Bonds) in respect of which a Certificate is issued is to be transferred, exchanged, redeemed or repurchased, such transfer, exchange, redemption or repurchase shall be registered in the Register by the Registrar and a new Certificate in respect of the Bonds not so transferred, exchanged, redeemed or repurchased will, within five business days of delivery of the original Certificate to the Registrar or other relevant Agent, be made available for collection at the specified office of the Registrar or such other relevant Agent or, if so requested in the form of transfer, Exchange Notice (as defined in Condition 6.2), notice of redemption, Purchase Notice or Put Option Notice, as applicable, be mailed by uninsured mail at the risk of the holder of the Bonds not so transferred, exchanged, redeemed or repurchased (free of charge to the holder but if mailed otherwise than by ordinary mail at the request of the transferee or, as the case may be, the transferor, then at the expense of the transferee or, as the case may be, the transferor) to the address of such holder appearing on the Register.

3.3.3 For the purposes of these Conditions (except for Condition 6.2.1(iii), Condition 7 and Condition 8.5.6), "business day" shall mean a day other than a Saturday or Sunday on which banks are open for business in Seoul and the city in which the specified office of the Registrar (if a Certificate is deposited with it in connection with a transfer or exchange) or the Agent with whom a Certificate is deposited in connection with a transfer or exchange, is located.

3.4 Formalities Free of Charge

Registration of a transfer of Bonds and issuance of new Certificates will be effected without charge by or on behalf of the Issuer or any of the Agents, but upon (i) payment (or the giving of such indemnity as the Issuer or any of the Agents may require) in respect of any tax, duties or other governmental charges which may be imposed in relation to such transfer; (ii) the Issuer or the relevant Transfer Agent being satisfied that the regulations concerning transfer of Bonds have been complied with and (iii) the Registrar being satisfied with the documents of and/or the identity of the person making the application.

3.5 Restricted Transfer Periods

No Bondholder may require the transfer of a Bond to be registered (i) during the period of seven days ending on (and including) the due date for any redemption pursuant to Conditions 8.1, 8.2 and 8.3 of the Bonds; (ii) after an Exchange Notice has been delivered with respect to such Bond; (iii) after a Change of Control Put Exercise Notice (as defined in Condition 8.4) has been delivered in respect of such Bond; (iv) after a Purchase Notice (as defined in Condition 8.5) has been delivered in respect of such Bond or (v) after a Put Option Notice (as defined in Condition 8.6) has been delivered in respect of such Bond, each such period being a "Restricted Transfer Period".

3.6 Regulations

All transfers of Bonds and entries on the Register will be made subject to the detailed regulations concerning transfers of Bonds attached as a schedule to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Trustee and the Registrar. A copy of the current regulations will be mailed (free of charge to the Bondholder and at the Issuer's expense) by the Registrar to any Bondholder following written request and satisfactory proof of holding.

3.7 Transfer Restriction under Korean Law

The Bonds may not be offered, sold or otherwise transferred to a Korean resident (as such term is defined in the Foreign Exchange Transaction Law of Korea) on or prior to April 4, 2019, the first anniversary of the date of issuance of the Bonds.

4. Negative Pledge

So long as any Bond remains outstanding (as defined in the Trust Deed), the Issuer will not, and will procure that no Principal Subsidiary (as defined below) will, create or permit to be outstanding any mortgage, charge, lien, pledge or other security interest upon the whole or any part of the property, assets or revenues, present or future, of the Issuer or any Principal Subsidiary to secure for the benefit of the holders of any International Investment Securities (as defined below):

(a) any payment of any sum owing in respect of any such International Investment Securities; or

(b) any payment under any guarantee or other like obligation of any such International Investment Securities; or

(c) any payment under any indemnity or other like obligation relating to any such International Investment Securities,

unless, at the same time or prior thereto, the Issuer's obligations under the Bonds and the Trust Deed (a) are secured equally and rateably therewith to the satisfaction of the Trustee or (b) have the benefit of such other security, guarantee, indemnity or other arrangement as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Bondholders.

The following terms (except as otherwise expressly provided or unless the context otherwise clearly requires) for all purposes of the Trust Deed and the Bonds shall have the respective meanings specified in this Condition:

"Authorised Officer" means any person who (a) is a director of the Issuer or (b) has been notified by the Issuer in writing to the Trustee as being duly authorised to sign documents and to do other acts and things on behalf of the Issuer for the purposes of the Trust Deed and the Bonds.

"International Investment Securities" means any future and present indebtedness in the form of or represented by bonds, debentures, notes or other investment securities of the Issuer or any Principal Subsidiary or any other Person which (i) are for the time being, or are intended to be or capable of being, quoted, listed, ordinarily dealt in or traded on any stock exchange or over the counter or other securities market outside Korea (whether or not initially distributed by way of private placement), and (ii) either are by their terms payable, or confer a right to receive payment, in any currency other than Won or are denominated in Won and more than 50% of the aggregate principal amount thereof is initially distributed outside Korea by or with the authorization of the Issuer or the relevant Principal Subsidiary or the issuer thereof, as the case may be.

"Person" means any individual, corporation, partnership, joint venture, association, joint stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

"Principal Subsidiary" means:

(i) any Subsidiary (as defined below) of the Issuer:

   (x) whose net sales, as shown by the then latest audited financial statements or accounts (consolidated where applicable, but without intercompany adjustments for consolidation with the Issuer) of such Subsidiary, constitute at least 10% of the consolidated net sales of the Issuer as shown by the then latest audited consolidated accounts of the Issuer; or

   (y) whose total assets, as shown by the then latest audited financial statements or accounts (consolidated where applicable, but without intercompany adjustments for consolidation with the Issuer) of such Subsidiary, constitute at least 10% of the total consolidated assets of the Issuer as shown by the then latest audited consolidated accounts of the Issuer;

provided that:

   (1) in the case of a Subsidiary acquired, or a company becoming a Subsidiary, after the end of the financial period to which the latest audited consolidated accounts of the Issuer relate, the reference to the then latest audited consolidated accounts of the Issuer for the purposes of the calculation above shall, until audited consolidated accounts of the Issuer for the financial period in which the acquisition is made or, as the case may be, in which the relevant company becomes a Subsidiary

are published, be deemed to be a reference to the then latest audited consolidated accounts of the Issuer adjusted to consolidate the last audited accounts (consolidated where applicable) of such Subsidiary in such accounts;

(2) if at any relevant time in relation to the Issuer or any Subsidiary in respect of which financial consolidation is relevant no consolidated accounts are prepared, audited net sales and total assets of the Issuer and/or any such Subsidiary shall be determined on the basis of pro-forma consolidated accounts prepared for this purpose by the auditors for the time being of the Issuer;

(3) if at any relevant time in relation to any Subsidiary no accounts are audited, its net sales and total assets (consolidated where applicable, but without intercompany adjustments for consolidation with the Issuer) shall be determined on the basis of pro-forma accounts (consolidated where applicable, but without intercompany adjustments for consolidation with the Issuer) of the relevant Subsidiary prepared for this purpose by the auditors for the time being of the Issuer; and

(4) if the accounts of any Subsidiary (not being a Subsidiary referred to in proviso (1) above) are not consolidated with those of the Issuer, then the determination of whether or not such Subsidiary is a Principal Subsidiary shall be based on a pro-forma consolidation of its accounts (consolidated where applicable, but without intercompany adjustments for consolidation with the Issuer) with the then latest consolidated audited accounts (determined on the basis of the foregoing) of the Issuer; or

(ii) any Subsidiary of the Issuer to which is transferred all or substantially all of the assets of a Subsidiary which immediately prior to such transfer was a Principal Subsidiary, provided that the Principal Subsidiary which so transfers its assets shall forthwith upon such transfer cease to be a Principal Subsidiary.

A report by an Authorised Officer whether or not addressed to the Trustee that in its opinion a Subsidiary of the Issuer is or is not or was or was not at any particular time or throughout any specified period a Principal Subsidiary may be relied upon by the Trustee without further enquiry or evidence and, if relied upon by the Trustee, shall (in the absence of manifest error or an error which is, in the opinion of the Trustee, proven), be conclusive and binding on all parties.

"Subsidiary" means any company or other business entity of which the Issuer owns or controls (in either case, either directly or through another Subsidiary or other Subsidiaries) 50% or more of the issued share capital or other ownership interest having ordinary voting power to elect directors, managers or trustees of such company or other business entity or any company or other business entity which should have its accounts consolidated with those of that person under Korean law, regulations or generally accepted accounting principles from time to time.

5. Interest

The Bonds do not bear any interest, provided that if the Issuer fails to pay any sum in respect of the Bonds when the same becomes due and payable under these Conditions, interest shall accrue on the overdue sum pursuant to Condition 7.6 of the Bonds.

6. Exchange

6.1 Exchange Right

6.1.1 Exchange Period:

Subject as hereinafter provided, Bondholders have the right to exchange their Bonds in an aggregate principal amount of KRW200,000,000 or an integral multiple thereof for Shares (as defined in Condition 6.1.5) or Exchange Property (as defined in Condition 6.1.6), as applicable, at any time during the Exchange Period referred to below.

The right of a Bondholder to exchange any Bond for Shares or Exchange Property, as applicable, is called the "Exchange Right". Subject to and upon compliance with the provisions of this Condition, the Exchange Right attaching to any Bond may be exercised, at the option of the holder thereof, at any time (subject to the next paragraph) on or after May 14, 2018, up to the close of business (at the place where the Certificate evidencing such Bond is deposited for exchange) on March 24, 2023 (but, except as provided in Condition 6.1.4 and Condition 10, in no event thereafter) or if such Bond shall have been called for redemption before March 24, 2023, then up to the close of business (at the place aforesaid) on the date that is seven business days (at the place aforesaid) prior to the date fixed for redemption thereof (the "Exchange Period").

Exchange Rights may not be exercised in respect of a Bond where the Bondholder shall have exercised its right to require the Issuer to redeem such Bond pursuant to Condition 8.4, 8.5 or 8.6, except as provided in Condition 6.1.4.

The number of Shares to be delivered on exchange of a Bond will be determined by dividing the principal amount of the Bond to be exchanged by the Exchange Price in effect on the Exchange Date (both as hereinafter defined).

An Exchange Right may only be exercised in respect of Bonds with a principal amount of KRW200,000,000 or an integral multiple thereof. If more than one Bond held by the same holder is exchanged at any one time by the same holder, the number of Shares to be delivered upon such exchange will be calculated on the basis of the aggregate principal amount of the Bonds to be exchanged.

Upon exercise of Exchange Rights in relation to the entire principal amount of any Bond and the fulfilment by the Issuer of all its obligations in respect thereof, the relevant Bondholder shall have no further rights in respect of such Bond and the obligations of the Issuer in respect thereof shall be extinguished.

6.1.2 Fractions of Shares:

Fractions of Shares (or Exchange Property Securities (as defined in Condition 6.1.6)) will not be delivered on exchange and no cash adjustments or other adjustment will be made in respect thereof. However, if the Exchange Right in respect of more than one Bond is exercised at any one time such that Shares (or Exchange Property Securities) to be delivered on exchange are to be registered in the same name, the number of such Shares (or Exchange Property Securities) to be delivered in respect thereof shall be calculated on the basis of the aggregate principal amount of such Bonds being so exchanged and rounded down to the nearest whole number of Shares (or Exchange Property Securities). Notwithstanding the foregoing, the Issuer will upon exchange of Bonds pay in cash the U.S. Dollar Equivalent (as defined in Condition 7.1) of a sum equal to such portion of the principal amount of the Bond or Bonds evidenced by the Certificate deposited in connection with the exercise of Exchange Rights, aggregated as provided above, as corresponds to any fraction of a Share (or Exchange Property Securities) not delivered if the U.S. Dollar Equivalent of such sum exceeds US$10.00. Any such sum shall be paid not later than 14 business days after the relevant Exchange Date by transfer to a U.S. dollar account with a bank in New York City specified in the relevant Exchange Notice.

6.1.3 Exchange Price and Exchange Ratio:

The price at which Shares will be delivered upon exchange, as adjusted from time to time (the "Exchange Price"), will initially be KRW85,840 per Share, but will be subject to adjustment in the manner provided in Condition 6.3. The Exchange Ratio (the "Exchange Ratio") is equal to the principal amount of each Bond divided by the Exchange Price.

6.1.4 Revival and/or Survival after Default:

Notwithstanding the provisions of Condition 6.1.1, if (a) the Issuer shall default in making payment in full in respect of any Bond on the date fixed for redemption thereof pursuant to these Conditions, (b) any Bond has become due and payable prior to the Maturity Date (as defined in Condition 8.1) by reason of the occurrence of any of the events referred to in Condition 10 or (c) any Bond is not redeemed on the Maturity Date in accordance with Condition 8.1, the Exchange Right attaching to such Bond will revive and/or will continue to be exercisable up to, and including, the close of business (at the place where the Certificate evidencing such Bond is deposited for exchange) on the date upon which the full amount of the moneys payable in respect of such Bond has been duly received by the Principal Agent or the Trustee and notice of such receipt has been duly given to the Bondholders and, notwithstanding the provisions of Condition 6.1.1, any Bond in respect of which the Certificate and Exchange Notice are deposited for exchange prior to such date shall be exchanged on the relevant Exchange Date (as defined in Condition 6.2.1(iii)) notwithstanding that notice referred to above may have been duly given to the Bondholders before such Exchange Date or that the Exchange Period may have expired before such Exchange Date. For the avoidance of doubt nothing in this Condition 6.1.4 shall permit any Bondholder to both have Shares delivered to it pursuant to Condition 6.2.3 (or Exchange Property delivered to it pursuant to Condition 6.1.6, if applicable) and receive payment of the moneys payable with respect to such Bond.

6.1.5 Meaning of "Shares":

As used in these Conditions, the expression "Shares" means (a) shares of common stock, par value KRW5,000 per share, of LOTTE Himart Co., Ltd. ("Hi-mart"), together with shares of any class or classes resulting from any subdivision, consolidation or re-classification of those shares, which as between themselves have no preference in respect of dividends or of amounts payable in the event of any voluntary or involuntary liquidation or dissolution of Hi-mart and (b) fully-paid shares of any class or classes of the share capital of Hi-mart authorised after the date of the Trust Deed which have no preference in respect of dividends or of amounts payable in the event of any voluntary or involuntary liquidation or winding-up of Hi-mart; provided that, subject to the provisions of Condition 6.1.6, shares to be delivered in exchange of the Bonds means only "Shares" as defined in sub-clause (a) above.

6.1.6 Substitution of Exchange Property for Shares Following a Consolidation, Amalgamation or Merger of Hi-mart:

(i) If (i) Hi-mart consolidates with, merges or amalgamates into, or sells or transfers its assets substantially as an entirety to, any person and (ii) the holders of the Shares receive stock, other securities or other property or assets (including cash or any combination thereof) in exchange for their Shares (a "Hi-mart Corporate Event"), each outstanding Bond shall become exchangeable into such stock, other securities or other property or assets (including cash or any combination thereof) receivable upon consummation of such Hi-mart Corporate Event by a holder of the number of Shares which would have been delivered upon exchange of such Bond immediately prior to such Hi-mart Corporate Event (the "Exchange Property") and a Bondholder shall be entitled to receive Exchange Property in lieu of Shares upon exercise of its Exchange Right.

(ii) To the extent that the issuer of any securities comprising the Exchange Property ("Exchange Property Securities") takes any action with respect to such securities that is described under Condition 6.3 that would have required an adjustment to the Exchange Price if such securities had been the Shares and Hi-mart had taken such action, then the number of Exchange Property Securities deliverable upon exchange of a Bond shall be adjusted as determined by an Independent Financial Institution (as defined in Condition 6.3.4) to appropriately reflect such event in a manner analogous to the adjustments that would have been made to the Exchange Price of the Shares in such circumstances.

(iii) The Issuer shall monitor all corporate actions by the issuer of any Exchange Property Securities, including, but not limited to, the declaration and distribution of dividends, interest, rights issues, bonus issues, capital distributions, reorganizations, subdivisions, consolidations, reclassifications, and offers for such Exchange Property Securities. The Issuer shall give notice to the Trustee and the Agents of any conversion of the Shares into Exchange Property or any further change in composition of the Exchange Property as soon as reasonably practicable following such conversion or change, and shall give such details in writing as the Trustee or the Agents may request of the Exchange Property to which the Bondholders would be entitled upon exercise of the Exchange Rights following such conversion or change. The Issuer shall give notice of any such conversion or change to the Bondholders as soon as practicable in accordance with Condition 17 and, for so long as the Bonds are listed on the Singapore Exchange Securities Trading Limited (the "SGX-ST") and the rules of the SGX-ST so require, the Issuer shall also give notice of any such conversion or change to the SGX-ST.

6.2 Exchange Procedure

6.2.1 Exchange Notice:

(i) To exercise the Exchange Right attaching to any Bond, the holder thereof must complete, execute and deliver at his own expense during normal business hours (being between 9:00 a.m. and 3:00 p.m. (local time of the Exchange Agent)) at the specified office of any Exchange Agent on any business day in the place of such specified office a notice of exchange (an "Exchange Notice") in duplicate in the form (current at such time) obtainable from the specified office of the Exchange Agent, together with the relevant Certificate (other than any Global Certificate).

An Exchange Notice delivered outside the normal business hours or on a day which is not a business day at the place of the specified office of the relevant Exchange Agent shall for all purposes be deemed to have been delivered with that Exchange Agent during the normal business hours at such place on the next business day following such day. Any Bondholder who delivers an Exchange Notice during any period (a "Closed Period") other than the Exchange Period specified in Condition 6.1.1 will not be permitted to exchange the Bonds for Shares or Exchange Property (as specified in the Exchange Notice) until the next business day after the end of that Closed Period, which (if all other conditions to exchange have been fulfilled) will be the Exchange Date for such Bonds notwithstanding that such date may fall outside of the Exchange Period.

(ii) On or prior to delivering an Exchange Notice, the Bondholder exercising its Exchange Right must (i) obtain an investment registration card issued by the Korean Financial Supervisory Service by registering its identity with the Korean Financial Supervisory Service in accordance with applicable Korean laws and regulations, including the regulations of the Korean Financial Services Commission and (ii) file an over-the-counter transaction report of the acquisition with the Governor of the Korean Financial Supervisory Service without undue delay. However, the registration requirement does not apply to foreign investors who acquire Shares with the intention of selling such Shares within three months from the date of acquisition of the Shares.

On or prior to delivering an Exchange Notice, a Bondholder exercising its Exchange Right or the person named in the relevant Exchange Notice to receive the delivery of any Shares on exchange must appoint an eligible custodian in Korea with which Shares will be kept in custody. For the avoidance of doubt, under Korean law, only foreign exchange banks, including domestic branches of foreign banks, financial investment companies with a dealing, brokerage or collective investment business license, the Korea Securities Depository (the "KSD") and internationally recognized custodians are eligible to act as a custodian of shares for a non-resident or foreign investor. In addition, a foreign investor must ensure that such foreign investor's custodian deposits its shares with the KSD; provided that a foreign investor may be exempt from complying with this deposit requirement with the approval of the Governor of the Financial Supervisory Service in circumstances where compliance with such deposit requirement is made impracticable, including cases where compliance would contravene the laws of the home country of such foreign investor.

Neither the Trustee nor the Agents shall have any duty or obligation to verify or check as to a Bondholder's eligibility or registration with the Korean Financial Supervisory Service. Neither the Trustee nor the Agents shall have any responsibility to ensure that a Bondholder has appointed an eligible custodian in Korea to comply with the provisions of this subclause and shall not be responsible to any party for such party's failure to do so.

No Shares will be delivered to a holder of a Bond or a beneficial interest therein unless such holder satisfies the foregoing conditions.

(iii) The calendar day on which an Exchange Notice and any amounts required to be paid under Condition 6.2.1 have been delivered to an Exchange Agent (determined by reference to the date and time in Seoul at the time of delivery no matter where delivery is made) in full compliance with the foregoing procedures is referred to herein as a "Deposit Date" and the business day in Seoul immediately following the Deposit Date is referred to herein as the "Exchange Date". For purposes of the Korean Commercial Code, the request for exchange shall be deemed to have been made at 23:59, Seoul time on the Exchange Date. In this clause (iii), "business day in Seoul" shall mean a day other than a Saturday or Sunday on which banks are open for business in Seoul.

(iv) The Exchange Date in respect of a Bond must fall at a time when the Exchange Right attaching to that Bond is expressed in these Conditions to be exercisable (subject to the provisions of Condition 6.1.4 and Condition 10). An Exchange Notice once delivered shall be irrevocable and may not be withdrawn unless the Issuer consents to such withdrawal.

6.2.2 Stamp Duty etc.:

A Bondholder delivering a Certificate in respect of a Bond for exchange must pay to the relevant tax authorities any taxes and capital, stamp, issue and registration duties arising on exchange (other than any taxes or capital or stamp duties payable in Korea and, if relevant, in the place of any Alternative Stock Exchange, in respect of the allotment and transfer or delivery of Shares or Exchange Property, as applicable, and listing of the Shares (or any securities comprising the Exchange Property, if applicable) on the KRX KOSPI Market of the Korea Exchange (the "KRX KOSPI Market") or any Alternative Stock Exchange on exchange, which shall be payable by the Issuer) (the "Taxes") and such Bondholder must pay all, if any, taxes arising by reference to any disposal or deemed disposal of a Bond in connection with such exchange. The Issuer will pay all other expenses arising on the delivery of Shares or Exchange Property, as applicable, on exchange of the Bonds and all charges of the Agents, the Trustee and the share transfer agent (which initially will be the KSD)(the "Share Transfer Agent") for the Shares or Exchange Property, as applicable, in connection with exchange. Neither the Trustee nor the Agents shall be responsible for determining whether such taxes or capital, stamp, issue and registration and transfer taxes and duties are payable or the amount thereof and neither shall be responsible or liable for any failure by the Issuer to pay such taxes or capital, stamp, issue and registration and transfer taxes and duties.

6.2.3 Delivery of Shares and/or Exchange Property:

(i) Upon exercise by a Bondholder of its Exchange Right, the Issuer shall use its best efforts to ensure that Hi-mart (or the issuer of any Exchange Property Securities, if applicable), on or with effect from the relevant Exchange Date, enters the relevant Bondholder or its nominee in the register of security holders of Hi-mart (or of such issuer of Exchange Property Securities, if applicable) in respect of such number of Shares (or relevant Exchange Property Securities, if applicable) to be delivered upon exchange (notwithstanding any Retroactive Adjustment (as defined in Condition 6.2.3(ii)) of the Exchange Price) and will, as soon as practicable, and in any event not later than ten business days after the Exchange Date, cause the relevant securities account of the Bondholder exercising its Exchange Right or of his/their nominee, to be credited with such number of relevant Shares (or relevant Exchange Property Securities, if applicable) to be delivered upon exchange (notwithstanding any Retroactive Adjustment of the Exchange Price) and, subject to any applicable limitations then imposed by Korean laws and regulations, shall procure the Share Transfer Agent to, as soon as practicable, and in any event within 20 business days in Korea of the Exchange Date, dispatch or cause to be dispatched to the order of the person named for that purpose in the relevant Exchange Notice at the place and in the manner specified in the relevant Exchange Notice (uninsured and the risk of delivery at any such place being that of the exchanging Bondholder) such assignments and other documents (if any) as required by law to effect the transfer thereof.

The crediting of the Shares or Exchange Property Securities to the relevant securities account of the exchanging Bondholder and any payment of cash payable pursuant to Condition 6.1.2 and the delivery of any other assets comprising the Exchange Property (if any) will be deemed to satisfy the Issuer's obligation to pay the principal and premium (if any) on the Bonds exchanged.

(ii) If the Exchange Date in relation to any Bond shall be on or after the record date for any issue, distribution, grant, offer or other event as gives rise to the adjustment of the Exchange Price pursuant to Condition 6.3, but before the relevant adjustment becomes effective under the relevant Condition (a "Retroactive Adjustment"), upon the relevant adjustment becoming effective the Issuer shall deliver to the exchanging Bondholder (or in accordance with the instructions contained in the Exchange Notice (subject to applicable exchange control or other laws or other regulations)), such additional number of Shares (or Exchange Property Securities, if applicable) as, together with the Shares (or Exchange Property Securities, if applicable) delivered or to be delivered on exchange of the relevant Bond, is equal to the number of Shares (or Exchange Property Securities, if applicable) which would have been required to be delivered on exchange of such Bond if the relevant adjustment to the Exchange Price had been made and become effective immediately after the relevant record date.

(iii) The Shares (or Exchange Property Securities, if applicable) delivered upon exchange of the Bonds will be fully paid and will in all respects rank pari passu with the Shares (or Exchange Property Securities, if applicable) in issue on the relevant Exchange Date (except for any right excluded by mandatory provisions of applicable law) and the exchanging Bondholder shall be entitled to all rights, the record date for which falls on or after such Exchange Date to the same extent as all other holders of fully-paid and non-assessable Shares (or Exchange Property Securities, if applicable) in issue as if such exchanging Bondholder had held such Shares (or Exchange Property Securities, if applicable) throughout the period to which such rights relate. A holder of Shares (or Exchange Property Securities, if applicable) delivered on exchange of Bonds shall not be entitled to any rights, the record date for which precedes the relevant Exchange Date.

6.3 Adjustments to Exchange Price

The Exchange Price will be subject to adjustment as described in this Condition 6.3.

6.3.1 Free Distribution, Bonus Issue, Sub-division, Consolidation and Re-classification of Shares:

Adjustment: If Hi-mart shall (a) make a free distribution of Shares (other than by way of a dividend in Shares); (b) make a bonus issue of its Shares; (c) sub-divide its outstanding Shares; (d) consolidate its outstanding Shares into a smaller number of Shares or (e) re-classify any of its Shares into other securities of Hi-mart, then the Exchange Price shall be appropriately adjusted so that the holder of any Bond, the Exchange Date in respect of which occurs after the coming into effect of the adjustment described in this Condition 6.3.1, shall be entitled to receive the number of Shares and/or other securities of Hi-mart which such holder would have held or have been entitled to receive after the occurrence of any of the events described above had such Bond been exchanged immediately prior to the occurrence of such event (or, if Hi-mart has fixed a prior record date for the determination of shareholders entitled to receive any such free distribution or bonus issue of Shares or other securities issued upon any such sub-division, consolidation or re-classification, immediately prior to such record date), but without prejudice to the effect of any other adjustment to the Exchange Price made with effect from the date of the occurrence of such event (or such record date) or any time thereafter.

Effective date of adjustment: An adjustment made pursuant to this Condition 6.3.1 shall become effective immediately on the relevant event referred to above becoming effective or, if a record date is fixed therefor, immediately after such record date; provided that in the case of a free distribution or bonus issue of Shares which must, under applicable laws of Korea, be submitted for approval to a general meeting of shareholders or be approved by a meeting of the Board of Directors of Hi-mart before being legally paid or made, and which is so approved after the record date fixed for the determination of shareholders entitled to receive such distribution or issue, such adjustment shall, immediately upon such approval being given by such meeting, become effective retroactively to immediately after such record date.

6.3.2 Declaration of Dividend in Shares:

Adjustment: If Hi-mart shall issue Shares as a dividend in Shares or make a distribution of Shares which is treated as a capitalization issue for accounting purposes under generally accepted international financial reporting standards ("IFRS") (including, but not limited to, capitalisation of capital reserves and employee stock bonus), then the Exchange Price in effect when such dividend and/or distribution is declared (or, if Hi-mart has fixed a prior record date for the determination of shareholders entitled to receive such dividend and/or distribution, on such record date) shall be adjusted in accordance with the following formula:

$$NEP = OEP \times \left[\frac{N}{N + n} \right]$$

where:

NEP	=	the Exchange Price after such adjustment.
OEP	=	the Exchange Price before such adjustment.
N	=	the number of Shares outstanding, at the time of issuance of such dividend and/or distribution (or at the close of business in Seoul on such record date as the case may be).
n	=	the number of Shares to be distributed to the shareholders as a dividend and/or distribution.

Effective date of adjustment: An adjustment made pursuant to this Condition 6.3.2 shall become effective immediately on the relevant event referred to in this Condition 6.3.2 becoming effective or, if a record date is fixed therefor, immediately after such record date; provided that in the case of a dividend in Shares which must, under applicable laws of Korea, be submitted for approval to a general meeting of shareholders of Hi-mart or be approved at a meeting of the Board of Directors of Hi-mart before being legally paid or made, and which is so approved after the record date fixed for the determination of shareholders entitled to receive such dividend, such adjustment shall, immediately upon such approval being given by such meeting, become effective retroactively to immediately after such record date.

6.3.3 Concurrent Adjustment Events:

If Hi-mart shall declare a dividend in, or make a free distribution or bonus issue of, Shares which dividend, issue or distribution is to be paid or made to shareholders as of a record date which is also:

(i) the record date for the issue of any rights or warrants which requires an adjustment of the Exchange Price pursuant to Conditions 6.3.5, 6.3.6 or 6.3.7;

(ii) the day immediately before the date of issue of any securities convertible into or exchangeable for Shares which requires an adjustment of the Exchange Price pursuant to Condition 6.3.9;

(iii) the day immediately before the date of issue of any Shares which requires an adjustment of the Exchange Price pursuant to Condition 6.3.10 or, if applicable, the record date for determination of stock dividend entitlement as referred to in Condition 6.3.10;

(iv) the day immediately before the date of issue of any rights, options or warrants which requires an adjustment of the Exchange Price pursuant to Condition 6.3.11; or

(v) determined by the Issuer and notified by the Issuer to the Trustee in writing to be the relevant date for an event or circumstance which requires an adjustment to the Exchange Price pursuant to Condition 6.3.12,

then (except where such dividend, bonus issue or free distribution gives rise to a Retroactive Adjustment of the Exchange Price under this Condition 6.3.3) no adjustment of the Exchange Price in respect of such dividend, bonus issue or free distribution shall be made under Conditions 6.3.1 and 6.3.2, but in lieu thereof an adjustment shall be made under Conditions 6.3.5, 6.3.6, 6.3.7, 6.3.9, 6.3.10, 6.3.11 or 6.3.12 (as the case may require) by including in the denominator of the fraction described therein the aggregate number of Shares to be issued pursuant to such dividend, bonus issue or free distribution.

6.3.4 Capital Distribution and Extraordinary Cash Dividend:

Adjustment:

(i) If Hi-mart shall pay or make to its shareholders any Capital Distribution (as defined below), then the Exchange Price shall be adjusted in accordance with the following formula:

$$\text{NEP} = \text{OEP} \times \left[\frac{\text{CMP - fmv}}{CMP}\right]$$

where:

NEP and OEP have the meanings ascribed thereto in Condition 6.3.2.

CMP = the Current Market Price (as defined in Condition 6.3.15 below) per Share on the last Trading Day preceding the date on which the relevant Dividend is first publicly announced.

fmv = the portion of the Fair Market Value (as defined below), with such portion being determined by dividing the Fair Market Value of the aggregate Capital Distribution by the number of Shares entitled to receive the relevant Capital Distribution (or, in the case of a purchase or redemption of Shares or any depositary or other receipts or certificates representing shares by or on behalf of Hi-mart, by the number of Shares in issue immediately prior to such purchase or redemption), of the Capital Distribution attributable to one Share less any consideration payable for the same to Hi-mart by the shareholder.

(ii) If Hi-mart shall pay or make to its shareholders any Extraordinary Cash Dividend, then, in such case, the Exchange Price shall be adjusted in accordance with the following formula:

$$NEP = OEP \times \left[\frac{CMP - C}{CMP} \right]$$

where:

NEP and OEP have the meanings ascribed thereto in Condition 6.3.2.

CMP = the Current Market Price (as defined in Condition 6.3.15 below) per Share on the last Trading Day preceding the date on which the relevant Dividend is first publicly announced; and.

C = the Extraordinary Cash Dividend attributable to one Share.

Effective date of adjustment

Any adjustment pursuant to this Condition 6.3.4 shall become effective immediately after the record date for the determination of shareholders entitled to receive the relevant Dividend; provided that (a) in the case of such a Dividend which must, under applicable law of Korea, be submitted for approval to a general meeting of shareholders or be approved by a meeting of the Board of Directors of Hi-mart before such Dividend may legally be made and is so approved after the record date fixed for the determination of shareholders entitled to receive such Dividend, such adjustment shall, immediately upon such approval being given by such meeting, become effective retroactively to immediately after such record date and (b) in the case of Condition 6.3.4(i), if the Fair Market Value of the relevant Capital Distribution cannot be determined until the record date fixed for the determination of shareholders entitled to receive the relevant Dividend, such adjustment shall, immediately upon such Fair Market Value being determined, become effective retroactively to immediately after such record date.

If such Dividend is not so paid, the Exchange Price shall again be adjusted to be the Exchange Price which would then be in effect if such Dividend had not been approved.

For the purposes of this Condition:

"Capital Distribution" means any Dividend other than a cash Dividend.

In making any calculation for the purposes of this Condition 6.3.4, such adjustments (if any) shall be made as an independent investment or commercial bank of international repute selected and appointed by the Issuer and notified in writing to the Trustee (an "Independent Financial Institution") considers appropriate to reflect any consolidation, subdivision or re-classification of any Share or the issue of Shares by way of capitalisation of profits or reserves, or any like or similar event or any adjustment to the Exchange Price. The fees of any Independent Financial Institution shall be at the expense of and paid by the Issuer.

"Extraordinary Cash Dividend" means any cash Dividend to the extent it exceeds, when taken together with the aggregate of any other cash Dividends previously made or paid in respect of the same (either current or prior) fiscal year, KRW1,850 per Share.

"cash Dividend" means (i) any Dividend which is to be paid in cash and (ii) any Dividend determined to be a cash Dividend pursuant to paragraph (a) of the definition "Dividend", and for the avoidance of doubt, a Dividend falling within paragraph (c) of the definition "Dividend" shall be treated as not being a cash Dividend.

"Dividend" means any dividend or distribution whether of cash or other property or assets or evidences of Hi-mart's indebtedness, whenever paid or made and however described (including any modification of rights to dividends of Shares); provided that:

(a) where a cash Dividend is announced which is to be, or may at the election of a shareholder or shareholders be, satisfied by the issue or delivery of Shares or other property or assets, or where a capitalisation of profits or reserves is announced which is to be, or may at the election of a shareholder or shareholders be, satisfied by the payment of a Dividend, then for the purposes of this definition, the Dividend in question shall be treated as a Dividend of (i) such cash Dividend or (ii) the Fair Market Value (on the date of announcement of such Dividend or date of capitalisation (as the case may be) or, if later, the date on which the number of Shares (or amount of property or assets, as the case may be) which may be issued or delivered is determined) of such Shares or other property or assets if such Fair Market Value is greater than the Fair Market Value of such cash Dividend;

(b) any issue or distribution of Shares falling within Condition 6.3.2 shall be disregarded; and

(c) a purchase or redemption of ordinary share capital by or on behalf of Hi-mart shall not constitute a Dividend unless, in the case of purchases of Shares by or on behalf of Hi-mart, the volume weighted average price per Share (before expenses) on any one day in respect of such purchases exceeds the Current Market Price per Share either (1) on that day (or if such day is not a Trading Day, the immediately preceding Trading Day), or (2) where an announcement (excluding for the avoidance of doubt for these purposes, any general authority for such purchases or redemptions approved by a general meeting of shareholders of Hi-mart or any notice convening such a meeting of shareholders) has been made of the intention to purchase Shares at some future date at a specified price, on the Trading Day immediately preceding the date of such announcement, in which case such purchase shall be deemed to constitute a Dividend (but not a cash Dividend) to the extent that the aggregate price paid (before expenses) in respect of such Shares purchased by or on behalf of Hi-mart exceeds the product of (i) the Current Market Price per Share determined as aforesaid and (ii) the number of Shares so purchased; provided that (x) any purchase or redemption of ordinary share capital of Hi-mart made to dissenting shareholders upon exercise by dissenting shareholders of their appraisal rights under the Korean Commercial Code and the Financial Investment Services and Capital Markets Act of Korea will not constitute a Dividend and (y) any purchase or redemption of ordinary share capital of Hi-mart effectuated through the KRX KOSPI Market at the then Prevailing Market Price (as defined below) will not constitute a Dividend so long as any such purchase or redemption is made in accordance with Korean law and the rules and regulations of the Korea Exchange (without giving effect to any waivers that may be obtained therefrom), is not a general offer and will not trigger a requirement for a general offer under the rules of the Korea Exchange and does not constitute a Hi-mart Tender Offer (as defined below).

"Fair Market Value" means, with respect to any asset, security, option, other right or property on any date, the fair market value of that asset, security, option, other right or property as determined in good faith by an Independent Financial Institution, provided that (i) the Fair Market Value of a cash Dividend paid or to be paid shall be the amount of such cash Dividend; (ii) the Fair Market Value of any other cash amount shall be equal to such cash amount and (iii)where shares, options, warrants or other rights are publicly traded in a market of adequate liquidity (as determined by the Independent Financial Institution) the fair market value of such shares, options, warrants or other rights shall equal the arithmetic mean of the daily closing prices of such options, warrants or other rights during the period of five trading days on the relevant market commencing on the first such trading day such shares, options, warrants or other rights are publicly traded and in the case of (i) translated into Korean Won to the extent not declared or paid in such currency, at the market average exchange rate effective for such trading day as announced by Seoul Money Brokerage Services, Ltd. or any successor entity, or if such market average exchange rate is not available, such rate of exchange as may be determined in good faith by an Independent Financial Institution to be the spot rate ruling at the close of business on that date (or if no such rate is available on that date the equivalent rate on the immediately preceding date on which such a rate is available).

"Hi-mart Tender Offer" means purchases or redemptions made by or on behalf of Hi-mart or its Subsidiaries of 5% or more of the ordinary share capital of Hi-mart in any twelve-month period.

"Prevailing Market Price" means the price prevailing on the relevant exchange on such day prior to the time that any purchase is made or any purchase order is placed by or on behalf of Hi-mart.

6.3.5 Rights Issues to Shareholders:

Adjustment: If Hi-mart shall grant, issue or offer to the holders of Shares rights entitling them to subscribe for or purchase Shares:

(a) at a consideration per Share receivable by Hi-mart (determined as provided in Condition 6.3.16) which is fixed on or prior to the record date mentioned below and is less than the Current Market Price per Share at such record date; or

(b) at a consideration per Share receivable by Hi-mart which is fixed after the record date mentioned below and is less than the Current Market Price per Share on the date Hi-mart fixes the said consideration,

then the Exchange Price in effect (in a case within (a) above) on the record date for the determination of shareholders entitled to receive such rights or (in a case within (b) above) on the date Hi-mart fixes the said consideration shall be adjusted in accordance with the following formula:

$$NEP = OEP \text{ x } \left[\frac{N + v}{N + n} \right]$$

where:

NEP and OEP have the meanings ascribed thereto in Condition 6.3.2.

N = the number of Shares outstanding (having regard to Condition 6.3.17) at the close of business in Korea (in a case within (a) above) on such record date or (in a case within (b) above) on the date Hi-mart fixes the said consideration.

n = the number of Shares initially to be issued upon exercise of such rights at the said consideration being (aa) the number of Shares which underwriters have agreed to underwrite as referred to below or, as the case may be, (bb) the number of Shares for which applications are received from shareholders as referred to below save to the extent already adjusted for under (aa).

v = the number of Shares which the aggregate consideration receivable by Hi-mart (determined as provided in Condition 6.3.16) would purchase at such Current Market Price per Share specified in (a) or, as the case may be, (b) above.

Effective date of adjustment: Subject as provided below, such adjustment shall become effective immediately after the latest date for the submission of applications for such Shares by shareholders entitled to the same pursuant to such rights or (if later) immediately after Hi-mart fixes the said consideration but retroactively to immediately after the record date mentioned above.

Rights not taken up by shareholders: If, in connection with a grant, issue or offer to the holders of Shares of rights entitling them to subscribe for or purchase Shares, any Shares which are not subscribed for or purchased by the persons entitled thereto are underwritten by other persons prior to the latest date for the submission of applications for such Shares, an adjustment shall be made to the Exchange Price in accordance with the above provisions which shall become effective immediately after the date the underwriters agree to underwrite the same or (if later) immediately after Hi-mart fixes the said consideration but retroactively to immediately after the record date mentioned above.

If, in connection with a grant, issue or offer to the holders of Shares of rights entitling them to subscribe for or purchase Shares, any such Shares which are not subscribed for or purchased by the underwriters who have agreed to underwrite as referred to above or by the shareholders entitled thereto (or persons to whom shareholders have transferred such rights) who have submitted applications for such Shares as referred to above are offered to and/or subscribed by others, no further adjustment shall be made to the Exchange Price by reason of such offer and/or subscription.

6.3.6 Warrants Issued to Shareholders:

Adjustment: If Hi-mart shall grant, issue or offer to the holders of Shares warrants entitling them to subscribe for or purchase Shares:

(a) at a consideration per Share receivable by Hi-mart (determined as provided in Condition 6.3.16) which is fixed on or prior to the record date for the determination of shareholders entitled to receive such warrants and is less than the Current Market Price per Share at such record date; or

(b) at a consideration per Share receivable by Hi-mart which is fixed after the record date mentioned above and is less than the Current Market Price per Share on the date Hi-mart fixes the said consideration,

then the Exchange Price in effect (in a case within (a) above) on the record date for the determination of shareholders entitled to receive such warrants or (in a case within (b) above) on the date Hi-mart fixes the said consideration shall be adjusted in accordance with the following formula:

$$NEP = OEP \text{ x } \left[\frac{N + v}{N + n}\right]$$

where:

NEP and OEP have the meanings ascribed thereto in Condition 6.3.2.

N = the number of Shares outstanding (having regard to Condition 6.3.17) at the close of business in Korea (in a case within (a) above) on such record date or (in a case within (b) above) on the date Hi-mart fixes the said consideration.

n = the number of Shares to be issued upon exercise of such warrants at the said consideration which, where no applications by shareholders entitled to such warrants are required, shall be based on the number of warrants issued. Where applications by shareholders entitled to such warrants are required, the number of such Shares shall be calculated based upon (aa) the number of warrants which underwriters have agreed to underwrite as referred to below or, as the case may be, (bb) the number of warrants for which applications are received from shareholders as referred to below save to the extent already adjusted for under (aa).

v = the number of Shares which the aggregate consideration receivable by Hi-mart (determined as provided in Condition 6.3.16) would purchase at such Current Market Price per Share specified in (a) or, as the case may be, (b) above.

Effective date of adjustment: Subject as provided below, such adjustment shall become effective (i) where no applications for such warrants are required from shareholders entitled to the same, upon their issue and (ii) where applications by shareholders entitled to the same are required as aforesaid, immediately after the latest date for the submission of such applications or (if later) immediately after Hi-mart fixes the said consideration but in all cases retroactively to immediately after the record date mentioned above.

Warrants not subscribed for by shareholders: If, in connection with a grant, issue or offer to the holders of Shares of warrants entitling them to subscribe for or purchase Shares in the circumstances described in (a) and (b) of this Condition 6.3.6, any warrants which are not subscribed for or purchased by the shareholders entitled thereto are underwritten by others prior to the latest date for the submission of applications for such warrants, an adjustment shall be made to the Exchange Price in accordance with the above provisions which shall become effective immediately after the date the underwriters agree to underwrite the same or (if later) immediately after Hi-mart fixes the said consideration but retroactively to immediately after the record date mentioned above.

If, in connection with a grant, issue or offer to the holders of Shares of warrants entitling them to subscribe for or purchase Shares, any warrants which are not subscribed for or purchased by the underwriters who have agreed to underwrite as referred to above or by the shareholders entitled thereto (or persons to whom shareholders have transferred the right to purchase such warrants) who have submitted applications for such warrants as referred to above are offered to and/or subscribed by others, no further adjustment shall be made to the Exchange Price by reason of such offer and/or subscription.

6.3.7 Issues of Rights or Warrants for Equity-related Securities to Shareholders:

Adjustment: If Hi-mart shall grant, issue or offer to the holders of Shares rights or warrants entitling them to subscribe for or purchase any securities convertible into or exchangeable for Shares:

(a) at a consideration per Share receivable by Hi-mart (determined as provided in Condition 6.3.16) which is fixed on or prior to the record date mentioned below and is less than the Current Market Price per Share at such record date; or

(b) at a consideration per Share receivable by Hi-mart (determined as aforesaid) which is fixed after the record date mentioned below and is less than the Current Market Price per Share on the date Hi-mart fixes the said consideration,

then the Exchange Price in effect (in a case within (a) above) on the record date for the determination of shareholders entitled to receive such rights or warrants or (in a case within (b) above) on the date Hi-mart fixes the said consideration shall be adjusted in accordance with the following formula:

$$NEP = OEP \times \left[\frac{N + v}{N + n} \right]$$

where:

NEP and OEP have the meanings ascribed thereto in Condition 6.3.2.

N = the number of Shares outstanding (having regard to Condition 6.3.17) at the close of business in Korea (in a case within (a) above) on such record date or (in a case within (b) above) on the date Hi-mart fixes the said consideration.

n = the number of Shares initially to be issued upon exercise of such rights or warrants and conversion or exchange of such convertible or exchangeable securities at the said consideration being, in the case of rights, (aa) the number of Shares initially to be issued upon conversion or exchange of the number of such convertible or exchangeable securities which the underwriters have agreed to underwrite as referred to below or, as the case may be, (bb) the number of Shares initially to be issued upon conversion or exchange of the number of such convertible or exchangeable securities for which applications are received from shareholders as referred to below save to the extent already adjusted for under (aa) and which, in the case of warrants, where no applications by shareholders entitled to such warrants are required, shall be based on the number of warrants issued. Where applications by shareholders entitled to such warrants are required, the number of such Shares shall be calculated based upon (x) the number of warrants which underwriters have agreed to underwrite as referred to below or, as the case may be; (y) the number of warrants for which applications are received from shareholders as referred to below save to the extent already adjusted for under (x).

v = the number of Shares which the aggregate consideration receivable by Hi-mart (determined as provided in Condition 6.3.16) would purchase at such Current Market Price per Share specified in (a) or, as the case may be, (b) above.

Effective date of adjustment: Subject as provided below, such adjustment shall become effective (a) where no applications for such warrants are required from shareholders entitled to the same, upon their issue and (b) where applications by shareholders entitled to the warrants are required as aforesaid and in the case of convertible or exchangeable securities by shareholders entitled to the same pursuant to such rights, immediately after the latest date for the submission of such applications or (if later) immediately after Hi-mart fixes the said consideration; but in all cases retroactively to immediately after the record date mentioned above.

Rights or warrants not taken up by shareholders: If, in connection with a grant, issue or offer to the holders of Shares of rights or warrants entitling them to subscribe for or purchase securities convertible into or exchangeable for Shares in the circumstances described in this Condition 6.3.7, any convertible or exchangeable securities or warrants which are not subscribed for or purchased by the shareholders entitled thereto are underwritten by others prior to the latest date for the submission of applications for such convertible or exchangeable securities or warrants, an adjustment shall be made to the Exchange Price in accordance with the above provisions which shall become effective immediately after the date the underwriters agree to underwrite the same or (if later) immediately after Hi-mart fixes the said consideration but retroactively to immediately after the record date mentioned above.

If, in connection with a grant, issue or offer to the holders of Shares or rights or warrants entitling them to subscribe for or purchase securities convertible into or exchangeable for Shares, any convertible or exchangeable securities or warrants which are not subscribed for or purchased by the underwriters who have agreed to underwrite as referred to above or by the shareholders entitled thereto (or persons to whom shareholders have transferred such rights or the right to purchase such warrants) who have submitted applications for such convertible or exchangeable securities or warrants as referred to above are offered to and/or subscribed by others, no further adjustment shall be made to the Exchange Price by reason of such offer and/or subscription.

6.3.8 Other Distributions to Shareholders:

Adjustment: If Hi-mart shall distribute to the holders of Shares or capital stock of Hi-mart (other than Shares), assets (excluding any Dividends), or rights or warrants to subscribe for or purchase Shares or securities (excluding those rights and warrants referred to in Conditions 6.3.5, 6.3.6 and 6.3.7), then the Exchange Price in effect on the record date for the determination of shareholders entitled to receive such distribution shall be adjusted in accordance with the following formula:

$$\text{NEP} = \text{OEP x} \left[\frac{\text{CMP - fmv}}{\text{CMP}}\right]$$

where:

NEP and OEP have the meanings ascribed thereto in Condition 6.3.2.

CMP	=	the Current Market Price per Share on the record date for the determination of shareholders entitled to receive such distribution.
fmv	=	the Fair Market Value of the distribution applicable to one Share less any consideration payable for the same to Hi-mart by the shareholder.

Effective date of adjustment: Such adjustment shall become effective immediately after the record date for the determination of shareholders entitled to receive such distribution. Provided that (a) in the case of such a distribution which must, under applicable law of Korea, be submitted for approval to a general meeting of shareholders or be approved by a meeting of the Board of Directors of Hi-mart before such distribution may legally be made and is so approved after the record date fixed for the determination of shareholders entitled to receive such distribution, such adjustment shall, immediately upon such approval being given by such meeting, become effective retroactively to immediately after such record date and (b) if the Fair Market Value of the shares of capital stock, assets, rights or warrants so distributed cannot be determined until after the record date fixed for the determination of shareholders entitled to receive such distribution, such adjustment shall, immediately upon such Fair Market Value being determined, become effective retroactively to immediately after such record date.

6.3.9 Issue of Convertible or Exchangeable Securities other than to Shareholders or on Exercise of Warrants:

Adjustment: If Hi-mart shall issue any securities convertible into or exchangeable for Shares (except in any of the circumstances described in Condition 6.3.7 and Condition 6.3.11) or grant such rights in respect of any existing securities and the consideration per Share receivable by Hi-mart (determined as provided in Condition 6.3.16) shall be less than the Current Market Price per Share on the date in Korea on which Hi-mart fixes the said consideration (or, if the issue of such securities is subject to approval by a general meeting of shareholders, on the date on which the Board of Directors of Hi-mart fixes the consideration to be recommended at such meeting), then the Exchange Price in effect immediately prior to the date of issue of such convertible or exchangeable securities shall be adjusted in accordance with the following formula:

$$NEP = OEP \text{ x } \left[\frac{N + v}{N + n}\right]$$

where:

NEP and OEP have the meanings ascribed thereto in Condition 6.3.2.

N = the number of Shares outstanding (having regard to Condition 6.3.17) at the close of business in Korea on the day immediately prior to the date of such issue.

n = the number of Shares to be issued upon conversion or exchange of such convertible or exchangeable securities at the initial conversion or exchange price or rate.

v = the number of Shares which the aggregate consideration receivable by Hi-mart would purchase at such Current Market Price per Share.

Effective date of adjustment: Such adjustment shall become effective as of the calendar day in Korea corresponding to the calendar day at the place of issue on which such convertible or exchangeable securities are issued.

6.3.10 Other Issues of Shares:

Adjustment: If Hi-mart shall issue any Shares (other than Shares issued upon conversion or exchange of any convertible or exchangeable securities issued by Hi-mart or upon exercise of any rights or warrants granted, offered or issued by Hi-mart or in any of the circumstances described in any preceding provision of this Condition 6.3), for a consideration per Share receivable by Hi-mart (determined as provided in Condition 6.3.16) less than the Current Market Price per Share on the date in Korea on which Hi-mart fixes the said consideration (or, if the issue of such Shares is subject to approval by a general meeting of shareholders, on the date on which the Board of Directors of Hi-mart fixes the consideration to be recommended at such meeting), then the Exchange Price in effect immediately prior to the issue of such additional Shares shall be adjusted in accordance with the following formula:

$$NEP = OEP \text{ x } \left[\frac{N + v}{N + n}\right]$$

where:

NEP and OEP have the meanings ascribed thereto in Condition 6.3.2.

N	=	the number of Shares outstanding (having regard to Condition 6.3.17) at the close of business in Korea on the day immediately prior to the date of issue of such additional Shares.
n	=	the number of additional Shares issued as aforesaid.
v	=	the number of Shares which the aggregate consideration receivable by Hi-mart (determined as provided in Condition 6.3.16) would purchase at such Current Market Price per Share.

Effective date of adjustment: Such adjustment shall become effective as of the calendar day in Korea of the issue of such additional Shares.

6.3.11 Issue of Equity-related Securities:

Adjustment: If Hi-mart shall grant, issue or offer options, warrants or rights (excluding those rights and warrants referred to in Conditions 6.3.5, 6.3.6, 6.3.7 and 6.3.8) to subscribe for or purchase Shares or securities convertible into or exchangeable for Shares and the consideration per Share receivable by Hi-mart (determined as provided in Condition 6.3.16) shall be less than the Current Market Price per Share on the date in Korea on which Hi-mart fixes the said consideration (or, if the offer, grant or issue of such rights, options or warrants is subject to approval by a general meeting of shareholders, on the date on which the Board of Directors of Hi-mart fixes the consideration to be recommended at such meeting), then the Exchange Price in effect immediately prior to the date of the offer, grant or issue of such rights, options or warrants shall be adjusted in accordance with the following formula:

$$NEP = OEP \times \left[\frac{N + v}{N + n} \right]$$

where:

NEP and OEP have the meanings ascribed thereto in Condition 6.3.2.

N	=	the number of Shares outstanding (having regard to Condition 6.3.17) at the close of business in Korea on the day immediately prior to the date of such issue.
n	=	the number of Shares to be issued on exercise of such rights or warrants and (if applicable) conversion or exchange of such convertible or exchangeable securities at the said consideration.
v	=	the number of Shares which the aggregate consideration receivable by Hi-mart (determined as provided in Condition 6.3.16) would purchase at such Current Market Price per Share.

Effective date of adjustment: Such adjustment shall become effective as of the calendar day in Korea corresponding to the calendar day at the place of issue on which such rights or warrants are issued.

6.3.12 Analogous Events and Modifications:

If (a) the rights of conversion or exchange, purchase or subscription attaching to any options, rights or warrants to subscribe for or purchase Shares or any securities convertible into or exchangeable for, or which carry rights to subscribe for or purchase Shares are modified (other than pursuant to and as provided in the terms and conditions of such options, rights, warrants or securities as originally issued) or (b) the Issuer determines that any other event or circumstance has occurred which has or would have an effect on the position of the Bondholders as a class compared with the position of the holders of all the securities (and options and rights relating thereto) of Hi-mart, taken as a class which is analogous to any of the events referred to in Conditions 6.3.1 to 6.3.11, then, in any such case, the Issuer shall promptly notify the Trustee in writing thereof and the Issuer shall consult with an Independent Financial Institution as to what adjustment, if any, should be made to the Exchange Price to preserve the value of the Exchange Right of Bondholders and will make any such adjustment. All costs, charges, liabilities and expenses incurred in connection with the appointment, retention, consultation and remuneration of any Independent Financial Institution appointed under the Conditions shall be borne by the Issuer.

6.3.13 Simultaneous Issues of Different Classes of Shares:

In the event of simultaneous issues of two or more classes of share capital comprising Shares or rights or warrants in respect of, or securities convertible into or exchangeable for, two or more classes of share capital comprising Shares, then, for the purposes of this Condition, the formula

$$NEP = OEP \times \left[\frac{N + v}{N + n} \right]$$

shall be restated as

$$NEP = OEP \times \left[\frac{N + v1 + v2 + v3}{N + n1 + n2 + n3} \right]$$

where v1 and n1 shall have the same meanings as "v" and "n" but by reference to one class of Shares, v2 and n2 shall have the same meanings as "v" and "n" but by reference to a second class of Shares, v3 and n3 shall have the same meanings as "v" and "n" but by reference to a third class of Shares and so on.

6.3.14 No Adjustment for Certain Issuances to Directors, Officers or Employees:

A grant, issue or offer of options, rights, warrants or other securities to any director, officer or employee of Hi-mart as part of such person's compensation will not result in the adjustment of the Exchange Price; provided that (i) the number of Shares so issued or that may be issued as a result of the conversion, exchange or exercise of such convertible or exchangeable securities or such options, rights or warrants so granted, issued or offered, together with the total number of Shares issued to such directors, officers and employees and that may be issued (on conversion, exchange or exercise) as a result of all such grants, issues and offers to such directors, officers and employees subsequent to the Closing Date, does not exceed 1% of the total number of Shares outstanding immediately prior to such grant, issue or offer and (ii) all such grants, issues and offers are made pursuant to employee stock ownership plans or option scheme or plans which are in compliance with applicable Korean laws and regulations and the rules of the Korean Exchange or if applicable, the rules of the Alternative Stock Exchange.

6.3.15 Certain Definitions:

For the purposes of these Conditions:

"Alternative Stock Exchange" means at any time, in the case of the Shares or any securities comprising the Exchange Property, if they are not at that time listed and traded on the KRX KOSPI Market, the principal stock exchange or securities market on which the Shares or such securities are then listed or quoted or dealt in.

"Closing Price" of the Shares for each Trading Day shall be the last reported transaction price of the Shares on the KRX KOSPI Market for such day or, if no transaction takes place on such day, the average of the closing bid and offered prices of Shares for such day as furnished by a leading independent securities firm licensed to trade on the KRX KOSPI Market selected from time to time by the Issuer.

"Current Market Price" per Share on any date means the arithmetic average of the daily Closing Prices (as defined above) of the relevant Shares for the twenty consecutive Trading Days (as defined below) ending on and including the Trading Day immediately preceding such date. If Hi- mart has more than one class of share capital comprising Shares, then the relevant Current Market Price for Shares shall be the price for that class of Shares the issue of which (or of rights or warrants in respect of, or securities convertible into or exchangeable for, that class of Shares) gives rise to the adjustment in question.

If during the said twenty Trading Days or any period thereafter up to but excluding the date as of which the adjustment of the Exchange Price shall be effected, any event (other than the event which requires the adjustment in question) shall occur which gives rise to a separate adjustment to the Exchange Price under the provisions of these Conditions, then the Current Market Price as determined above shall be adjusted in such manner and to such extent as an Independent Financial Institution shall in its absolute discretion deem appropriate and fair to compensate for the effect thereof.

"Trading Day" means a day when the KRX KOSPI Market is open for business, but does not include a day when (a) no such last transaction price or closing bid and offered prices is/are reported and (b) (if the Shares are not listed or admitted to trading on such exchange) no such closing bid and offered prices are furnished as aforesaid.

If the Shares are no longer listed on the KRX KOSPI Market and have been listed on an Alternative Stock Exchange, references in the above definitions to the KRX KOSPI Market will be taken as references to the Alternative Stock Exchange; provided that, as necessary, Closing Prices on such exchanges will be translated into Korean Won at the Prevailing Rate. The "Prevailing Rate" applicable to any Trading Day shall be the market average exchange rate effective for such Trading Day as announced by Seoul Money Brokerage Services, Ltd. or any successor entity, or if such market average exchange rate is not available, such rate of exchange as may be determined in good faith by an Independent Financial Institution to be the spot rate ruling at the close of business on that date (or if no such rate is available on that date the equivalent rate on the immediately preceding date on which such a rate is available) for exchanges of Korean Won and the applicable currency.

6.3.16 Consideration Receivable by Hi-mart:

For the purposes of any calculation of the consideration receivable by Hi-mart pursuant to Conditions 6.3.5, 6.3.6, 6.3.7, 6.3.8, 6.3.9, 6.3.10, 6.3.11, 6.3.12 and 6.3.13 above, the following provisions shall be applicable:

(a) in the case of the issue of Shares for cash, the consideration shall be the amount of such cash;

(b) in the case of the issue of Shares for a consideration in whole or in part other than cash, the consideration other than cash shall be deemed to be the Fair Market Value thereof;

(c) in the case of the issue (whether initially or upon the exercise of rights or warrants) of securities convertible into or exchangeable for Shares, the aggregate consideration receivable by Hi-mart shall be deemed to be the consideration received by Hi-mart for such securities and (if applicable) rights or warrants plus the additional consideration (if any) to be received by Hi-mart upon (and assuming) the conversion or exchange of such securities at the initial conversion or exchange price or rate and (if applicable) the exercise of such rights or warrants at the initial subscription or purchase price (the consideration in each case to be determined in the same manner as provided in this Condition 6.3.16) and the consideration per Share receivable by Hi-mart shall be such aggregate consideration divided by the number of Shares to be issued upon (and assuming) such conversion or exchange at the initial conversion or exchange price or rate and (if applicable) the exercise of such rights or warrants at the initial subscription or purchase price;

(d) in the case of the issue of rights or warrants to subscribe for or purchase Shares, the aggregate consideration receivable by Hi-mart shall be deemed to be the consideration received by Hi-mart for any such rights or warrants plus the additional consideration to be received by

Hi-mart upon (and assuming) the exercise of such rights or warrants at the initial subscription or purchase price (the consideration in each case to be determined in the same manner as provided in this Condition 6.3.16) and the consideration per Share receivable by Hi-mart shall be such aggregate consideration divided by the number of Shares to be issued upon (and assuming) the exercise of such rights or warrants at the initial subscription or purchase price;

(e) if any of the consideration referred to in any of the preceding paragraphs of this Condition 6.3.16 is receivable in a currency other than Korean Won, such consideration shall (in any case where there is a fixed rate of exchange between the Korean Won and the relevant currency for the purposes of the issue of the Shares, the conversion or exchange of such securities or the exercise of such rights or warrants) be translated into Korean Won for the purposes of this Condition 6.3.16 at such fixed rate of exchange and shall (in all other cases) be translated into Korean Won at the market average exchange rate as announced by Seoul Money Brokerage Services, Ltd. or any successor entity effective for such date as of which the said consideration is required to be calculated as aforesaid, or if such market average exchange rate is not available, such rate of exchange as may be determined in good faith by an Independent Financial Institution to be the spot rate ruling at the close of business on such date, for exchanges of Korean Won and the applicable currency;

(f) in the case of the issue of Shares (including, without limitation, to employees under any employee bonus or profit sharing arrangements) credited as fully paid out of retained earnings or capitalisation of reserves at their par value, the aggregate consideration receivable by Hi-mart shall be deemed to be zero (and accordingly the number of Shares which such aggregate consideration receivable by Hi-mart could purchase at the relevant Current Market Price per Share shall also be deemed to be zero); and

(g) in making any such determination, no deduction shall be made for any commissions or any expenses paid or incurred by Hi-mart.

6.3.17 Cumulative Adjustments:

If, at the time of computing an adjustment (the "later adjustment") of the Exchange Price pursuant to any of Conditions 6.3.2, 6.3.5, 6.3.6, 6.3.7, 6.3.9, 6.3.10, 6.3.11, 6.3.12 and 6.3.13 above, the Exchange Price already incorporates an adjustment made (or taken or to be taken into account pursuant to the proviso to Condition 6.3.18) to reflect an issue of Shares or of securities convertible into or exchangeable for Shares or of rights or warrants to subscribe for or purchase Shares or securities, to the extent that the number of such Shares or securities taken into account for the purposes of calculating such adjustment exceeds the number of such Shares in issue at the time relevant for ascertaining the number of outstanding Shares for the purposes of computing the later adjustment, such excess Shares shall be deemed to be outstanding for the purposes of making such computation.

6.3.18 Minor Adjustments:

No adjustment of the Exchange Price shall be required if the adjustment would be less than 1% of the then current Exchange Price; provided that any adjustment which by reason of this Condition 6.3.18 is not required to be made shall be carried forward and taken into account (as if such adjustment had been made at the time when it would have been made but for the provisions of this Condition 6.3.18) in any subsequent adjustment. Except as otherwise set out in Condition 6.3.19, the Exchange Price may be reduced at any time by the Issuer

6.3.19 Minimum Exchange Price:

Notwithstanding the provisions of this Condition, the Issuer covenants that:

(a) the Exchange Price shall not be reduced below the par value of the Shares (KRW5,000 at the date hereof) as a result of any adjustment made hereunder unless, under applicable law then in effect, Bonds may be exchanged at such reduced Exchange Price into legally issued, fully-paid and non-assessable Shares; and

(b) it will procure Hi-mart not to take any corporate or other action which might result in the Exchange Price being reduced pursuant to this Condition 6 below the level permitted by (i) applicable Korean laws and regulations from time to time (if any) or (ii) applicable Korean regulatory authorities where the approval of such regulatory authority has not been obtained.

6.3.20 Reference to "fixed":

Any references herein to the date on which a consideration is "fixed" shall, where the consideration is originally expressed by reference to a formula which cannot be expressed as an actual cash amount until a later date, be construed as a reference to the first day on which such actual cash amount can be ascertained.

6.3.21 Upward Adjustment:

No adjustment involving an increase in the Exchange Price will be made, except (a) in the case of a consolidation or a re-classification of the Shares, after which the number of Shares outstanding has decreased, as referred to in Condition 6.3.1, (b) in the case of a capital reduction, immediately after which the value of the Shares outstanding has increased as a result or (c) in the case of an occurrence of any event similar to the foregoing, immediately after which the value of the Shares outstanding has increased as a result.

6.3.22 Trustee not Obliged to Monitor:

Neither the Trustee nor the Agents shall be under any duty to monitor whether any event or circumstance has happened or exists which may require an adjustment to be made to the Exchange Price under this Condition 6.3, or be under any duty to calculate, make or check any adjustment to the Exchange Price, and will not be responsible or liable to Bondholders or any other person for any loss arising from any failure by it to do so.

6.3.23 Notice to Trustee:

The Issuer shall send the Trustee and the Agents a certificate signed by an Authorised Officer setting out particulars relating to adjustment of the Exchange Price and the Exchange Price after such adjustment and the effective date thereof.

6.3.24 Independent Financial Institution:

If the Issuer fails to select an Independent Financial Institution when required in this Condition 6.3 and Condition 6.1.6, the Trustee may but shall not be obliged to (at its absolute discretion and at the expense of the Issuer) select such an Independent Financial Institution.

6.4 Undertakings

6.4.1 The Issuer has undertaken in the Trust Deed, inter alia, that so long as any Bond remains outstanding, save with the approval of an Extraordinary Resolution (as defined in the Trust Deed) of the Bondholders or with the approval of the Trustee where, in the opinion of the Trustee, it is not materially prejudicial to the interests of Bondholders to give such approval:

(i) it will use its best efforts to (a) obtain and maintain a listing of the Bonds on the SGX-ST;

(b) procure that Hi-mart maintains a listing for all the issued Shares on the KRX KOSPI Market; (c) procure that Hi-mart obtains and maintains a listing for all the Shares to be delivered on the exercise of the Exchange Rights attaching to the Bonds on the KRX KOSPI Market and (d) if the Issuer or Hi-mart is unable to obtain or maintain such listings, obtain and maintain a listing for all the Bonds and the Shares to be delivered on the exercise of the Exchange Rights, on an Alternative Stock Exchange and will forthwith give notice to the Bondholders in accordance with Condition 17 of the listing or delisting of the Shares or the Bonds (as a class) by any of such stock exchanges;

(ii) it will deposit the number of Shares (or Exchange Property Securities, as applicable) that are deliverable upon exchange of all outstanding Bonds (as adjusted from time to time in tandem with the Exchange Price pursuant to Condition 6.3) with the KSD and will not transfer, or create or attempt to create, assume or permit to subsist, any mortgage, charge, pledge, hypothecation, lien or other encumbrance over, such Shares or any Exchange Property;

(iii) it will pay the expenses of the delivery of, and all expenses of obtaining listing for, Shares (or Exchange Property Securities, as applicable) arising on exchange of the Bonds, except for Taxes payable by a Bondholder pursuant to Condition 6.2.2;

(iv) it will procure Hi-mart not to make any reduction of its ordinary share capital or any uncalled liability in respect thereof or of any share premium account or capital redemption reserve fund (except, in each case, as permitted by applicable law and that results in (or would, but for the provision of these Conditions relating to rounding or the carry forward of adjustments, result in) a downward adjustment to the Exchange Price or is otherwise taken into account for the purposes of determining whether such a downward adjustment should be made);

(v) it will procure Hi-mart not to take any action described in clause (b) or (c) of Condition 6.3.21 which would result in an increase in the Exchange Price; and

(vi) it will procure Hi-mart not to make any offer, issue or distribute or take any action the effect of which would be to reduce the Exchange Price below the par value of the Shares of Hi-mart; provided always that Hi-mart shall not be prohibited from purchasing its Shares to the extent permitted by law.

6.4.2 The Issuer has also given certain other undertakings in the Trust Deed for the protection of the Exchange Rights.

6.5 Notice of Change in Exchange Prices

The Issuer shall give notice to the Bondholders in accordance with Condition 17 and, for so long as the Bonds are listed on the SGX-ST and the rules of the SGX-ST so require, the Issuer shall also give notice to the SGX-ST, of any adjustment to the Exchange Price. Any such notice relating to an adjustment to the Exchange Price shall set forth the event giving rise to the adjustment, the Exchange Price prior to such adjustment, the adjusted Exchange Price and the effective date of such adjustment.

6.6 Voting and Other Rights

Prior to exercise of the Exchange Right, the Issuer will be entitled to exercise the voting and other rights attaching to the Shares or the Exchange Property Securities, as applicable, on all matters submitted to the holders of Shares or of any Exchange Property Securities. The Trustee and holders of the Bonds shall have no voting or other rights attaching to the Shares or Exchange Property Securities prior to registration of the holders of the Bonds as holders of Shares or of any Exchange Property Securities.

7. Payments

7.1 U.S. Dollar Settlement

All amounts due under, and all claims arising out of or pursuant to, the Bonds and/or the Trust Deed from or against the Issuer shall be payable and settled in U.S. dollars only.

For the purposes of these Conditions, "U.S. Dollar Equivalent" means in respect of a Korean Won-denominated amount that, but for this Condition 7.1, would be due under the Bonds in Korean Won, the Korean Won amount converted into U.S. dollars, by dividing the Korean Won amount by the Spot Rate on the relevant Rate Calculation Date.

For purposes of these Conditions,

"Rate Calculation Date" means the day which is three business days before the due date of the relevant amount under these Conditions;

"Reference Dealers" means four leading dealers engaged in the foreign exchange market of the relevant currency selected and appointed by the Issuer; and

"Spot Rate," on each Rate Calculation Date, means a rate determined by the Issuer in good faith as follows:

(a) the USD-KRW official fixing rate, expressed as the market average rate of the amount of Korean Won per one U.S. dollar, reported by Seoul Money Brokerage Services which appears on the Reuters Screen "KFTC18" Page against the column "USD Today" at or about 3:30 p.m. (Seoul time) on the Rate Calculation Date (referred to as "mae-mae-gi-jun-ryul" in Korean);

(b) if no such rate is available under sub-paragraph (a), the spot rate determined by the Issuer in good faith on the basis of quotations provided by the Reference Dealers of the specified exchange rate for the Rate Calculation Date as obtained in accordance with the provisions below; and

(c) if fewer than two quotations are provided under sub-paragraph (b), the exchange rate for the Rate Calculation Date as shall be determined by an Independent Financial Institution in good faith.

In determining the spot rate under sub-paragraph (b), the Issuer will request the Seoul office of each of the Reference Dealers to provide a quotation of what the specified screen rate would have been had it been published, reported or available for the Rate Calculation Date, based upon each Reference Dealer's experience in the foreign exchange market for Korean Won and general activity in such market on the Rate Calculation Date. The quotations used to determine the Spot Rate for a Rate Calculation Date will be determined in each case for such Rate Calculation Date, and will be requested at 3:30 p.m. (Seoul time) on such Rate Calculation Date or as soon as practicable after it is determined that the specified screen rate was not available.

If four quotations are provided, the rate for a Rate Calculation Date will be the arithmetic mean of the rates, without regard to the rates having the highest and lowest value. For this purpose, if more than one quotation has the same highest value or lowest value, then the rate of only one of such quotations shall be disregarded. If two or three quotations are provided, the rate for a Rate Calculation Date will be the arithmetic mean of the rates provided.

Immediately after the Spot Rate has been determined, the Issuer will notify the Principal Agent by email or facsimile of the Spot Rate and the applicable U.S. Dollar Equivalent on the Rate Calculation Date.

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 7.1, whether by the Reference Dealers (or any of them), the Issuer or the Independent Financial Institution, will (in the absence of fraud, wilful misconduct or gross negligence) be binding on the Issuer, the Trustee, the Agents and all Bondholders.

7.2 Method of Payment

Payment of principal, premium and default interest (if any) will be made by transfer to the registered account of the Bondholder. Such payment will only be made after surrender of the relevant Certificate at the specified office of any of the Agents. If an amount which is due on the Bonds is not paid in full, the Registrar will annotate the Register with a record of the amount (if any) paid.

7.3 Registered Accounts

For the purposes of this Condition, a Bondholder's registered account means the U.S. dollar account maintained by or on behalf of it with a bank in New York City, details of which appear on the Register at the close of business on the second business day (as defined in Condition 7.7) before the due date for payment, and a Bondholder's registered address means its address appearing on the Register at that time.

7.4 Applicable Laws

All payments to be made to Bondholders by or on behalf of the Issuer are subject in all cases to any applicable laws and regulations in any applicable jurisdiction, but without prejudice to the provisions of Condition 9. No commissions or expenses shall be charged to the Bondholders in respect of such payments.

7.5 Payment Initiation

Where payment is to be made by transfer to a registered account, payment instructions (for value on the due date or, if that is not a business day (as defined in Condition 7.7), for value on the first following day which is a business day) will be initiated or, in the case of a payment of principal, if later, on the business day on which the relevant Certificate is surrendered at the specified office of an Agent.

7.6 Default Interest and Delay in Payment

7.6.1 If the Issuer fails to pay any sum in respect of the Bonds when the same becomes due and payable under these Conditions, interest shall accrue on the overdue sum (both before and after any judgment) at the rate of 3% per annum from the due date up to the date on which payment in full of all sums due and unpaid in respect of the Bonds is made. Such default interest shall accrue on the basis of the actual number of days elapsed and a 360-day year and shall be payable in U.S. dollars at the U.S. Dollar Equivalent.

7.6.2 Bondholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due if the due date is not a business day, if the Bondholder is late in surrendering its Certificate (if required to do so).

7.7 Business Day

In this Condition 7, "business day" means a day other than a Saturday or Sunday on which commercial banks are open for business in New York City, Seoul and London and, in the case of the surrender of a Certificate, in the place where the Certificate is surrendered.

8. Redemption, Purchase and Cancellation

8.1 Maturity

Unless previously redeemed, exchanged or repurchased and cancelled as provided herein, the Issuer will redeem each Bond at the U.S. Dollar Equivalent of 102.53% of its principal amount (the "Final Redemption Amount") on April 4, 2023 (the "Maturity Date"). The Issuer may not redeem the Bonds at its option prior to that date except as provided in Condition 8.2 or Condition 8.3 below (but without prejudice to Condition 10).

8.2 Redemption at the Option of the Issuer

8.2.1 On or at any time after April 4, 2021 but not less than 30 business days prior to the Maturity Date, the Issuer may, having given not less than 30 nor more than 60 days' notice to the Bondholders, the Trustee and the Principal Agent in accordance with Condition 17 (which notice will be irrevocable), redeem the Bonds in whole but not in part at their Early Redemption Amount (as defined in Condition 8.11) on the date fixed for redemption; provided that no such redemption may be made unless the Closing Price of the Shares for each of 20 Trading Days in the period of 30 consecutive Trading Days ending on the Trading Day immediately prior to the date upon which notice of such redemption is given pursuant to Condition 17, was at least 130% of the prevailing Early Redemption Amount divided by the prevailing Exchange Ratio. Upon expiry of such notice, the Issuer shall be bound to redeem such Bonds in accordance with this Condition. If there shall occur an event giving rise to a change in the Exchange Price during any such 20 consecutive Trading Day period, appropriate adjustments for the relevant days approved by two independent investment banks (acting as experts) selected by the Issuer (at the expense of the Issuer) and notified in writing to the Trustee shall be made for the purpose of calculating the Closing Price for such days. In the case of a partial redemption pursuant to this Condition 8.2.1, (a) such partial redemption shall be a partial redemption of all Bonds then outstanding on a pro rata basis and (b) the Bonds outstanding immediately after such partial redemption shall be at least 10% of the aggregate principal amount originally issued on the Closing Date.

8.2.2 If at any time the aggregate principal amount of the Bonds outstanding is less than 10% of the aggregate principal amount originally issued (including any Bonds issued pursuant to Condition 16), the Issuer shall have the option to redeem such outstanding Bonds in whole but not in part at their Early Redemption Amount on the date fixed for redemption. The Issuer will give at least 30 days' but not more than 60 days' prior notice pursuant to Condition 17 to the Bondholders, the Trustee and the Principal Agent for such redemption. Upon expiry of such notice, the Issuer shall be bound to redeem such Bonds in accordance with this Condition.

8.3 Redemption for Taxation Reasons

8.3.1 Subject to Condition 8.3.3, at any time the Issuer may, having given not less than 30 nor more than 60 days' notice to the Trustee, the Principal Agent and the Bondholders (which notice shall be irrevocable) redeem the Bonds in whole but not in part at their Early Redemption Amount on the date fixed for redemption ("Tax Redemption Date"), if (i) the Issuer provides to the Trustee immediately prior to the giving of such notice an opinion of independent legal counsel of recognised international standing in form and substance reasonably satisfactory to the Trustee to the effect that such change or amendment has occurred (irrespective of whether such amendment or change is then effective) and that the Issuer has or will become obliged to pay additional amounts pursuant to Condition 9 as a result of any change in, or amendment to, the laws or regulations of Korea or any political subdivision or any authority thereof or therein having power to tax, or any change in the general application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after April 4, 2018 and (ii) such obligation cannot be avoided by the Issuer taking all reasonable measures available to it; provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Bonds then due. Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Trustee (a) an officer's certificate signed by the chief financial officer, chief accounting officer or chief executive officer of the Issuer stating that the obligation referred to in (i) above cannot be avoided by the Issuer (taking all reasonable measures available to it) and (b) the opinion of counsel referred to in (i) above and the Trustee shall accept such certificate and opinion as sufficient evidence thereof, in which event it shall be conclusive and binding on the Bondholders.

8.3.2 Upon the expiry of any such notice, the Issuer will be bound to redeem the Bonds at their Early Redemption Amount.

8.3.3 If the Issuer gives a notice of redemption pursuant to this Condition 8.3, each Bondholder will have the right to elect that all or a portion of its Bond(s) (in integral multiples of KRW200,000,000) shall not be redeemed and that the provisions of Condition 9 shall not apply in respect of any payment of principal to be made in respect of such Bond(s) which falls due after the relevant Tax Redemption Date whereupon no, subject to the following sentence, Additional Amounts shall be payable in respect thereof pursuant to Condition 9 and payment of all amounts shall be made subject to the deduction or withholding of the taxation required to be withheld or deducted by the government of Korea or any authority thereof or therein having power to tax. For the avoidance of doubt, any Additional Amounts which had been payable in respect of the Bonds as a result of the laws or regulations of the government of Korea or any authority thereof or therein having power to tax prior to April 4, 2018 will continue to be payable to such Bondholders. To exercise such right, the holder of the relevant Bond must complete, sign and deposit at the specified office of any Paying Agent a duly completed and signed notice of non-redemption, in the form for the time being current, obtainable from the specified office of any Paying Agent on or before the day falling 15 days prior to the Tax Redemption Date.

8.4 Redemption for Change of Control

8.4.1 Following the occurrence of a Change of Control (as defined below) and to the extent permitted by applicable law, each Bondholder will have the right at such holder's option to require the Issuer to redeem all or a portion of such holder's Bonds (in integral multiples of KRW200,000,000) on the Change of Control Put Date at their Early Redemption Amount. To exercise such right, the holder of the relevant Bond must complete, sign and deposit at the specified office of any Paying Agent a duly completed and signed notice of redemption, in the form for the time being current, obtainable from the specified office of any Paying Agent ("Change of Control Put Exercise Notice") together with the Certificate evidencing the Bonds to be redeemed by not later than ten business days prior to the Change of Control Put Date. The "Change of Control Put Date" shall be the date set by the Issuer for such redemption, which shall not be less than 30 days nor more than 60 days after the occurrence of a Change of Control, or, if later, the date upon which notice thereof is given to Bondholders by the Issuer in accordance with Condition 17.

For the purposes of this Condition 8.4.1,

"control" means (a) the acquisition or control of more than 50 per cent. of the Voting Rights of the issued share capital of Hi-mart or (b) the right to appoint and/or remove all or the majority of the members of Hi-mart's Board of Directors or other governing body, whether obtained directly or indirectly, and whether obtained by ownership of share capital, the possession of voting rights, contract or otherwise;

a "Change of Control" occurs when:

(a) any person or persons (other than a Lotte Permitted Entity) directly or indirectly, acting together, acquires control, directly or indirectly, of Hi-mart; or

(b) Hi-mart consolidates with or merges into or sells or transfers all or substantially all of Hi-mart's assets to any other person or persons, acting together.

a "Lotte Permitted Entity" means the Issuer or any of its Subsidiaries;

a "person" includes any individual, company, corporation, firm, partnership, joint venture, undertaking, association, organisation, trust, state or agency of a state (in each case whether or not being a separate legal entity); and

"Voting Rights" means the right generally to vote at a general meeting of shareholders of Hi-mart (irrespective of whether or not, at the time, stock of any other class or classes shall have, or might have, voting power by reason of the happening of any contingency).

8.4.2 A Change of Control Put Exercise Notice, once delivered, shall be irrevocable and the Issuer shall redeem the Bonds which form the subject of the Change of Control Put Exercise Notices delivered as aforesaid on the Change of Control Put Date.

8.4.3 The Trustee shall not be required to monitor or take any steps to ascertain whether a Change of Control or any event which could lead to the occurrence of a Change of Control has occurred or may occur and will not be responsible or liable to Bondholders or any other person for any loss arising from any failure by it to do so.

8.4.4 No later than seven days after becoming aware of a Change of Control, the Issuer shall procure that a Change of Control Notice shall be delivered to the Trustee and the Bondholders in accordance with Condition 17 stating (i) the Bondholders' entitlement to exercise their Exchange Rights as provided in these Conditions and their entitlement to exercise their rights to require redemption of their Bonds pursuant to this Condition; (ii) the Change of Control Put Date; (iii) the date of such Change of Control, the events causing such Change of Control and all information material to Bondholders concerning the Change of Control; (iv) the date by which the Change of Control Put Exercise Notice (as defined above) must be given; (v) the redemption amount and the method by which such amount will be paid; (vi) the names and addresses of all Paying Agents; (vii) the Exchange Price immediately prior to the occurrence of the Change of Control and the Exchange Price applicable pursuant to Condition 6.6 during the Change of Control Period; (viii) the Closing Price of the Shares as derived from the relevant stock exchange as at the latest practicable date prior to the publication of the Change of Control Notice; (ix) the procedures that Bondholders must follow and the requirements that Bondholders must satisfy in order to exercise the Change of Control Put Right or Exchange Right and (x) that a Change of Control Put Exercise Notice, once validly given, may not be withdrawn.

8.5 Delisting Put Right

8.5.1 In the event the Shares cease to be listed or admitted to trading or are suspended for a period equal to or exceeding 30 consecutive Trading Days on the KRX KOSPI Market (a "Delisting") each Bondholder shall have the right (the "Delisting Put Right"), at such Bondholder's option, to require the Issuer to redeem all or a portion of such Bondholder's Bonds (in integral multiples of KRW200,000,000) on the date set by the Issuer for such redemption, which shall not be less than 30 days nor more than 60 days after the occurrence of a Delisting, or, if later, the date upon which notice thereof is given to Bondholders by the Issuer in accordance with Condition 8.5.2 below (the "Delisting Put Date") at their Early Redemption Amount (the "Delisting Put Price").

8.5.2 Promptly after becoming aware of a Delisting but no later than seven days after becoming aware of a Delisting, the Issuer shall procure that notice regarding the Delisting Put Right shall be given to the Trustee and the Bondholders in accordance with Condition 17 stating:

(i) the Delisting Put Date;

(ii) the date of such Delisting and, briefly, the events causing such Delisting;

(iii) the date by which the Purchase Notice (as defined below) must be given;

(iv) the Delisting Put Price and the method by which such amount will be paid;

(v) the names and addresses of all Paying Agents;

(vi) the Exchange Right and the then current Exchange Price;

(vii) the procedures that Bondholders must follow and the requirements that Bondholders must satisfy in order to exercise the Delisting Put Right or Exchange Right; and

(viii) that a Purchase Notice, once validly given, may not be withdrawn.

8.5.3 To exercise its rights to require the Issuer to redeem or purchase (subject to applicable laws) its Bonds, the Bondholder must deliver a written irrevocable notice of the exercise of such right (a "Purchase Notice"), in the then current form obtainable from the specified office of any Agent, to any Paying Agent on any business day prior to the close of business at the location of such Paying Agent on such day and which day is not less than 10 business days prior to the Delisting Put Date.

8.5.4 A Purchase Notice, once delivered, shall be irrevocable and the Issuer shall redeem the Bonds which form the subject of the Delisting Notices delivered as aforesaid on the Delisting Put Date.

8.5.5 The Trustee and the Agents shall not be required to monitor or take any steps to ascertain whether a Delisting or any event which could lead to the occurrence of a Delisting has occurred or may occur and will not be responsible or liable to Bondholders or any other person for any loss arising from any failure by it to do so.

8.5.6 For the purposes of this Condition 8.5, "business day" shall mean a day on which commercial banks are open for business in London and Seoul.

8.6 Redemption at the Option of the Bondholders

The Issuer will, at the option of the holder of any Bond, redeem all or a portion of that holder's Bonds (in integral multiples of KRW200,000,000) on April 4, 2021 (the "Put Option Date"), at their Early Redemption Amount. To exercise such right, the holder of the relevant Bond must complete, sign and deliver to the specified office of any Paying Agent a duly completed and signed notice (the "Put Option Notice") together with the Certificate evidencing the Bonds to be redeemed not less than 30 days nor more than 60 days prior to the Put Option Date.

A Put Option Notice, once delivered, shall be irrevocable (and may not be withdrawn unless the Issuer consents to such withdrawal) and the Issuer shall redeem the Bonds the subject of a Put Option Notice delivered as aforesaid on the Put Option Date.

8.7 Redemption Following Exercise of a Put Option

Upon the exercise of any put option specified in Condition 8.4, 8.5 or 8.6, payment of the applicable redemption amount shall be conditional upon (i) the Issuer obtaining all approvals required by law and (ii) delivery of the Bondholder's Certificate (together with any necessary endorsements) to any Paying Agent on any business day together with the delivery of any other document(s) required by these

Conditions, and will be made on the later of the date set for redemption and promptly following the time of delivery of such Certificate. If the Paying Agent holds on the Put Date (as defined below) money sufficient to pay the applicable redemption monies of Bonds for which notices have been delivered in accordance with the provisions hereof upon exercise of such right, then, whether or not such Certificate is delivered to the Paying Agent, on and after such Put Date, (a) such Bond will cease to be outstanding; (b) such Bond will be deemed paid and (c) all other rights of the Bondholder shall terminate (other than the right to receive the applicable redemption monies). "Put Date" shall mean the Change of Control Put Date, the Delisting Put Date or the Put Option Date, as applicable.

8.8 Purchases

The Issuer or any of its Subsidiaries may, if permitted under applicable laws, at any time and from time to time purchase Bonds at any price in the open market or otherwise. The Issuer or the relevant Subsidiary is required to submit to the Registrar for cancellation any Bonds so purchased.

8.9 Cancellation

All Bonds which are redeemed or exchanged or purchased by the Issuer or any of its Subsidiaries will forthwith be cancelled. Certificates in respect of all Bonds cancelled will be forwarded to or to the order of the Registrar and such Bonds may not be reissued or resold.

8.10 Redemption Notices

All notices to Bondholders given by or on behalf of the Issuer pursuant to this Condition will be given in accordance with Condition 17, and specify the Exchange Price as at the date of the relevant notice, the Closing Price as at the latest practicable date prior to the publication of the notice, the date for redemption, the manner in which redemption will be effected and the aggregate principal amount of the Bonds outstanding as at the latest practicable date prior to the publication of the notice.

No notice of redemption given under Condition 8.2 or Condition 8.3 shall be effective if it specifies a date for redemption which falls during a Closed Period or within 15 days following the last day of a Closed Period.

Neither the Trustee nor the Agents shall be responsible for calculating or verifying any calculations of any amounts payable under these Conditions.

8.11 Early Redemption Amount

For the purposes of this Condition 8, "Early Redemption Amount" of a Bond, for each KRW200,000,000 principal amount of the Bonds, means the U.S. Dollar Equivalent of an amount calculated in accordance with the following formula, rounded (if necessary) to two decimal places with 0.005 being rounded upwards; provided that if the date fixed for redemption is a Semi-Annual Date (as defined below), the Early Redemption Amount shall be based on the amounts in KRW set out in the table below in respect of such Semi-Annual Date:

Early Redemption Amount = Previous Redemption Amount x $(1 + r/2)^{d/p}$

Where:

Previous Redemption Amount means the Early Redemption Amount (but prior to application of the U.S. Dollar Equivalent) for each KRW200,000,000 principal amount on the semi-annual date immediately preceding the date fixed for redemption as set out below (or if the Bonds are to be redeemed prior to October 4, 2018, KRW200,000,000), each such date, a "Semi-Annual Date":

Semi-Annual Date	Early Redemption Amount (KRW)
October 4, 2018	200,500,000.00
April 4, 2019	201,001,250.00
October 4, 2019	201,503,753.13
April 4, 2020	202,007,512.51
October 4, 2020	202,512,531.29
April 4, 2021	203,018,812.62
October 4, 2021	203,526,359.65
April 4, 2022	204,035,175.55
October 4, 2022	204,545,263.49

r = 0.5 per cent expressed as a decimal

d = number of days from and including the immediately preceding Semi-Annual Date as set out above (or if the Bonds are to be redeemed on or before October 4, 2018, from and including the Closing Date) to, but excluding, the date fixed for redemption calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

p = 180

9. Taxation

9.1 All payments in respect of the Bonds by the Issuer will be made free from any restriction or condition and be made without deduction or withholding for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of Korea or any authority thereof or therein having power to tax, unless deduction or withholding of such taxes, duties, assessments or governmental charges is compelled by law. If such withholding or deduction is so required, the Issuer will pay such additional amount ("Additional Amounts") as may be necessary in order that the net amounts received by the Bondholders after such withholding or deduction shall equal the amounts which would have been receivable in respect of the Bonds in the absence of such withholding or deduction; except that no such Additional Amounts shall be payable with respect to any Bond:

9.1.1 to a holder (or to a third party on behalf of a holder) who is subject to such taxes, duties, assessments or governmental charges in respect of such Bond by reason of his having some connection with Korea otherwise than merely by holding the Bond or by the receipt of amounts in respect of the Bond; or

9.1.2 (in the case of a payment of principal or premium) if the Certificate in respect of such Bond is surrendered more than 30 days after the Relevant Date except to the extent that the holder would have been entitled to such Additional Amounts on surrendering the relevant Certificate for payment on the last day of such period of 30 days; or

9.1.3 presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Bond to another Paying Agent or Exchange Agent in a Member State of the European Union.

9.2 For the purposes hereof, "Relevant Date" means the date on which such payment first becomes due except that if the full amount payable has not been received by the Trustee or the Principal Agent on or prior to such due date, the date on which, the full amount having been so received, notice to that effect shall have been given to the Bondholders and or payment made.

9.3 References in these Conditions to principal and premium shall be deemed also to refer to any Additional Amounts which may be payable under this Condition or any undertaking or covenant given in addition thereto or in substitution therefor pursuant to the Trust Deed.

10. Events of Default

10.1 The Trustee at its absolute discretion may, and if so requested in writing by the holders of not less than 25% in principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution shall (subject to being indemnified and/or secured and/or pre-funded by the Bondholders to its satisfaction), give notice to the Issuer that the Bonds are, and they shall accordingly thereby become, immediately due and repayable at their Early Redemption Amount (subject as provided below and without prejudice to the right of Bondholders to exercise the Exchange Right in respect of their Bonds in accordance with Condition 6) if any of the following events (each an "Event of Default") has occurred:

10.1.1 Non-Payment: (i) the Issuer fails to pay all or any part of any principal or premium in respect of any of the Bonds when the same shall become due and payable, whether at maturity, upon redemption or otherwise; or

10.1.2 Exchange Rights: the Issuer fails for more than two business days (as defined in Condition 3.3.3) to deliver the Shares or the Exchange Property, as applicable, as and when such Shares and/or the Exchange Property are required to be delivered following exchange of a Bond; or

10.1.3 Breach of Other Obligations: the Issuer defaults in the performance or observance of or compliance with any of its other obligations set out in the Bonds or the Trust Deed which default is incapable of remedy or, if in the opinion of the Trustee capable of remedy, is not in the opinion of the Trustee remedied within 30 calendar days after the date on which written notice specifying such failure, stating that such notice is a "Notice of Default" under the Bonds and demanding that the Issuer remedy the same, shall have been given to the Issuer by the Trustee; or

10.1.4 Cross-Default: (i) any other present or future indebtedness of the Issuer or any Principal Subsidiary for or in respect of moneys borrowed or raised becomes due and payable as a result of acceleration of such indebtedness prior to its stated maturity (otherwise than at the option of the Issuer or such Principal Subsidiary, as the case may be) by reason of any actual or potential default, event of default or the like (howsoever described) or (ii) any such indebtedness is not paid when due or, as the case may be, within any applicable grace period originally provided for or (iii) the Issuer or any Principal Subsidiary fails to pay when due (or within any applicable grace period originally provided for)any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised; provided that the aggregate amount of the relevant indebtedness, guarantees and indemnities in respect of which any one or more of the events mentioned above in this Condition10.1.4 has or have occurred equals or exceeds the higher of US$15,000,000 or its equivalent in other currencies; or

10.1.5 Involuntary Proceedings: (i) proceedings are initiated against the Issuer or any Principal Subsidiary under any applicable liquidation, insolvency, composition, reorganization, rehabilitation or other similar laws or an application is made for the appointment of an administrative or other receiver, manager, administrator or other similar official, or an administrative or other receiver, manager, administrator or other similar official is appointed, in relation to the Issuer or any Principal Subsidiary or, as the case may be, in relation to the whole or a substantial part of the undertaking or assets of any of them or an encumbrancer takes possession of the whole or a substantial part of the undertaking or assets of any of them, and (ii) such case (other than the appointment of an administrator) is not stayed or discharged within 60 days; or

10.1.6 Voluntary Proceedings: if the Issuer or any Principal Subsidiary initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganization or other similar laws or makes a conveyance or assignment for the benefit of, or enters into any composition or other arrangement with, its creditors generally (or any class of its creditors) or any meeting is convened to consider a proposal for an arrangement or composition with its creditors generally (or any class of its creditors); or

10.1.7 Winding-up, Dissolution: (i) any order is made by any competent court or resolution passed for the winding up or dissolution of the Issuer or any Principal Subsidiary; or (ii) the Issuer or any Principal Subsidiary ceases or threatens to cease to carry on the whole or substantially all of its business, save for the purposes of reorganization or terms approved by an Extraordinary Resolution of Bondholders, or the Issuer or any Principal Subsidiary stops or threatens to stop payment of, or is unable to, or admits inability to, pay all or a substantial part of its debts (or any class of its debt) as they fall due or is deemed unable to pay its debts pursuant to or for the purposes of any applicable law, or is adjudicated or found bankrupt or insolvent; or

10.1.8 Analogous Events: any event occurs which under the laws of the relevant jurisdiction has an analogous effect to any of the events referred to in Condition 10.1.1 to Condition 10.1.7 above.

Upon any such notice being given to the Issuer, the Bonds will immediately become due and payable at their Early Redemption Amount as provided in the Trust Deed.

For the purposes of Condition 10.1.4 above, any indebtedness which is in a currency other than U.S. dollars shall be translated into U.S. dollars at the middle spot rate for the sale of U.S. dollars against the purchase of the relevant currency quoted by any leading bank selected and appointed by the Issuer on any day when the Issuer requests a quotation for such purposes.

10.2 If the Bonds have become due and payable pursuant to Condition 10.1, notwithstanding Condition 6.1 and receipt of any payment after the acceleration of the Bonds and provided that no Exchange Notice has been delivered pursuant to Condition 6.1.4, a Bondholder may exercise its Exchange Right in accordance with this Condition 10.2 by delivering an Exchange Notice (unless, with respect to Condition 10.1.3, an Exchange Notice has already been delivered) to an Exchange Agent during the period from and including the date of a default notice with respect to an event specified in Condition 10.1 (at which time the Issuer will notify the Bondholders of the number of Shares per Bond to be delivered upon exchange, assuming all the then outstanding Bonds are exchanged) to and including the thirtieth business day after such payment.

If any exchanging Bondholder delivers an Exchange Notice pursuant to this Condition 10 on the business day prior to, or during, a Closed Period, the Bondholder’s Exchange Right shall continue until the business day following the last day of the Closed Period, which shall be deemed the Exchange Date (notwithstanding that such a date may fall outside the Exchange Period), for the purposes of such Bondholder’s exercise of its Exchange Right pursuant to this Condition 10.

If the Exchange Right attached to any Bond is exercised pursuant to this Condition 10.2 or if an Event of Default has occurred pursuant to Condition 10.1.3, the Issuer shall at the option of the exchanging Bondholder (notice of exercise of such option to be delivered to the Exchange Agent in writing) in lieu of delivery of the relevant Shares pay to such Bondholder the U.S. Dollar Equivalent of an amount (the “Default Cure Amount”) equal to the product of (x) (i) the number of Shares that are required to be delivered by the Issuer to satisfy the Exchange Right in relation to such exchanging Bondholder minus (ii) the number of Shares that are actually delivered by the Issuer pursuant to such Bondholders’ Exchange Notice and (y) the Closing Price of the Shares on the Exchange Date; provided that if such Bondholder has received any payment under the Bonds pursuant to this Condition 10, the amount of such payment shall be deducted from the Default Cure Amount. Payment of the Default Cure Amount shall be paid to the exchanging Bondholder on the third business day following the date on which notice of exercise of the option to receive the Default Cure Amount is delivered.

11. Consolidation, Amalgamation or Merger

The Issuer will not consolidate with, merge or amalgamate into or transfer its assets substantially as an entirety to any corporation or convey or transfer its properties and assets substantially as an entirety to any person (the consummation of any such event, a "Merger"), unless:

(i) the corporation formed by such Merger (if not the Issuer) or the person that acquired such properties and assets shall expressly assume, by a supplemental trust deed, all obligations of the Issuer under the Trust Deed, the Agency Agreement and the Bonds and the performance of every covenant and agreement applicable to it contained therein;

(ii) immediately after giving effect to any such Merger, no Event of Default shall have occurred or be continuing or would result therefrom; and

(iii) the corporation formed by such Merger, or the person that acquired such properties and assets, shall expressly agree, among other things, to indemnify each holder of a Bond against any tax, assessment or governmental charge payable by withholding or deduction thereafter imposed on such holder solely as a consequence of such Merger with respect to the payment of principal and premium on the Bonds.

12. Prescription

Claims in respect of amount due in respect of the Bonds will become prescribed unless made within 10 years from the relevant date for payment.

13. Enforcement

The Trustee may, at its discretion and without further notice, take such steps, actions or proceedings against the Issuer as it may think fit to enforce repayment of the Bonds and to enforce the provisions of the Trust Deed, but it will not be bound to take any such steps and/or actions and/or institute such proceedings unless (i) it shall have been so requested in writing by the holders of not less than 25% in principal amount of the Bonds then outstanding or shall have been so directed by an Extraordinary Resolution of the Bondholders and (ii) it shall have been indemnified and/or secured and/or prefunded to its satisfaction. No Bondholder will be entitled to proceed or take other steps or action directly against the Issuer unless the Trustee, having become bound to do so, fails to do so within a reasonable period and such failure shall be continuing.

14. Meetings of Bondholders, Modification and Waiver

14.1 Meetings

The Trust Deed contains provisions for convening meetings of Bondholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Bonds or the provisions of the Trust Deed. The quorum at any such meeting for passing an Extraordinary Resolution will be one or more persons holding or representing in the aggregate over 50% in principal amount of the Bonds for the time being outstanding or, at any adjourned such meeting, one or more persons being or representing Bondholders whatever the principal amount of the Bonds so held or represented unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to modify the due date for any payment in respect of the Bonds, (ii) to reduce or cancel the amount of principal, premium (including the Early Redemption Amount and the Final Redemption Amount) or default interest payable in respect of the Bonds (including the U.S. Dollar Equivalent of such amount), (iii) to change the currency of payment of the Bonds, (iv) to modify or cancel the Exchange Rights or the put options specified in Condition 8, (v) to increase the Exchange Price (other than as provided for in Condition 6.3.21) or to shorten the Exchange Period or (vi) to modify the provisions concerning the quorum required at any meeting of the Bondholders or the majority required to pass an Extraordinary Resolution, in which case the necessary quorum for passing an Extraordinary Resolution will be one or more persons holding or representing not less than 66.66%, or at any adjourned such meeting not less than 25%, in principal amount of the Bonds for the time being outstanding. The Trust Deed provides that (i) a resolution passed at a meeting duly convened and held in accordance with the Trust Deed by a majority consisting of not less than 75% of the votes cast on such resolution, (ii) a written resolution signed by or on behalf of the holders of not less than 75% of the aggregate principal amount of Bonds outstanding or (iii) consent given by way of electronic consents through the relevant clearing system(s) (in a form satisfactory to the Trustee) by or on behalf of the Bondholders of not less than 75% of the aggregate principal amount of the Bonds outstanding, shall be as valid and effective as a duly passed Extraordinary Resolution. Any Extraordinary Resolution duly passed shall be binding on Bondholders (whether or not they were present at the meeting at which such resolution was passed) or in the case of a written resolution or a resolution passed by way of electronic consents, whether or not they participated in such written resolution or such electronic consents.

14.2 Modification and Waiver

The Trustee may agree, without the consent of the Bondholders, to (i) any modification (except as mentioned in Condition 14.1 above) to, or the waiver or authorisation of any breach or proposed breach of, the Bonds, the Agency Agreement or the Trust Deed which is not, in the opinion of the Trustee, materially prejudicial to the interests of the Bondholders or (ii) any modification to the Bonds, the Trust Deed or the Agency Agreement which, in the Trustee's opinion, is of a formal, minor or technical nature or to correct a manifest error or an error which is, in the opinion of the Trustee, proven, or to comply with mandatory provisions of law. Any such modification, waiver or authorisation will be binding on the Bondholders and, unless the Trustee agrees otherwise, any such modifications will be notified by the Issuer to the Bondholders as soon as practicable thereafter.

14.3 Interests of Bondholders

In connection with the exercise of its trusts, functions, rights, powers and discretions (including but not limited to those in relation to any proposed modification, authorization or waiver) the Trustee shall have regard to the general interests of the Bondholders as a class and shall not have regard to the consequences of such exercise for individual Bondholders (whatever their number) and in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Bondholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof, and the Trustee shall not be entitled to require, nor shall any Bondholder be entitled to claim, from the Issuer or the Trustee, any indemnification or payment in respect of any tax consequences of any such exercise upon individual Bondholders except to the extent provided for in Condition 9 and/or any undertakings given in addition thereto or in substitution therefor pursuant to the Trust Deed.

14.4 Certificates/Reports

The Trustee may rely without liability to Bondholders on a report, confirmation or certificate or any advice of any accountants, financial advisers, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to conclusively rely on any such report, confirmation or certificate or advice and such report, confirmation or certificate or advice shall be binding on the Issuer, the Trustee and the Bondholders.

15. Replacement of Certificates

If any Certificate is mutilated, defaced, destroyed, stolen or lost, it may be replaced at the specified office of the Registrar or any Agent upon payment by the claimant of such costs as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer and such Agent may reasonably require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

16. Further Issues

The Issuer may from time to time without the consent of the Bondholders create and issue further securities having the same terms and conditions as the Bonds in all respects and so that such further issue shall be consolidated and form a single series with the outstanding Bonds. References in these Conditions to the Bonds include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Bonds. Any further securities forming a single series with the Bonds shall be constituted by a deed supplemental to the Trust Deed.

17. Notices

All notices to Bondholders shall be validly given if mailed to them at their respective addresses in the register of Bondholders maintained by the Registrar or published in a leading newspaper having general circulation in Asia (which is expected to be the Asian Wall Street Journal). Any such notice shall be deemed to have been given on the later of the date of such publication and the seventh day after being so mailed, as the case may be.

So long as the Bonds are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear or Clearstream or the Alternative Clearing System (as defined in the form of the Global Certificate), notices to Bondholders shall be given by delivery of the relevant notice to Euroclear or Clearstream or the Alternative Clearing System, for communication by it to entitled accountholders in substitution for notification as required by the Conditions (and shall be deemed to have been given on the date of delivery to such clearing system).

18. Agents

The names of the initial Agents and the Registrar and their specified offices are set out below. The Issuer reserves the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of any Agent or the Registrar and to appoint additional or other Agents or a replacement Registrar. The Issuer will at all times maintain (i) a Principal Agent; (ii) a Registrar outside the United Kingdom; and (iii) so long as the Bonds are listed on the SGX-ST and the rules of that exchange so require, an Agent having a specified office in Singapore where the Bonds may be presented or surrendered for payment or redemption (and such agent in Singapore shall be a Paying, Transfer and Exchange Agent and shall be referred to in these terms and conditions as the "Singapore Agent"). Notice of any such termination or appointment, of any changes in the specified offices of any Agent or the Registrar and of any change in the identity of the Registrar or the Principal Agent will be given promptly by the Issuer to the Bondholders in accordance with Condition 17 and in any event not less than 45 days' notice will be given.

So long as the Bonds are listed on the SGX-ST and the rules of that exchange so require, in the event that the Global Certificate is exchanged for definitive Certificates, the Issuer shall appoint and maintain a paying agent in Singapore, where the Bonds may be presented or surrendered for payment or redemption. In addition, in the event that the Global Certificate is exchanged for definitive Certificates, announcement of such exchange shall be made through the SGX-ST and such announcement will include all material information with respect to the delivery of the definitive Certificates, including details of the Singapore Agent.

19. Indemnification

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including without limitation provisions relieving it from taking steps, action or proceedings to enforce repayment or the provisions of the Trust Deed or the terms and conditions of the Bonds unless indemnified and/or secured and/or pre-funded to its satisfaction. The Trust Deed provides that, when determining whether an indemnity or any security or pre-funding is satisfactory to it, the Trustee shall be entitled (i) to evaluate its risk in any given circumstance by considering the worst-case scenario and (ii) to require that any indemnity or security given to it by the Bondholders or any of them be given on a joint and several basis and be supported by evidence satisfactory to it as to the financial standing and creditworthiness of each counterparty and/or as to the value of the security and an opinion as to the capacity, power and authority of each counterparty and/or the validity and effectiveness of the security.

The Trustee and its parent, subsidiaries and affiliates are entitled (i) to enter into business transactions with the Issuer and/or any related entity and to act as trustee for the holders of any other securities issued by or guaranteed by or relating to, the Issuer and any entity related to the Issuer, (ii) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Bondholders and (iii) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

The Trustee has no responsibility for delivery of Exchange Property to Bondholders nor for the validity or value of the Exchange Property nor for any insufficiency of the Exchange Property resulting from the Trustee or the Issuer being liable for tax in respect of the Exchange Property.

The Trustee shall not be responsible for loss, diminution in value or theft of all or part of the Exchange Property.

20. Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of this Bond under the Contracts (Rights of Third Parties) Act 1999.

21. Governing Law and Jurisdiction

The Bonds, the Trust Deed and the Agency Agreement and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, the laws of England. The courts of England are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Trust Deed and the Bonds ("Proceedings") and accordingly any Proceedings arising out of or in connection with this Agreement shall be brought in such courts. The Issuer has in the Trust Deed irrevocably submitted to the courts of England and waived any objection to Proceedings in such courts, whether on the ground of venue or on the ground that Proceedings have been brought in an inconvenient forum. These submissions are made for the benefit of the Trustee and each of the Bondholders and shall not limit the right or any of them to take Proceedings in any other court or competent jurisdiction. The Issuer irrevocably has appointed Cogency Global (UK) Limited, with addresses at 6 Bevis Marks, 1st Floor, London EC3A 7BA, as its agent for service of process in England. If for any reason Cogency Global (UK) Limited ceases to be able to act as such or no longer has an address in England, the Issuer irrevocably agrees to appoint a substitute process agent acceptable to the Trustee and shall immediately notify the Trustee of such appointment. Nothing herein or in the Trust Deed shall affect the right to serve process in any other manner permitted by law.

FORM OF THE BONDS

Capitalized terms used in this section and not otherwise defined shall have the meanings given to them in "Terms and Conditions of the Bonds."

The Global Bond

The Bonds will be evidenced by the Global Certificate. The Global Certificate will be deposited with, and registered in the name of a nominee for The Bank of New York Mellon, London Branch, as common depositary (the "Common Depositary") for Euroclear and Clearstream. Euroclear and Clearstream will credit their respective account holders with the respective principal amounts of the individual interests represented by the Global Certificate. Such accounts will be designated initially by or on behalf of the Managers. Ownership of beneficial interests in the Global Certificate will be limited to persons who have accounts with Euroclear or Clearstream, or persons who hold interests through such account holders. Ownership of beneficial interests in the Global Certificate will be shown on, and the transfer of that ownership will be effected only through, the records maintained by Euroclear and Clearstream (with respect to interests of their respective account holders) and the records of such account holders (with respect to interests of persons with beneficial interests in the Global Certificate other than such account holders).

The laws of certain jurisdictions require that certain purchasers of Bonds take physical delivery of such Bonds in definitive form. Accordingly, the ability of beneficial owners to own, transfer or pledge beneficial interests in the Global Certificate may be limited by such laws.

Payments of the principal of, and any premium on, the Global Certificate will be made to the Common Depositary or its nominee as the registered owner thereof. None of the Company, the Trustee, the Common Depositary, the Registrar, the Principal Paying Agent, the Paying Agents, any custodian, any transfer agent or any other agent of the Company will have any responsibility or liability for the accuracy of any of the records relating to, or payments made on account of, ownership interests in the Global Certificate or for any notice permitted or required to be given to persons with beneficial interests in the Global Certificate or any consent given or actions taken by such persons. The Company expects that upon receipt of any payment in respect of the Global Certificate representing any Bonds held by it or its nominee, the Common Depositary will promptly credit the accounts of the participants of Euroclear and Clearstream with payments proportionate to their respective interests in the amount of the principal of the Global Certificate as shown on its records.

Transfers between account holders in Euroclear and Clearstream will be effected through the records of Euroclear and Clearstream and their respective participants in accordance with the rules and procedures of Euroclear and Clearstream and their respective direct and indirect participants.

Subject to the requirements of Euroclear and Clearstream, the Exchange Right attaching to the Bonds in respect of which the Global Certificate is issued may be exercised by the presentation of one or more Exchange Notices duly completed by or on behalf of a holder of a book-entry interest in such Bonds. Deposit of the Global Certificate with the Exchange Agent together with the relevant Exchange Notice shall not be required. The provisions of Condition 6 of the Bonds (as described in "Terms and Conditions of the Bonds") will otherwise apply.

Although Euroclear and Clearstream have agreed to the foregoing procedures in order to facilitate transfers of interests in the Global Certificate among participants and account holders of Clearstream and Euroclear, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Company, the Trustee, the Common Depositary, the Registrar, the Principal Paying Agent, the Paying Agents, any custodian, any transfer agent, any registrar or any other agents of the Company will have any responsibility for the performance by Euroclear or Clearstream, or their respective participants, indirect participants or account holders, of their respective obligations under the rules and procedures governing their operations.

Euroclear and Clearstream each holds the Bonds for participating organizations and facilitates the clearance and settlement of Bond transactions between its respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide to their respective participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream participants are financial institutions throughout the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. Indirect access to Euroclear and Clearstream is also available to others, such as banks, brokers, dealers and trust companies which clear through or maintain a custodial relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Individual Definitive Certificates

The Company will issue definitive certificates representing individual definitive Bonds (the "Definitive Certificates") in registered form in exchange for the Global Certificate if:

(i) the Common Depositary or any successor to the Common Depositary notifies the Company in writing that it is at any time unwilling or unable to continue as a depositary and a successor depositary is not appointed by the Company within 90 days and no alternative common depositary satisfactory to the Company and the Trustee is available, or

(ii) either Euroclear or Clearstream or a successor clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, or

(iii) an Event of Default under the Bonds or the Trust Deed has occurred and is continuing.

Upon receipt of notice from Euroclear, Clearstream or the Registrar, as the case may be, that any of the above has occurred, the Company will make arrangements for the exchange of interests in the Global Certificate for Definitive Certificates representing individual definitive Bonds and cause such Definitive Certificates to be executed and delivered to the Registrar in sufficient quantities and authenticated by the Trustee for delivery to the holders of the Bonds. Each person exchanging interests in the Global Certificate for one or more of these Definitive Certificates will be required to provide to the Trustee, through the relevant clearing system, written instructions and other information required by the Company and the Registrar to complete, execute and deliver the relevant certificates. Any Definitive Certificates delivered in exchange for the Global Certificate or beneficial interests therein will be registered in the names requested, and issued in any denominations approved, by the relevant clearing system.

So long as the Bonds are listed on the SGX-ST and the rules of the SGX-ST so require, in the event that the Global Certificate is exchanged for Definitive Certificates, the Company shall appoint and maintain a paying agent in Singapore, where the Bonds may be presented or surrendered for payment or redemption. In addition, in the event that the Global Certificate is exchanged for Definitive Certificates, announcement of such exchange shall be made through the SGX-ST and such announcement will include all material information with respect to the delivery of the Definitive Certificates, including details of the paying agent in Singapore.

THE GLOBAL CERTIFICATE

The certificates issued in respect of the Global Bond (the "Global Certificate") contain provisions that apply to the Bonds in respect of which such Global Bond is issued, some of which modify the effect of the terms and conditions of the Bonds set out in this document. The following is a summary of provisions of the Bonds while in global form.

Meetings

The holder of Bonds in respect of which the Global Certificate is issued shall, for the purposes of any meeting of Bondholders and, at any such meeting, be treated as having one vote in respect of each ₩200,000,000 in principal amount of the Bonds in respect of which the Global Certificate is issued.

The Trustee may allow a beneficial owner of interests in Bonds in respect of which the Global Certificate has been issued to attend and speak at a meeting of Bondholders on appropriate proof of his identity and interest.

Redemption, Repurchase and Cancellation

All Bonds redeemed or exchanged by us or repurchased by us or any subsidiary or affiliate of ours and surrendered to any Paying Agent for cancellation shall forthwith be cancelled, such cancellation to be effected by reduction in the principal amount of the Global Bond on its presentation to or to the order of the Principal Paying Agent for notation in its records.

Exchange

The Exchange Right of the Bonds in respect of which the Global Certificate is issued may be exercised by a participant in Euroclear or Clearstream (in accordance with its procedures) on behalf of a beneficial owner of interests in the Global Bond represented by the Global Certificate, by presenting to any Exchange Agent one or more duly completed Exchange Notices. Delivery of the Exchange Notice will constitute confirmation by the beneficial owner of the Bonds to be exchanged that the information and the representations in the Exchange Notice are true and correct on the date of delivery. Condition 6 of the Bonds will otherwise apply.

Redemption at Our Option

If we exercise our redemption option in Condition 8.2 in respect of less than the aggregate principal amount of outstanding Bonds represented by the Global Certificate, the principal amount of the Bonds to be redeemed will be allocated between the Global Certificate issued in respect of the Global Bond, on the one hand, and the Certificates issued in respect of the individual definitive Bonds (if any), on the other hand, pro rata (or as near thereto as may be possible) to the principal amount of Bonds in respect of which they are issued. Alternatively, the Trustee shall choose another method that it deems fair and appropriate after consultation with us.

Redemption at the Option of Bondholders

The option of the Bondholders provided for in Condition 8.6 may be exercised by a participant in Euroclear or Clearstream (in accordance with its procedures) on behalf of a beneficial owner of interests in the Global Bond represented by the Global Certificate, by lodging a duly signed and completed Redemption Demand with any Paying Agent. Such Redemption Demand shall be irrevocable. The Principal Paying Agent shall make a notation of such redemption or cause such notation to be made in its records.

Trustee's Powers

In considering the interests of Bondholders the Trustee may, to the extent it considers it appropriate to do so in the circumstances, (a) have regard to such information as may have been made available to it by or on behalf of Euroclear or Clearstream as to the identity of its participants (either individually or by way of category) with entitlements in respect of the Bonds and (b) consider such interests on the basis that such participants were the Bondholders of the individual Bonds in respect of which the Global Certificate is issued.

Enforcement

For the purposes of enforcement of the provisions of the Trust Deed, the beneficial owners of interests in the Bonds represented by the Global Certificate, as named in a certificate of the holder of such Bonds, shall be recognized as the beneficiaries of the Trust Deed, to the extent of the principal amounts of their respective interests in such Global Bond as set out in such certificate of the Bondholder, as if they were themselves the Bondholders in such principal amounts.

Notices

So long as all the Bonds are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear or Clearstream, notices to Bondholders may be given by delivery of the relevant notice to Euroclear or Clearstream, as the case may be, for communication by it to entitled accountholders in substitution for notification as required by the Conditions. Any such notice shall be deemed validly given on the day after it has been delivered to Euroclear or Clearstream, as the case may be, as aforesaid.

Transfers

Transfers of interests in the Bonds represented by the Global Certificate shall be made in accordance with the provisions set forth in the Agency Agreement relating to the Bonds and the procedures of Euroclear and Clearstream.

BUSINESS

For purposes of the discussion of our sales in the following section, unless otherwise specified, we use gross sales figures prior to deduction of the cost of specific sales (but net of sales allowances) to represent relevant sales figures. Gross sales are different from, and not directly comparable with, the net sales figures used in our consolidated financial statements. See "— Presentation of Financial and Other Information."

Overview

We are one of the leading retail companies in Korea, with a strategically expanding overseas presence. Since opening our first department store in downtown Seoul in 1979, we have built a portfolio of over 1,050 stores worldwide in a variety of retail formats as of December 31, 2017. We operate most of our stores under the Lotte brand name, which is widely recognized in Korea and becoming increasingly recognized in the other markets in which we operate.

We conduct our core retail operations primarily in two formats, which are department stores and discount stores.

Department Stores. We operate the largest department store chain in Korea in terms of both sales and number of stores, accounting for an estimated 39.6% of the total sales of the department store segment of the Korean retail market in 2017 (excluding sales from outlet stores), according to the Korea National Statistical Office and our internal data. As of December 31, 2017, we operated 33 department stores throughout Korea, which included 30 department stores which we owned and operated under the brand names Lotte Department Store, Avenuel, Young Plaza and elCube and three department stores owned by our consolidated subsidiaries and affiliates which we operated under the brand name Lotte Department Store. As of the same date, we also operated 21 outlet stores in Korea under the brand names Lotte Outlet, Lotte Premium Outlet and Lotte Factory Outlet. Our department stores offer customers a wide variety of merchandise, including apparel, accessories, cosmetics and household goods, catering to affluent, fashion-conscious customers in Korea's major cities. Our department stores also include retail shops, restaurants, food outlets, clinics, beauty parlors and jewelers operated as third-party concessions. Our department store business in Korea generated gross sales of ₩8,538 billion, ₩8,686 billion and ₩8,292 billion, representing 28.3%, 28.2% and 33.8% of our total consolidated gross sales (excluding sales of our Spun-off Businesses for 2017), in 2015, 2016 and 2017, respectively.

Discount Stores. We operate the third largest discount store chain in Korea in terms of sales, accounting for an estimated 23.6% of the total sales of the discount store segment of the Korean retail market in 2017, according to public disclosure filings of our competitors and our internal data. As of December 31, 2017, we operated 118 discount stores throughout Korea under the brand name Lotte Mart. Our Lotte Mart stores are designed to provide a "one-stop" shopping experience by offering, at competitive prices, a wide assortment of food products, apparel, consumer electronics and general merchandise for budget-minded yet quality-conscious customers. In addition, we also operate five membership-based, warehouse-format discount stores in Seoul and its surrounding areas operated under the brand name VICMarket. Our discount store business in Korea generated gross sales of ₩5,976 billion, ₩5,960 billion and ₩6,013 billion, representing 19.8%, 19.4% and 24.5% of our total consolidated gross sales (excluding sales of our Spun-off Businesses for 2017), in 2015, 2016 and 2017, respectively.

In addition to our core retail operations in Korea, we have retail operations in overseas markets, including nine department stores located in China, Vietnam, Indonesia and Russia (two of which are owned by associates) and 158 discount stores in various locations in China, Indonesia and Vietnam as well as 13 supermarkets in China as of December 31, 2017. Our business portfolio also includes Korea's largest chain of electronics retail stores under the Hi-mart brand name; three supermarket chains in Korea, which are operated under the Lotte Super, Market 999 and Lotte Premium Food Market brand names; a home shopping, catalogue and online retail sales business operating under the brand name Lotte Home Shopping; a chain of multiplex movie theaters operating under the brand name Lotte Cinema; a chain of health and beauty retail stores operating under the brand name LOHB's; and certain other businesses. See "—Operations" and "Hi-mart."

By operating our stores in a variety of retail formats, we believe we are well positioned to capture shifts in consumer spending that may result from changes in economic conditions and the spending patterns of our existing and prospective customers. In addition, our portfolio of different businesses enables us to maximize synergies by offering a complementary mix of products and services at many of our retail locations, such as operating our movie theaters in close proximity to our department stores or discount stores and operating our category killer stores as shop-in-shop units within our discount stores in order to attract more customers.

Our consolidated sales (excluding discontinued operations in 2017) amounted to ₩29,128 billion, ₩29,526 billion and ₩18,180 billion, while our consolidated gross sales (excluding discontinued operations in 2017) amounted to ₩30,156 billion, ₩30,753 billion and ₩24,549 billion, in 2015, 2016 and 2017, respectively. Our consolidated loss amounted to ₩346 billion in 2015, our consolidated profit amounted to ₩247 billion in 2016, and our consolidated loss from continuing operations amounted to ₩444 billion in 2017. Our consolidated sales and gross sales for 2015 and 2016 are not directly comparable to those for 2017 due to the effects of the Spin-off/Merger effected by us in 2017 and the classification of our Spun-off Businesses as discontinued operations. See "Presentation of Financial and Other Information" and "— History — Spin-off/ Merger." In addition, due to the effects of our adoption of Korean IFRS 1115 commencing in 2017, our consolidated sales for 2015 and 2016 are not directly comparable to our consolidated sales for 2017.

We maintain our principal executive offices at Lotte Building, 81, Namdaemun-ro, Jung-gu, Seoul, Korea.

History

We were incorporated in Korea in July 1970 as Hyupwoo Industrial Co., Ltd. and changed our corporate name to Lotte Shopping Co., Ltd. in November 1979. We are a member of the Lotte Group of companies in Korea, which traces its origins to the opening of Lotte Confectionery Co., Ltd. in 1967 by Mr. Kyuk-ho Shin, the founder and former chairman of the Lotte Group. See "Lotte Group." We opened our first and main Lotte department store in Myungdong, Seoul in December 1979, and by early 2000, we had increased our number of department stores to ten and expanded to cities such as Busan, Gwangju, Bupyong, Ilsan and Daejeon. Since then, we continued to reinforce our presence in key domestic markets by identifying attractive locations that we believed to be underserved and opening new department stores at such locations. In addition, we also expanded our department store operations to include outlet stores. We opened our first outlet store in Gwangju in October 2008, and over the past decade, the number of our outlet stores across Korea has increased to over 20 stores. We also have sought to continue our growth through selective acquisitions. In October 2002, we acquired 79.0% of Midopa Department Store Co., Ltd. to form Lotte Midopa Co., Ltd., which we merged into us in January 2013. In May 2010, we acquired the department store business of GS Retail Co., Ltd. to form a new consolidated subsidiary, Lotte Square Co., Ltd., which owned and operated three department stores under the brand name Lotte Department Store in satellite cities surrounding Seoul. We merged Lotte Square Co., Ltd. into us in August 2012. In August 2014, we acquired Daewoo Department Store in Masan, Korea from Daewoo International Co., Ltd. and formed a new consolidated subsidiary Lotte Department Store Masan Co., Ltd. to operate such business. In February 2018, we merged Lotte Department Store Masan Co., Ltd. into us.

In April 1998, we began our discount store business with the opening of Lotte Mart (formerly known as Lotte Magnet) in Kangbyun, Seoul, to take advantage of emerging opportunities presented by a shift in consumer preference from traditional unincorporated stores toward modern retail formats introduced by large international retailers, which quickly established a presence in Korea when the retail market was liberalized to permit foreign ownership in 1996. In addition to expanding our discount store business through new store openings, in May 2010, we acquired the discount store business of GS Retail, which included 14 discount stores in various locations throughout Korea. In June 2012, we opened our first VICMarket, a membership-based, warehouse-format discount store, and we have subsequently opened four additional VICMarket stores in Seoul and its surrounding areas. As of December 31, 2017, we operated 123 discount stores in Korea.

We continued to expand our retail business by introducing the Lotte Super chain of supermarkets (formerly known as Lotte Lemon) in May 2001. Since then, we made a number of acquisitions in the supermarket sector in Korea including the supermarket division of Hanwha Stores in March 2004 and local supermarket chains Big Mart Co., Ltd. and Nice Mart Co., Ltd. in May and October 2007, respectively. The integration of these acquired stores enabled us to further expand our geographical coverage. In addition, in January 2012, we acquired a 97.4% stake in CS Mart Co., Ltd., which operated a chain of supermarkets in Korea (comprising owned stores and stores owned by independent franchisees) under the Good Morning and Harmony brand names and which became a consolidated subsidiary. Furthermore, in response to increasing market demand for superior quality fresh and packaged food items among affluent, quality-conscious urban customers, we also opened our first Lotte Premium Food Market in Seoul in June 2016, and we have subsequently opened two additional Lotte Premium Food Market stores in Seoul. As of December 31, 2017, we operated an aggregate of 1,588 supermarkets throughout Korea.

As part of our ongoing efforts to establish a presence in retail markets outside of Korea where significant economic growth is coupled with a relatively low level of retail store penetration, we have expanded our retail operations to China, Southeast Asia and Russia over the past decade. We opened our first overseas department store in Moscow, Russia in September 2007, which is owned by an associate, and we have since expanded our overseas department store network to also include five stores in China, two stores in Vietnam (one of which is owned by an associate) and one store in Indonesia. In 2008, we also acquired eight discount stores in China and 19 discount stores in Indonesia from Makro and also opened our first discount store in Vietnam. In December 2009, we acquired Times Ltd., which operated 57 discount stores and 11 supermarkets in eastern China. As of December 31, 2017, we operated 99 discount stores as well as 13 supermarkets in China, 46 discount stores in Indonesia and 13 discount stores in Vietnam.

We further expanded the scope of our retail operations by acquiring a 65.25% equity interest in Hi-mart, which operates Korea's largest chain of electronics stores, in October 2012, following which the company was re-named LOTTE Hi-mart Co., Ltd. and became our consolidated subsidiary. Its store network, which continues to operate under the brand name Hi-mart, has steadily grown since being acquired by us to include 462 stores as of December 31, 2017. See "Hi-mart." In May 2013, we also entered into the health and beauty retail sector by opening the first LOHB's store in Seoul. As of December 31, 2017, we operated 96 LOHB's stores throughout Korea.

To complement our established strength in the retail industry and to capitalize on growing opportunities relating to alternative retail formats, in February 2007, we acquired a 50.6% equity interest in Woori Home Shopping & Television Co., Ltd., which is a consolidated subsidiary and currently engages in the home shopping, catalogue and online retail sales business under the name Lotte Home Shopping.

Furthermore, in order to take advantage of potential synergies with our core retail businesses, we entered the movie theater business in October 1999. As of December 31, 2017, we operated a chain of 114 multiplex movie theaters under the Lotte Cinema brand name, with a total of 810 screens throughout Korea.

Spin-off/Merger

In April 2017, our board of directors approved a plan to engage in the Spin-off/Merger, pursuant to which (i) each of we and our affiliates Lotte Chilsung Beverage Co., Ltd. and Lotte Food Co., Ltd. would spin off its investment operations comprising its Spun-off Businesses (including, in our case only, the rights and obligations relating to our treasury shares owned prior to the effective date of such spin-off, as well as treasury shares acquired as a result of the exercise of appraisal rights by dissenting shareholders) into a Newco, (ii) our affiliate Lotte Confectionery Co., Ltd. (which was subsequently re-named Lotte Corporation) would spin off its business operations into a new company (which subsequently assumed the name Lotte Confectionery Co., Ltd.) and would retain only its investment operations and (iii) the Newcos would be merged with and into Lotte Corporation, which would serve as a new holding company for the Lotte Group. The Spin-off/Merger was approved at an extraordinary general meeting of our shareholders held on August 29, 2017 and was effected on October 1, 2017.

Pursuant to the Spin-off/Merger, we transferred to Lotte Corporation all active and passive assets and liabilities, rights and obligations and any other items of value (including all licenses and permits, employment relationships, contractual relationships and litigations) relating to our Spun-off Businesses, comprising the Spun-off Assets and Liabilities, other than those that were required to remain with us due to their nature or pursuant to applicable law. As of September 30, 2017, the Spun-off Assets and Liabilities included total assets of ₩14,012 billion and total liabilities of ₩11,307 billion.

The Spin-off/Merger was accomplished through a pro rata distribution of common stock, par value ₩200 per share, of Lotte Corporation to the holders of our common stock based on an exchange ratio that was calculated pursuant to the valuation of the Spun-off Businesses by an external appraiser in accordance with applicable law. Specifically, on October 27, 2017, each holder of our common stock as of the record date of September 29, 2017 received 1.1444932 shares of common stock of Lotte Corporation for each share of our common stock held by such holder. Furthermore, as a result of the Spin-off/Merger, pursuant to share consolidation procedures under Korean law, our outstanding shares of common stock were consolidated as of October 1, 2017 such that the shareholders recorded in our shareholder register as of the record date of September 29, 2017 were allotted 0.8390216 shares of our common stock in exchange for each previously outstanding share.

The Spun-off Assets and Liabilities included our equity investment in certain consolidated subsidiaries and associates. As a result, the shares we owned in such consolidated subsidiaries and associates prior to the Spin-off/Merger were transferred to Lotte Corporation, and the operations of our former subsidiaries that constituted part of our Spun-off Businesses were accounted for as discontinued operations in our consolidated statements of comprehensive income for the years ended December 31, 2017 and 2016 included elsewhere in this offering circular. See Note 43 of the notes to our consolidated financial statements as of and for the years ended December 31, 2017 and 2016 included elsewhere in this offering circular for information regarding the accounting treatment of the Spin-off/Merger. Some of our significant discontinued operations that were spun off in the Spin-off/Merger include the businesses of:

- Korea Seven Co., Ltd., which was our consolidated subsidiary and operated convenience stores under the brand name 7-Eleven;
- Lotte Card Co., Ltd., which was our consolidated subsidiary and engaged in the credit card business;
- Lotte.com, which was our consolidated subsidiary and engaged in the internet shopping mall and internet marketing businesses; and
- Lotte GRS Co., Ltd., which was accounted for as an associate under Korean IFRS pursuant to our 38.7% equity interest in the company and engaged in food and beverage-related businesse, including investments in restaurant chains operated under the brand names Lotteria, T.G.I. Friday's and Krispy Kreme Doughnuts and a coffee shop chain operated under the brand name Angel-in-us.

The Spin-off/Merger was effected with the objectives of reducing cross-shareholdings among affiliates in the Lotte Group, promoting transparency in the group-wide corporate governance structure, and enhancing the level of specialization of each of the Lotte Group companies involved and thereby increasing their respective operational efficiencies.

Operations

Retail sales constitute the core of our business operations. As of December 31, 2017, we had 33 department stores, 21 outlets, 123 discount stores and 1,588 supermarkets in Korea, as well as a chain of 462 electronics retail stores in Korea by our consolidated subsidiary, Hi-mart. See "Hi-mart." In addition, we have retail operations in overseas markets, including nine department stores (two of which are owned by associates) located in China, Vietnam, Russia and Indonesia, 158 discount stores in various locations in China, Indonesia and Vietnam and 13 supermarkets in China. By operating different retail formats in diverse locations throughout

Korea and overseas, we believe that we benefit from and appeal to a geographically and demographically diverse group of existing and prospective customers. We also derive additional revenues from our other operations, which principally include specialty retail sales; home shopping and catalogue retail sales; and movie theaters.

The following table sets forth, for the periods indicated, the gross sales of each of our business divisions and the percentage that such sales represented of our total consolidated gross sales, excluding sales of our Spun-off Businesses for 2017:

	Year ended December 31,					
	2015		2016		2017	
	(Won billions, except percentages)					
Domestic Retail:						
Department stores[(1)]	₩ 8,538	28.3%	₩ 8,686	28.2%	₩ 8,292	33.8%
Discount stores[(1)]	5,976	19.8	5,960	19.4	6,013	24.5
Supermarkets[(2)]	2,332	7.7	2,325	7.6	2,177	8.9
Electronics retail stores	3,896	12.9	3,939	12.8	4,099	16.7
Sub-total	20,742	68.8	20,910	68.0	20,581	83.8
Overseas Retail:						
Department stores[(1)]	₩ 128	0.4%	₩ 136	0.4%	₩ 116	0.5%
Discount stores[(1) (3)]	2,571	8.5	2,516	8.2	1,622	6.6
Sub-total	2,699	9.0	2,652	8.6	1,738	7.1
Others[(4)]	6,715	22.3	7,191	23.4	2,230	9.1
Total	₩ 30,156	100.0%	₩ 30,753	100.0%	₩ 24,549	100.0%

(1) Includes rental income from concessions granted at our stores.
(2) Includes royalties and fees from independent franchisees.
(3) Includes sales of our supermarkets in China.
(4) Includes principally the sales of our health and beauty retail stores and other specialty retail stores, our home shopping operations and our movie theater operations and, for 2015 and 2016, the sales of our Spun-off Businesses. Also includes consolidation adjustments.

The following table sets forth, for the periods indicated, the percentage of our consolidated gross sales (excluding sales of our Spun-off Businesses for 2017) accounted for by each geographic region:

	Year ended December 31,		
	2015	2016	2017
Korea	92.6%	92.9%	92.0%
China	4.9	4.0	2.6
Indonesia	3.4	3.7	4.6
Vietnam	0.9	1.1	1.4
less, consolidation adjustments	(1.8)	(1.8)	(0.6)
Total	100.0%	100.0%	100.0%

Domestic Department Stores

We operate the largest department store chain in Korea in terms of both sales and number of stores, accounting for an estimated 39.6% of the total sales of the department store segment of the Korean retail market in 2017 (excluding sales from outlet stores), according to the Korea National Statistical Office and our internal data. As of December 31, 2017, we operated 33 department stores throughout Korea, which included 30 department stores which we owned and operated under the brand names Lotte Department Store, Avenuel, Young Plaza and elCube (with our Avenuel, Young Plaza and elCube stores not being counted as separate stores in counting our portfolio of stores as they are considered part of the nearest Lotte Department Store) and three department stores owned by our consolidated subsidiaries and affiliates which we operated under the brand name Lotte Department Store. As of the same date, we also operated 21 outlet stores in Korea, 14 of which were operated under the brand name Lotte Outlet, five under the brand name Lotte Premium Outlet and the remaining two under the name Lotte Factory Outlet (with our outlet stores not being counted as separate stores in counting our portfolio of stores as they are considered a part of our department store business). Although our customers span the full range of ages and socio-economic groups, our core target customer group is the female upper-middle income consumer segment of the population in the 30 to 50 year-old range. In 2017, an annual average of approximately 7.95 million customers made purchases in our department stores (including outlet stores) in Korea, spending an annual average of approximately ₩1,250 thousand per customer.

Store Network. The following table sets forth certain information regarding our department stores in Korea as of December 31, 2017:

Location	Brand	Opening	Characteristics
Seoul			
Myungdong	Lotte Avenuel Young Plaza elCube (Hong-dae) elCube (E-dae)	Dec. 1979 Mar. 2005 Nov. 2003 Mar. 2016 Nov. 2016	Part of the Lotte Town hotel and shopping complex. The Myungdong Avenuel and Young Plaza stores and Hong-dae and E-dae elCube stores are considered to be a part of our Myungdong Lotte Department Store.
Jamsil	Lotte elCube (Garosu-gil)	Nov. 1988 Dec. 2016	Part of the Lotte World hotel, shopping and entertainment complex. The Garosu-gil elCube store is considered to be a part of our Jamsil Lotte Department Store.
Youngdeungpo	Lotte	May 1991	Connected to Yeongdeungpo Train Station. Owned by our affiliate Lotte Station Building Co., Ltd., and operated by us under a management contract.
Gwanak	Lotte	Oct. 1997	Stand-alone
Gangnam	Lotte	Jun. 2000	Stand-alone
Nowon	Lotte	Oct. 2002	Stand-alone
Mia	Lotte	Dec. 2006	Stand-alone
Konkuk University Star City	Lotte	Oct. 2008	Stand-alone
Chungryangri	Lotte	Aug. 2010	Stand-alone
Gimpo Airport	Lotte	Dec. 2011	Part of the Sky Park shopping mall
Incheon and Gyeonggi-do			
Bundang	Lotte	Apr. 1999	Stand-alone
Bupyong	Lotte	Aug. 1999	Stand-alone
Ilsan	Lotte	Oct. 1999	Stand-alone
Anyang	Lotte	May 2002	Stand-alone
Incheon	Lotte	Aug. 2002	Stand-alone
Guri	Lotte	Apr. 1998	Stand-alone

Location	Brand	Opening	Characteristics
Bucheon	Lotte	Nov. 1996	Stand-alone
Ansan	Lotte	Oct. 1992	Stand-alone
Pyeongchon	Lotte	Feb. 2012	Stand-alone
Suwon	Lotte	Nov. 2014	Part of the Lotte Suwon shopping mall
Gwangju and Chollanam-do			
Gwangju	Lotte	Sep. 1998	Stand-alone
Chollabuk-do			
Jeonju	Lotte	May 2004	Stand-alone
Busan and Gyeongsangnam-do			
Busan	Lotte	Dec. 1995	Part of hotel and shopping complex
Masan	Lotte	Nov. 1997	Stand-alone
Ulsan	Lotte	Aug. 2001	Part of hotel and theme park complex
Busan Dongrae	Lotte	Nov. 2001	Stand-alone
Changwon	Lotte	Feb. 2002	Stand-alone
Busan Centum City	Lotte	Dec. 2007	Stand-alone
Busan Gwangbok City	Lotte elCube	Dec. 2009 May 2017	The Busan Gwangbok elCube store is considered to be a part of our Busan Gwangbok Lotte Department Store.
Daegu and Gyeongsangbuk-do			
Pohang	Lotte	Dec. 2000	Stand-alone
Daegu	Lotte Young Plaza	Feb. 2003 Aug. 2007	Part of the Daegu Train Station. Owned by our affiliate Lotte Station Building Co., Ltd., and operated by us under a management contract. The Daegu Young Plaza store is considered to be a part of our Daegu Lotte Department Store.
Daegu Sangin	Lotte	Feb. 2004	Stand-alone
Daejeon and Chungcheongnam-do			
Daejeon	Lotte	Mar. 2000	Stand-alone
Sejong	elCube	Mar. 2017	Stand-alone. The Sejong elCube store is considered to be a part of our Daejeon Lotte Department Store.
Chungcheongbuk-do			
Cheongju	Young Plaza	Feb. 2007	Stand-alone. The Cheongju Young Plaza store is considered to be a part of our Daejeon Lotte Department Store.

The following table sets forth certain information regarding our outlet stores in Korea as of December 31, 2017:

Location	Brand	Opening	Characteristics
Seoul			
Seoul Station	Lotte Outlet	Jan. 2013	Part of the Seoul Train Station complex.
Gasan	Lotte Factory Outlet	Dec. 2015	Stand-alone

Location	Brand	Opening	Characteristics
Gyeonggi-do			
Paju	Lotte Premium Outlet	Dec. 2011	Stand-alone
Icheon	Lotte Premium Outlet	Dec. 2013	Stand-alone
Goyang Terminal	Lotte Outlet	Oct. 2014	Connected to the Goyang Bus Terminal complex
Gwangmyung	Lotte Premium Outlet	Dec. 2014	Stand-alone
Guri	Lotte Outlet	Dec. 2014	Stand-alone
Incheon	Lotte Factory Outlet	May 2015	Stand-alone
Gwanggyo	Lotte Outlet	Sept. 2015	Stand-alone
Uijeongbu	Lotte Outlet	Aug. 2016	Stand-alone
Goyang	Lotte Outlet	Oct. 2017	Stand-alone
Chollanam-do			
Gwangju World Cup	Lotte Outlet	Oct. 2008	Stand-alone
Gwangju Suwan	Lotte Outlet	Sep. 2009	Stand-alone
Namak	Lotte Outlet	Dec. 2016	Stand-alone
Gyeongsangnam-do			
Gimhae	Lotte Premium Outlet	Dec. 2008	Stand-alone
Dong-Busan	Lotte Premium Outlet	Dec. 2014	Stand-alone.
Jinju	Lotte Outlet	Sept. 2016	Stand-alone.
Gyeongsangbuk-do			
Daegu Yulha	Lotte Outlet	Feb. 2004	Stand-alone
Daegu Esiapolis Mall	Lotte Outlet	June 2011	Stand-alone
Chungcheongnam-do			
Buyeo	Lotte Outlet	Sept. 2013	Stand-alone
Chungcheongbuk-do			
Cheongju	Lotte Outlet	Nov. 2012	Stand-alone

Our department stores in Korea have selling areas ranging in size from approximately 3,458 to 103,099 square meters with an average selling area of approximately 31,520 square meters, and an average of approximately 90 employees per store. All of our department stores have areas dedicated to customer parking.

Lotte Station Building Co., Ltd., a Lotte Group affiliate, owns one department store in Seoul and one department store in Daegu, both of which we manage pursuant to a management service contract. Prior to the Spin-off/Merger, we owned 25.0% of the outstanding shares of Lotte Station Building and accounted for it as an associate. We no longer own any equity interest in Lotte Station Building following the Spin-off/Merger, as such equity interest was part of our Spun-off Businesses. We received commissions amounting to ₩8 billion, ₩8 billion and ₩6 billion in 2015, 2016 and 2017, respectively, under the management service contract.

We operate two flagship stores in Myungdong and Jamsil in Seoul and two flagship stores in Seomyon and Gwangbokdong in Busan. Our four flagship stores collectively accounted for approximately 34%, 34% and 33% of our consolidated gross domestic department store sales in 2015, 2016 and 2017, respectively. Located in prime retail locations in Seoul and Busan, Korea's two largest cities, our flagship stores establish and promote the Lotte brand image as one of the leading retailers of men's and women's fashion. In particular, we seek to ensure that the ambience of our flagship stores reflects the luxury of the merchandise that we sell.

In addition to our primary Lotte brand of department stores, we operate segment-specific department stores, catering to key high-growth consumer groups with a targeted retail offering. In March 2005, we opened our first Avenuel department store adjacent to our flagship Lotte department store in Myungdong in downtown Seoul. Avenuel is a high-end specialty department store that targets upscale customers with a unique assortment of foreign luxury designer merchandise. In addition, in November 2003, we opened our first Young Plaza department store at another adjacent site, which offers urban casual apparel and accessories to a younger customer base. In addition, we opened our first elCube store in the Hongdae area of Seoul in March 2016, offering trendy fashion, beauty and lifestyle products targeting a younger domestic customer base and foreign tourists, and have since opened three additional elCube stores in Seoul and Busan.

The Avenuel, Young Plaza and Lotte department stores in Myungdong together command 82,500 square meters of selling space in a complex known as Lotte Town. We believe that Lotte Town, which also features a Lotte Cinema multiplex movie theater, spa and restaurants, as well as a hotel and duty-free shops operated by an affiliate, sets the trend for upscale shopping in Korea. Our other flagship store in Seoul is located in Jamsil, adjacent to Korea's largest indoor amusement park and its tallest building, which are operated by Lotte Group affiliates. The Jamsil entertainment complex also features an ice rink, health club, hotels, and duty-free shops, as well as a Lotte Mart discount store and a Lotte Cinema multiplex movie theater operated by us. Our third flagship store, which is located in the Seomyon area of Busan, is also part of a larger multi-format retail complex, including a Lotte Cinema multiplex movie theater and a hotel operated by an affiliate. Our fourth flagship store, located in the Gwangbokdong area of Busan, also constitutes a part of a larger multi-format retail complex that contains a Lotte Cinema and a Lotte Mart.

We also operate 29 smaller regional department stores throughout Korea, which are smaller than our flagship stores and which provide a more limited selection of merchandise. Our regional stores provide more localized customer service that is tailored to the markets they serve.

We launched our first outlet store in Gwangju in October 2008 under the brand name Lotte Outlet. Our outlet stores offer a wide range of overstock apparel and accessories at marked-down prices, targeting value-conscious customers and, in the case of Lotte Premium Outlet, also offers an assortment of foreign luxury designer merchandise at a substantial discount. We currently operate 14 Lotte Outlet stores, five Lotte Premium Outlet stores and two Lotte Factory Outlet stores.

In addition to our network of traditional department stores, we also operate an online department store business primarily through Lotte Department Store's online shopping mall, ellotte.com, and a corresponding mobile application. We plan to continue to invest in our online department store business by expanding our merchandise portfolio, optimizing the user experience for both personal computer and mobile environments and offering special discounts, coupons and other promotions.

Merchandise. Our department stores offer our customers a diversified range of product categories, which include:

- young casual wear, including trendy casual, unisex casual and business casual apparel;
- womenswear, including formal wear and casual wear (including designer apparel, fur, lingerie and seasonal apparel);
- menswear, including formal business wear, casual wear and business casual wear;
- childrenswear, including babywear, baby products and boys and girlswear, and sporting goods, including golf and other sporting merchandise and apparel;
- foreign luxury designer-brands, including apparel, accessories and watches;
- accessories, including leather accessories, fashion accessories, shoes and cosmetics;
- household goods, including home appliances, consumer electronics products, kitchenware, bed and bath products, home decorations and furniture; and

- food products, including perishables, non-perishables, processed foods, health foods and bakery and delicatessen products.

We derive department store revenues principally from the sale of apparel (including principally young casual wear, womenswear, menswear and childrenswear and sporting goods). Our merchandising philosophy focuses on setting fashion trends in Korea by offering a wide variety of fashion merchandise from leading and emerging designers, and enhancing our reputation for quality and value by providing an appealing shopping environment for our customers. We also drive sales by expanding and reallocating existing space within our department stores, developing and offering our own private brand merchandise, attracting new customers through our marketing initiatives, building upon our strong existing customer relationships and periodically renovating our department stores.

Concessions. In addition to direct merchandise sales, we derive revenues through concessions, whereby we lease space in our department stores to certain tenants, usually operators of retail shops, restaurants and food outlets, clinics, beauty parlors and jewelers. We typically lease approximately 25% to 30% of the selling space in our department stores (excluding outlet stores) in Korea in any given year. In total, over 3,200 tenants currently operate concessions at our department stores in Korea. Rental payments are calculated in one of two ways. Tenants pay either an agreed percentage of their net sales or a fixed monthly rent. The terms of the lease vary depending on the type of business conducted by the tenant, and each tenant is required to pay a percentage of the common area costs and for store publicity. Most of our domestic department store tenants pay a fixed percentage of their net sales as rent. Rental income from concession arrangements at our department stores in Korea amounted to ₩998 billion, ₩1,068 billion and ₩1,099 billion in 2015, 2016 and 2017, respectively.

Our concession terms usually require concession operators to pay for their own fixtures and fittings, employ their own staff (who must comply with our standard in-store procedures), bear the full stock risk on products sold and participate in our schedule of sales and promotional periods. We generally renegotiate our concession agreements annually based on each tenant's revenues, and we or our tenant can elect to terminate the concession with one month's advance notice.

Domestic Discount Stores

We operate the third largest discount store chain in Korea in terms of sales, accounting for an estimated 23.6% of the total sales of the discount store segment of the Korean retail market in 2017, according to public disclosure filings of our competitors and our internal data. As of December 31, 2017, we operated 118 discount stores throughout Korea under the brand name Lotte Mart. Our Lotte Mart discount stores are designed to provide a "one-stop" shopping experience by offering, at competitive prices, a wide assortment of food products, apparel, consumer electronics and general merchandise for budget-minded yet quality-conscious customers. As of December 31, 2017, we also operated five membership-based, warehouse-format discount stores in Seoul and its surrounding areas under the brand name VICMarket. Our VICMarket discount stores seek to offer even lower prices than regular discount stores to members, who pay annual membership dues, by leveraging higher operational efficiencies achieved through volume purchasing, efficient distribution and reduced handling of merchandise in no-frills, self-service warehouse facilities. Our discount stores in Korea also offer complementary services such as ATM banking, in-store fast food outlets, beauty parlors, pharmacies, automobile repair shops and dry cleaning services.

Store Network. The following table sets forth the number of our discount stores in Korea by region, as of December 31, 2017:

Region	Number of stores
Seoul	14
Busan	8
Daegu	2
Incheon	9
Gwangju	4
Daejeon	4
Ulsan	2
Gyeonggi-do	32
Gangwon-do	3
Chungcheongbuk-do	5
Chungcheongnam-do	7
Jeollabuk-do	7
Jeollanam-do	5
Gyeongsangbuk-do	3
Gyeongsangnam-do	12
Jeju-do	1
Total	118

Our Lotte Mart discount stores in Korea have selling areas ranging in size from approximately 2,383 to 19,934 square meters with an average selling area of approximately 9,066 square meters, and an average of approximately 110 employees per store. All of our discount stores have areas dedicated to customer parking. All of our discount stores offer home delivery service.

We classify our discount store products into four general categories:

- perishables, which include fresh fruits and vegetables, dairy, meats, poultry, fish and delicatessen products;
- non-perishables and general merchandise, which include beverages, canned goods, frozen goods, instant foods, snacks and cleaning products;
- consumer electronics, household goods and others, which include computers, televisions, home appliances, books, music, sporting goods, school and office supplies, pet supplies and car accessories; and
- apparel, which includes womenswear, menswear, childrenswear and undergarments, and accessories, which include fashion accessories and leisure products.

Although we have standardized the product categories that we offer at all of our discount stores to take advantage of volume buying opportunities and other chain operation benefits, we seek to tailor the product mix of each of discount stores according to the preferences of the customers in the particular communities in which our stores are located. In recent years, Korean customers have shown an increasing preference for stores that offer more than just traditional food and non-food items. To respond to this trend, we continue to upgrade existing product categories with new selections and to add new product categories such as superior quality fresh foods, health products and home improvement products and services. Furthermore, we have been expanding our own private brand merchandise to new categories, including organic foods, automotive products, household goods and footwear, and marketing such merchandise through strategically placed shop-in-shop retail units within our discount stores. This strategy allows us to provide our customers with a wider selection of products and services, while shifting our sales mix toward higher-margin premium and private brand products. We continue to diversify the merchandise that we offer to our customers by introducing new product categories, importing merchandise directly from overseas suppliers, further expanding our private brand merchandise, and adding strategically placed shop-in-shop "category killer" retail units specializing in specific product segments (such as electronics, kitchenware or apparels) and as in-store gas stations within some of our Lotte Mart stores subject to their suitability and market conditions.

In addition to our network of traditional discount stores, we also operate an online discount store business, primarily through Lotte Mart's online shopping mall, lottemart.com, and a corresponding mobile application. We are seeking to continue to improve the sales and marketing capabilities of our online discount store business by enhancing the user experience, expanding our merchandise portfolio and offering special discounts, coupons and other promotions.

Concessions. In addition to direct merchandise sales, we derive revenues through concessions, whereby we lease space in our discount stores to certain tenants, usually operators of in-store fast food outlets, family restaurants, beauty parlors, travel agencies, automobile repair shops, clinics, pharmacies and dry cleaning services. We typically lease approximately 35 to 40% of the selling space in our discount stores in Korea in any given year. In total, more than 1,700 tenants currently operate concessions at our discount stores in Korea. Approximately half of our domestic discount store tenants pay fixed monthly rents. Each tenant is required to pay a percentage of the common area costs and for store publicity. Rental income from concession arrangements at our discount stores in Korea amounted to ₩105 billion, ₩107 billion and ₩127 billion in 2015, 2016 and 2017, respectively.

Our concession terms for domestic discount store tenants are generally the same as for our department store tenants. See "—Domestic Department Stores—Concessions."

Other Businesses

In addition to our core retail operations in domestic department stores and discount stores, our retail business includes our overseas department stores and discount stores as well as three chains of supermarkets in Korea. Since our acquisition of a 65.25% equity interest in Hi-mart in October 2012, we also operate Korea's largest chain of electronics retail stores. See "Hi-mart." In addition, we operate a home shopping, catalogue and online retail sales business, a chain of multiplex movie theaters, a chain of health and beauty retail stores and certain other businesses.

Overseas Retail Stores. We opened our first overseas department store in Moscow in September 2007 and have since expanded our department store network to also include five stores in China, two in Vietnam and one in Indonesia as of December 31, 2017. The Moscow department store is owned and operated by Lotte Europe Holdings B.V., which is accounted for as an associate. Each of our department stores in China (consisting of two stores in Tianjin and one in each of Weihei, Chengdu and Shenyang), Jakarta, Indonesia and Hanoi, Vietnam are owned and operated by our locally established consolidated subsidiaries. Our department store in Ho Chi Minh, Vietnam is owned and operated by International Business Center Company Limited, which is accounted for as an associate.

In May 2008, we acquired eight discount stores in China from Makro and re-branded them under the brand name Lotte Mart. We also acquired 19 discount stores in Indonesia from Makro in November 2008 and opened our first discount store in Vietnam in December 2008. In December 2009, we acquired Times Ltd., which owned and operated 57 discount stores and 11 supermarkets in eastern China. Since then, we continued to expand our portfolio of overseas discount stores by opening numerous new discount stores in China, Indonesia and Vietnam, including eight new discount stores in Indonesia and three new discount stores in Vietnam in 2015 and 2016. All of our discount stores in China, Indonesia and Vietnam, which are respectively owned and operated by our locally established consolidated subsidiaries, are currently operated under the brand name Lotte Mart. In addition, as of December 31, 2017, we operated 13 supermarkets in Beijing, China.

The following table sets forth the number of our overseas discount stores by country, as of December 31, 2017:

Region	Number of stores
China(1)	99
Indonesia	46
Vietnam	13
Total	158

(1) Does not include supermarkets.

The categories of products and concessions available in our overseas department stores and discount stores are generally similar to those of our domestic stores, but with an emphasis on localized product mix and marketing strategies.

While we plan to continually consider further expanding our overseas retail operations where attractive opportunities are present, we are currently seeking a sale of our discount store operations in China, in light of the ongoing operational difficulties we have faced in such market following a deterioration in economic and diplomatic relations between Korea and China triggered by the deployment of a THAAD system in Korea by the United States commencing in March 2017. See "Risk Factors — Risks Relating to Our Business — Regulatory and other impediments to the expansion of our operations to overseas markets could adversely affect our business prospects."

Supermarkets. Since May 2001, when we opened our first supermarket in Junnong, Seoul, we have rapidly expanded our supermarket business in Korea. Through the acquisition of the supermarket division of Hanwha Stores (which included 25 supermarkets and one logistics center) in 2004, the acquisition of two regional supermarket chains Big Mart and Nice Mart (which in the aggregate included 13 supermarkets) in 2007 and the acquisition of a 97.4% stake in CS Mart Co., Ltd., which operated a chain of 237 supermarkets in Korea as of January 31, 2012, we enhanced the scale and geographical coverage of our supermarket operations in Korea. More recently, in response to increasing market demand for superior quality fresh and packaged food items among affluent, quality-conscious urban customers, we opened our first Lotte Premium Food Market in Seoul in June 2016 and two additional stores in Seoul in 2017. As of December 31, 2017, we operated an aggregate of 930 supermarkets under the brand names of Lotte Super, Market 999 and Lotte Premium Food Market, of which 430 were owned by us and 500 were owned by independent franchisees to whom we provide operational management, marketing, purchasing, IT systems and other services as well as licenses to use our marks in return for fees and royalties pursuant to franchise agreements. In addition, we operated an aggregate of 658 supermarkets through our subsidiary CS Mart, of which 34 were owned by CS Mart and 624 were owned by independent franchisees. Our supermarkets are mostly located in densely populated residential areas and emphasize sales of quality groceries and perishables at affordable prices. The average selling area of our ordinary supermarkets is approximately 734 square meters, while the average selling area of our large-scale supermarkets is approximately 1,481 square meters. Our supermarket business also includes a dedicated website and mobile application which allow customers to purchase our supermarket merchandise online and arrange for delivery within the same day.

As part of our strategy with respect to the supermarket segment, we plan to open new supermarkets in Korea in the future, subject to market conditions. We plan to target new supermarket openings generally in niche markets where mass retail formats, such as discount stores, have yet to penetrate, as well as focus on new Lotte Premium Food Market openings in relatively affluent areas where demand for high-end gourmet food products is expected to grow rapidly. In light of current regulatory restrictions on our ability to expand our supermarket locations in Korea, we have been seeking to increase the proportion of supermarkets owned by independent franchisees, relative to those owned by us, in opening new stores in Korea. See "—Regulations" and "Risk Factors—Risks Relating to Regulation—We are subject to numerous laws and regulations that could affect our operations."

Home Shopping Business. In February 2007, we acquired 50.6% of Woori Home Shopping & Television Co., Ltd. from Kyung Bang Co., Ltd. As of December 31, 2017, we owned 53.0% of Woori Home Shopping & Television, which is our consolidated subsidiary. Woori Home Shopping & Television sells a variety of consumer goods and services by means of live, customer-interactive electronic retail sales programming which is transmitted to cable television systems and select broadcast television stations throughout Korea. Woori Home Shopping & Television operates its retail sales program under the brand name Lotte Home Shopping, 24 hours a day and seven days a week. Lotte Home Shopping aims to promote sales and customer loyalty through a combination of product quality, price and value, coupled with product information and entertainment. Viewers purchase products by calling a toll-free telephone number. We estimate that, as of December 31, 2017, Lotte Home Shopping was available in more than 32.4 million unduplicated households.

Lotte Home Shopping offers an extensive assortment of goods and services, including food, consumer electronics, computer hardware and software, books, clothing, fashion accessories, jewelry and watches, cosmetics and perfume, diet and beauty services, children's products, insurance products and travel services. Products and services offered on Lotte Home Shopping are provided by more than 4,000 participating retailers, including us and our Lotte Group affiliates. Lotte Home Shopping utilizes a telephone order fulfillment system that sends orders placed from its programming directly to the participating retailer in order to expedite the processing of orders. Woori Home Shopping & Television retains a commission, ranging from 13% to 37% of the purchase price, and typically remits the balance to the participating retailer on the second day of the second month following the date of purchase. Users can pay for their purchases with credit cards or by sending a wire transfer to certain bank accounts. For purchases made with credit cards, Woori Home Shopping & Television pays a fee ranging from 2% to 4% of the purchase price to credit card companies.

In addition to its core business of television home shopping retail sales, Woori Home Shopping & Television also operates catalogue shopping and online retail businesses. Woori Home Shopping & Television's revenues amounted to ₩854 billion, ₩886 billion and ₩914 billion in 2015, 2016 and 2017, respectively.

Movie Theaters. We entered the film exhibition business in 1999. As of December 31, 2017, we operated 114 multiplex movie theaters in Korea under the brand name Lotte Cinema (including 22 movie theaters owned by third parties that we operated pursuant to management service contracts). As of the same date, we also operated 33 multiplex movie theaters in Vietnam and 12 multiplex movie theaters in China. Multiplex movie theaters are typically defined as having multiple screens and offering amenities to enhance the movie-going experience, such as stadium seating, digital sound and enhanced seat design. We believe that the multiplex format provides us with enhanced revenue opportunities and better asset utilization while creating convenience for patrons by increasing film choice and the number of film starting times. In addition, we believe that we are able to attract more customers to both our retail stores and movie theaters by locating our multiplex movie theaters in close proximity to our department stores and discount stores. As of December 31, 2017, our movie theaters in Korea operated a total of 810 screens and had a total seating capacity of approximately 134,600 seats, and our movie theaters in Vietnam and China operated a total of 241 screens and had a total seating capacity of approximately 37,700 seats. In order to enhance the value of our movie theater business and promote its further growth, we are currently in the process of spinning off such operations into a wholly-owned consolidated subsidiary, which process is expected to be completed within 2018.

We license mainly "first-run" motion pictures from distributors owned by major film production companies in Korea, as well as from international distributors and independent Korean distributors. Fees payable in respect of such licenses may be in the form of a set amount or based on a certain percentage of our movie theater sales depending on the film and the distributor, and fee amounts can vary significantly depending on the film, the location of the movie theater and the time of the year.

Our movie theater business in Korea generated sales of ₩603 billion, ₩626 billion and ₩668 billion in 2015, 2016 and 2017, respectively. These sales were derived mainly from ticket sales.

Others. We also operate a variety of other businesses, including:

- Category killer stores: in recent years, we expanded our retail operations to include so-called "category killer" stores, a new retail format in Korea which aims to dominate a particular product category. In May 2013, we entered into the health and beauty retail sector by opening the first LOHB's store in Seoul. Our LOHB's stores offer convenient one-stop shopping for trendy and moderately priced cosmetics and personal care products, health foods and supplements and other non-perishable food items in prime retail locations. As of December 31, 2017, we operated 96 LOHB's stores in Korea, and we plan to open additional new LOHB's stores in strategic locations throughout Korea, subject to market conditions. As of the same date, we also operated 42 Toys R Us stores (first launched in December 2007) which specialize in children's toys, through a license arrangement with Toys R Us, Inc. of the United States, either as standalone stores or in a shop-in-shop format within our Lotte Mart discount stores.
- UNIQLO: in December 2004, we established a joint venture company with Fast Retailing Co., Ltd. of Japan to import and sell UNIQLO brand casual wear. We own 49.0% and Fast Retailing owns 51.0% of the joint venture company, which is accounted for as an associate under Korean IFRS. As of December 31, 2017, the joint venture company operated 181 UNIQLO stores in Seoul and other cities in Korea.
- Zara: in October 2007, we established a joint venture company with Industria de Diseno Textil, S.A. of Spain to import and sell Zara brand trendy casual and formal wear. We own 20.0% and Industria de Diseno Textil owns 80.0% of the joint venture company, which is accounted for as an associate under Korean IFRS. As of December 31, 2017, the joint venture company operated 43 Zara stores in Seoul and other cities in Korea.
- Shopping Malls: in June 2005, we established a shopping mall division to oversee the planning and development of shopping malls, which were a new retail format in Korea. We opened our first shopping mall, called Sky Park and operating under the brand name Lotte Mall, at Gimpo International Airport in December 2011, and have since opened two additional Lotte Malls in Suwon and Eunpyung-gu, Seoul. Each Lotte Mall brings together various retail and entertainment businesses operated by us and our consolidated subsidiaries and affiliates, including a department store, discount store, supermarket, convenience stores, category killer stores and other specialty stores, restaurants and a children's theme park.

Suppliers

Ensuring an adequate supply of products that we sell in our stores is essential to our operations. We purchase products for our department stores and discount stores in Korea from more than 3,600 suppliers, and from more than 1,000 suppliers for our supermarkets. We are not dependent on any single supplier or group of related suppliers for a material portion of the products that we purchase for our stores.

Our relationship with our suppliers is typically governed by individual purchase orders and invoices that are subject to our standard terms and conditions. In the case of merchandise supplied to us on a conditional basis, we are able to return the unsold merchandise to the supplier and receive a refund of our full cost price.

We have not experienced any difficulty in obtaining the types or quantities of the merchandise that we require on a timely basis and believe that, if any of our current sources of supply were to become unavailable, alternative sources could be obtained without any material disruption to our business.

Department Stores. The product department within our department store division oversees product development and merchandising, and is responsible for negotiating price, promotions and details of payment with individual suppliers. The department store product department employed approximately 189 merchandising specialists, or buyers, as of December 31, 2017, who are each responsible for purchases of a specific product category and is required to maintain our relationships with our suppliers.

We buy products throughout the year, which enables us to offer our department store customers products that are appropriate for the specific time of year and are up to date with current fashion trends. Our buyers also conduct extensive market research and closely collaborate with suppliers to stay abreast of emerging fashion trends in Korea. We negotiate payment arrangements with our department store suppliers on an individual basis, which for 2017 generally provided for payment within an average of 20 days from the end of the month in which the purchase was made.

Certain of our suppliers provide items for sale to us under our private brand names, while certain other brands are imported and exclusively sold at our retail stores.

Discount Stores and Supermarkets. Our discount store and supermarket divisions also each operate their own product departments which oversee purchasing. Each product department is organized into teams by product category and each team is responsible for all aspects of its product category, including purchasing. The product teams coordinate with one another, sharing information on suppliers and the terms and conditions of products offered by suppliers.

We believe our large volume of purchases resulting from our nationwide network of discount stores and supermarkets in Korea reduces our purchasing cost by allowing us to take advantage of volume buying opportunities and suppliers' discounts. We have been able to further reduce our purchasing costs by increasing our offering of private brand merchandise. We continue to diversify our sourcing channels, including direct imports and online auctions for the retail industry, in order to ensure a stable supply of quality goods for our customers. We negotiate payment arrangements with our discount store and supermarket suppliers on an individual basis, which for 2017 generally provided for payment within an average of 20 days from the end of the month in which the purchase was made for our discount stores and within an average of 25 days for our supermarkets.

Imports. A portion of our department store sales consists of foreign brand products and our private brand products that are imported from outside of Korea. We also import a portion of our merchandise for domestic discount stores and supermarkets, primarily from China. We import certain of our products, such as those imported by our global fashion brand business division, directly from overseas suppliers. We also use Lotte Trading Co., Ltd., a Lotte Group affiliate, to source and import certain products ordered from international suppliers. The bulk of our imported products are imported directly by our suppliers.

Distribution

We own and operate three distribution centers for our discount stores in Gimhae, Yangsan and Osan, and two additional distribution centers for our supermarkets in Shingal and Gwangleung. We also have one distribution center located in Bundang, which we use on a limited basis during specific times of the year to warehouse merchandise for our department stores. However, our department stores mostly receive deliveries directly from suppliers. We also lease ten additional distribution centers, most of which are owned by our affiliate Lotte Logistics Co., Ltd., in connection with our discount store, supermarket, home shopping and health and beauty store businesses. We may also establish and operate additional distribution centers in the future, particularly in the overseas markets where we operate. We utilize Lotte Logistics to manage distribution and warehouse logistics. Once a purchase order has been placed with a supplier for a product, the supplier delivers the product to one of our distribution centers, and Lotte Logistics delivers the product to each store according to demand.

Marketing

We continually aim to promote the strong Lotte brand image as one of the leading retailers in Korea. We utilize a variety of publicity channels, including print media, radio, television and the internet, to reach national and local markets.

Our department store marketing activities in Korea are designed to reflect the luxury and distinct style of the merchandise that we sell. Promotional events, such as bazaars, fashion shows and wedding expos, are the primary marketing means by which we generate extensive publicity for our department stores. We also market through regular advertisements in print media, including leaflets and brochures, newspapers and, in the case of potential and existing Avenuel customers, direct mail. In 2017, we conducted approximately 60 newspaper advertising campaigns and 34 direct mail advertising campaigns in Korea. In addition, in January, April, July, October and December of each year, we typically offer significant discounts on many of the products in our department stores either to promote new seasonal merchandise or to clear inventory from prior seasons and to substantially increase the number of customers visiting our stores. Our department store marketing initiatives in Korea also include e-marketing through our department store website and special in-store events such as art exhibits, celebrity appearances and wine tastings.

Our marketing strategy in Korea for discount stores and supermarkets is directed at projecting our image as a retail chain which offers value through a combination of high-quality service and competitive prices. Our primary advertising outlets for discount stores and supermarkets, in addition to point-of-sale marketing, are magazine-type inserts in major newspapers, advertising that appears directly in regional newspapers, billboards and, to a limited extent, television, radio and the internet. Our marketing initiatives seek to attract customers to our stores by communicating the image of our stores as being newer, cleaner stores that offer superior customer service, as well as attractive products at competitive prices. We also offer food tastings, promotional events and gifts. In addition, we utilize the websites of our various business segments, consolidated subsidiaries and associates, including our Lotte Department Store, Lotte Mart, Lotte Super and Lotte Home Shopping websites, as well as our former subsidiary, Lotte.com, to market our products and services.

One of our most important marketing tools in Korea is the Lotte Card-brand credit card, which is a non-proprietary credit card issued by our former subsidiary Lotte Card. In October 2017, our equity interest in Lotte Card was transferred to Lotte Corporation pursuant to the Spin-off/Merger. See "— History — Spin-off/Merger." Lotte Card continues to provide us with certain data of consenting customers captured through credit card-based transactions, which we compile and analyze using our customer relationship management ("CRM") software to better understand our customers' preferences and spending patterns for certain brands, merchandise categories and store locations. We conduct targeted marketing activities, such as direct mailings, to customers based on information from our CRM database.

In addition, in November 2005, we introduced the Lotte Member's Card to cultivate long-term relationships with our customers in Korea. This Lotte Group-wide loyalty program, which is currently called the L. Point membership program, allows members to earn redeemable award points for purchases of merchandise, food or services provided by any Lotte Group affiliate, including us, as well as certain other leading Korean retailers that participate in the program. Data collected through the L. Point membership program enable analysis of the spending patterns of potential and existing customers. In January 2015, we spun off our operations relating to the L. Point membership program into a newly created consolidated subsidiary, Lotte Members Co., Ltd. In October 2017, our equity interest in Lotte Members was transferred to Lotte Corporation pursuant to the Spin-off/Merger.

Lotte Members continues to provide us with certain data of consenting customers captured through the L. Point membership program. We compile and analyze such data utilizing our CRM software, in order to better understand the reasons for fluctuations in demand from different customer segments, which serves as the basis for our marketing and business strategies. We develop analytical models based on such data to identify customers who are likely to purchase certain products by analyzing replacement cycles and other consumption trends. Through our detailed customer analyses, we seek to identify the types of offers and promotions that select customer segments will likely respond to and the suitable media through which to deliver such offers or promotions, which enable us to more efficiently allocate our marketing resources.

Gift certificates are also important to our marketing initiatives. Because they are easy to carry around and are branded with the Lotte mark, gift certificates are a valuable advertising tool. In addition, gift certificates, almost all of which are redeemed within two months of purchase, induce recipients to visit our retail stores and, historically, have generated sales in excess of the face value of the gift certificate.

Our advertising and marketing expenditures in 2017 amounted to 1.6% of our consolidated gross sales.

Competition

The retail industry in Korea is highly competitive, particularly with respect to product selection and quality, store location and design, inventory, price, customer service and advertising. In particular segments of the Korean retail market, some of our competitors may have greater financial resources, greater purchasing economies of scale and lower cost bases, any of which may give them a competitive advantage over us.

Our principal department store competitors in Korea are Shinsegae and Hyundai Department Store. We believe that the top three department store chains in Korea (including us) have accounted for a substantial majority of the department store sector in Korea in terms of total consolidated gross department store sales in recent years. As a result of Korea's high population density, department stores in Korea tend to be located in close proximity to one another and target the same customer base. Competition is particularly intense in the upscale retail apparel business where merchandise assortment is a critical competitive factor and department stores compete for exclusive, preferred and limited distribution arrangements with key designers. In addition, we face increasing competition from designers that have established or expanded their market presence in Korea with their own dedicated stores. As a result of the variety of our product categories, our department stores also face significant competition from outside of the department store sector, from retailers of different sizes and different formats. Among others, we compete against fashion retailers, specialty retailers, discount stores, supermarkets, warehouse-format stores and various internet websites.

Competition is also intense in the discount store segment of the Korean retail market. Our principal discount store competitors in Korea are E-Mart and Homeplus. E-Mart is the market leader in Korea in the discount store segment. We believe that competition is likely to intensify as our existing competitors expand the number of their stores and improve the quality of their operations and as consolidation occurs in the industry. The principal basis of our competition with our competitors in the discount store segment is price. We aim to price our products at levels that are the same or lower than prices charged for comparable products by our principal competitor in each product category while maintaining our profitability. Where our prices match those of the principal competitor for comparable products, we aim to offer a product of higher quality. We continually monitor customer feedback, competitor price benchmarks and product performance to optimize our prices.

Our principal competitors in the supermarket segment are GS Retail, which operates GS Supermarket, Homeplus, which operates Homeplus Super Express, and Shinsegye, which operates E-mart Everyday. We also face intense competition from discount stores, small neighborhood supermarkets and traditional open markets. The supermarket business is characterized by high inventory turnover and relatively smaller scale compared to department stores and discount stores. As discount stores continue to account for an increasing portion of the Korean retail market, we may experience downward pressure on our profit margins for the supermarket segment. Although we plan to open new supermarkets in niche markets where mass retail formats, such as discount stores, have yet to penetrate, and where demand for high-end gourmet food products is expected to grow rapidly, we believe that it is reasonably likely that there will continue to be considerable competitive pressure on our growth and profitability in this segment for the foreseeable future.

In China, Indonesia, Russia and Vietnam, which are currently the principal overseas retail markets in which we operate, we face intense competition from department stores, discount stores, supermarkets and other retail outlets owned or operated by local retailers as well as international operators of retail chains. Some of these competitors have larger store networks, greater local or international operating experience and expertise, greater financial resources, greater purchasing economies of scale and lower cost bases than we have, and may have other competitive advantages over us.

In addition, in recent years, retail sales through online (including mobile) and home shopping television channels have increased significantly in Korea. Such retailers are able to sell directly to consumers, diminishing the importance of traditional distribution channels. Some of the leading online retailers include Gmarket (a subsidiary of eBay Inc.), 11th Street, Auction, Coupang and Interpark. Some of the leading home shopping channels (other than our Lotte Home Shopping business) include GS Home Shopping, CJ O Shopping and Hyundai Home Shopping. Certain online, home shopping and other non-store retailers have significantly lower operating costs than traditional retailers such as us because they do not rely on an expensive network of retail points of sale or a large sales force. As a result, such retailers are able to offer their products at lower costs than we do and in certain cases are able to bypass retailing intermediaries and deliver high quality merchandise directly to consumers. We believe that our target customers in our core discount store and department store segments are increasingly using online and home shopping channels to shop for merchandise, in particular consumer electronics products and other household goods, at competitive prices, and that they are likely to continue doing so. We have in recent years made significant efforts to capitalize on growing e-commerce opportunities, including through the activities of our consolidated subsidiary Woori Home Shopping & Television Co., Ltd. and by enhancing the online and mobile sales capabilities of our core retail segments, including our Lotte Department Store, Lotte Mart, Lotte Super and Lotte Home Shopping websites and mobile applications, to complement our retail store operations. However, if e-commerce and retail sales through online and home shopping channels continue to grow, consumers' reliance on traditional distribution channels, which comprise a substantial majority of our business, could be materially diminished.

We also compete with other specialty store chains in their respective product sectors, including with other electronics retailers in the case of Hi-mart and with other health and beauty specialty stores in the case of LOHB's. For a description of the competitive landscape in the electronics retail sector in Korea, see "Hi-mart — Competition."

Information and Management Systems

Our primary network operations are located in Seoul. We believe that information technology ("IT") is an important tool for the management of our business. Consequently, we invested an aggregate amount of approximately ₩96 billion in IT systems at our department stores and discount stores in Korea in 2015, 2016 and 2017. All of our stores in Korea are linked through a common computer network that facilitates the flow of information among the stores and to our management. Our Sales Integration System, Sales Analysis System and Enterprise Resource Planning programs provide us with information that enables us to manage our inventory, negotiate more effectively with our suppliers, monitor consumer trends and otherwise improve operating efficiency. Such integrated IT systems are supported by warehouse management programs, forecasting tools, proprietary mark-down computer models and other analytical capabilities. In addition, our extensive CRM database enables us to better focus our marketing activities and our proprietary Apartment Map Solution provides us with important demographic information for newly constructed apartment complexes in Korea. In order to safeguard the data on our information and management systems, we maintain a disaster recovery center in Daejeon, Korea.

Trademarks and Servicemarks

We co-own our significant trademarks and service marks, including the "Lotte," "Lotte Young Plaza" and "Lotte Mart" marks and the "3L" logo, with Lotte Corporation, Hotel Lotte Co., Ltd. and Lotte Confectionery Co., Ltd. and other affiliates within the Lotte Group. We also independently own certain other marks including "LOTTE Avenuel" and "LOTTE YOUNG PLAZA." Our trademarks and service marks are registered in Korea as well as Russia, China, Japan, Vietnam and Indonesia. The term of these registrations is generally 10 years, and they are renewable for additional ten-year periods indefinitely, so long as the marks are still in use at the time of renewal. We are not aware of any claims of infringement or other challenges to our right to register or use our marks in Korea or in any other jurisdiction. We regard our trademarks and service marks as valuable assets in the marketing of our products and take appropriate action when necessary to protect them.

Regulations

Our operations are subject to governmental regulation concerning, among other things:

- our competitive and marketplace conduct, including fair trade;
- establishment or acquisition of stores, including large-scale stores and supermarkets;
- export and import restrictions and other customs regulations;
- consumer and data protection;
- personal information protection;
- the advertisement, promotion and sale of merchandise;
- product safety;
- national and local environmental laws and regulations;
- the health, safety and working conditions of our employees;
- the safety of our food products; and
- the sanitation and safety of our stores and their accessibility for the disabled.

In particular, under the amendments to the Distribution Industry Development Act of Korea (the "DIDA") which became effective in November 2010 for a period of five years and was renewed for another five years in November 2015, local governmental authorities in Korea may restrict or impose burdensome conditions on large retailers in opening and operating stores in certain areas designated for the protection of small local retailers or traditional open markets, and an increasing number of local governmental authorities have implemented or are implementing such protective measures. Effective from June 2011, the DIDA was amended to expand the geographic scope of areas designated for the protection of traditional open markets from 500 meters to one kilometer from the boundary of traditional open markets. Effective from January 2012, the DIDA was further amended, authorizing local governmental authorities to require semi-large stores and stores registered as a large-scale marketplace to have mandatory closure times and/or days (provided that such mandatory closure times must fall between midnight and 10:00 am on each business day, and the number of such mandatory closure days may not exceed two days per month), if the local governmental authority deems such restrictions to be necessary for the establishment of good market practices, protection of employees' health and safety rights and promotion of mutual growth among small, medium and large-scale distribution businesses. Certain local governmental authorities (including those in the Seoul metropolitan area) have implemented requirements for discount stores and supermarkets operated by large retailers to close on certain designated days (such as every other Sunday). In January 2013, the National Assembly of Korea passed additional amendments to the DIDA which further expanded the powers of local governmental authorities to control the operating hours of semi-large stores and stores registered as a large-scale marketplace, including the authority to impose two days of mandatory closure during public holidays (including Sundays) each month. In 2017, 122 of our 123 domestic discount stores were required to be closed for two or more days to comply with such measures. Furthermore, an amendment to the Act on the Promotion of Collaborative Cooperation between Large Enterprises and Small-Medium Enterprises, which became effective in January 2011, allows small- and medium-sized retailers (acting through a recognized industry association or in groups) to bring regulatory proceedings against large corporations that open new stores (directly or indirectly through stores that are owned and operated by individual franchisees but are at least 51% funded by large corporations) in the vicinity of their businesses, which may result in various restrictions on the opening or expansion of stores by large corporations such as us.

In addition, as of January 1, 2012, the Large-Scale Distribution Business Act came into effect, which is applicable to contracts that are either newly entered into or renewed on or after such date. The Large-Scale Distribution Business Act applies to large-scale distribution businesses which either generate from its retail businesses annual revenue in an amount equal to or more than ₩100 billion or use store space equal to or larger than 3,000 square meters for its retail business. The Large-Scale Distribution Business Act prohibits specific unfair business dealings, including (i) reductions of previously agreed payment amounts to suppliers; (ii) refusals or delays in accepting products from suppliers without a justifiable reason; (iii) product returns without a justifiable reason; and (iv) requiring gift certificate purchases. The Large-Scale Distribution Business Act is aimed at protecting the interests of suppliers to and lessees of store space from large-scale distribution business companies.

We believe that we are in compliance in all material respects with these laws and regulations. We cannot assure you, however, that any future changes in the requirements or mode of enforcement of these laws and regulations will not have a material adverse effect on our business, financial condition or results of operations. See "Risk Factors—Risks Relating Regulation—We are subject to numerous laws and regulations that could affect our operations."

Properties

Our principal executive offices are located at Lotte Building, 81 Namdaemun-ro, Chung-gu, Seoul, Korea. We lease our executive offices in Seoul.

As of December 31, 2017, we operated more than 1,050 retail stores and movie theaters worldwide, a substantial majority of which were leased from third parties. With respect to the properties we lease from third parties in Korea, under the terms of our lease arrangements, we are generally required to deposit a lump-sum amount as key money and pay a monthly rent for the duration of the lease, which typically ranges from one year to 20 years. Our one-year leases are generally automatically renewable for one-year periods unless we fail to pay rent for three consecutive months. In the event that we are unable to use the leased property for our operations due to damage or other reasons, the lease may be terminated and the responsible party will be required to compensate the other party for losses suffered. The following table sets forth certain information regarding our worldwide retail and movie theater facilities as of December 31, 2017:

	Owned		Leased	
Facilities[(1)]	Number	Selling floor space	Number	Selling floor space
	(thousands of square meters)		(thousands of square meters)	
Department stores	29	337	36	536
Discount stores	127	1,411	167	688
Electronics retail stores	39	54	423	411
Supermarkets[(2)]	46	54	418	238
Movie theaters[(2)]	15	109	122	510
LOHB's	—	—	96	28

(1) Includes facilities operated by certain of our consolidated subsidiaries and associates.

(2) Does not include 924 supermarkets and 22 movie theaters owned and primarily operated by independent franchisees.

We also lease some of our space to third parties under concession arrangements. See "—Operations—Domestic Department Stores" and "—Operations—Domestic Discount Stores."

We believe that our stores and other facilities meet our present needs and that our properties are generally well maintained and suitable for their intended use. We continually renovate and remodel our stores and evaluate markets that present attractive opportunities to open new stores in light of current and expected market conditions.

Insurance

We maintain insurance to cover risks associated with the ordinary operation of our business, including general liability, property coverage and workers' compensation insurance. We insure our headquarters, stores and distribution centers against such hazards as fire, explosion, theft, flood, mischief and accidents. We also maintain business interruption insurance. All of our policies are underwritten with reputable insurance providers. We believe that our insurance coverage is sufficient for the risks associated with our operations.

Legal and Regulatory Proceedings

We are involved in various litigation arising out of the ordinary course of our business. As of December 31, 2017, we had 283 pending lawsuits (excluding those of our subsidiaries) filed against us and have established provisions in an aggregate amount of ₩23 billion in respect of our pending legal proceedings.

In April 2016, a group of consumers, together with the National Health Insurance Service of Korea and the Korean Environmental Industry & Technology Institute, filed a series of lawsuits against us and certain other manufacturers and sellers of humidifier disinfectants, alleging that such products produced or sold by the defendants, including certain humidifier disinfectants packaged and sold under our private label in our Lotte Mart discount stores between 2006 and 2011, contained toxic chemicals that caused serious and, in some cases, fatal lung damage. The cases are currently pending before the trial court, and we are continually evaluating the merits of the respective claims. We are negotiating settlements with some of the plaintiffs whose claims have been verified by the Korean Environmental Industry & Technology Institute and have established provisions of ₩9.1 billion as of December 31, 2017 in connection with potential damages. However, there is no assurance that additional claims of a similar nature will not be brought by other customers who purchased the same products between 2006 and 2011, or that such claims will not have a material adverse effect on our business, results of operations, financial condition and reputation. In addition, certain of our former employees, including the former head of our Lotte Mart operations, were criminally charged with negligent homicide and, following appeal, were sentenced with prison terms of two and a half to four years by the Seoul High Court in August 2017, which decision was affirmed by the Supreme Court of Korea in January 2018, in connection with the sale of such humidifier disinfectants.

In May 2016, the Ministry of Science and ICT ordered Woori Home Shopping & Television to suspend its broadcasts from 8am to 11am and 8 pm to 11pm each day for six months starting September 2016, in light of certain misconduct by the company and its former president in connection with its license renewal in 2015. Following the filing of an administrative lawsuit by Woori Home Shopping & Television to seek the cancellation of such administrative penalty imposed by the Ministry of Science and ICT, the Seoul Administrative Court issued an order to suspend the implementation of such penalty in August 2016 and ruled in favor of Woori Home Shopping & Television to cancel such penalty in September 2017. Such decision was appealed by the Ministry of Science and ICT, and the appeal is currently pending before the appellate court. We cannot predict the outcome of such proceeding at this time. See "Risk Factors — Risks Relating to Regulation — We are subject to numerous laws and regulations that could affect our operations."

In June 2016, the Seoul Central Prosecutor's Office commenced investigations of various Lotte Group companies, including us, our current and former senior management and our controlling shareholders, the Shin family, based on allegations of criminal misconduct. From July to October 2016, following several months of investigations, the Seoul Central Prosecutor's Office charged Mr. Dong-bin Shin, our standing director and the chairman of the Lotte Group, Mr. Dong-ju Shin, the former vice chairman of Lotte Holdings, Mr. Kyuk-ho Shin, the founder and former chairman of the Lotte Group, and Ms. Young-ja Shin, our former non-standing director, with various allegations of embezzlement, breach of trust and tax evasion. Furthermore, various members of senior management of several Lotte Group companies were also charged with alleged breach of trust in connection with the alleged misconduct by the Shin family. In December 2017, the Seoul Central District Court sentenced Mr. Dong-bin Shin to one year and eight months in prison (which was suspended for two years), Mr. Kyuk-ho Shin to four years in prison and a fine of ₩3.5 billion and Ms. Young-ja Shin to two years in prison, while Mr. Dong-ju Shin and all but one of the other members of senior management of the Lotte Group companies were acquitted. Both the prosecution and each of Mr. Dong-bin Shin, Mr. Kyuk-ho Shin and Ms. Young-ja Shin have appealed the Seoul Central District Court's judgment, and such appeals are currently pending before the Seoul High Court.

Moreover, in April 2017, the Seoul Central Prosecutor's Office charged Mr. Dong-bin Shin with alleged bribery, in connection with a donation made in March 2016 to a non-profit foundation over which the former President Geun-hye Park was purported to have substantial influence. In February 2018, the Seoul Central District Court sentenced Mr. Dong-bin Shin to a prison term of two and a half years. Mr. Dong-bin Shin, who currently serves as our non-executive standing director and is not involved in our day-to-day management, has appealed such decision, and the appeal is currently pending before the Seoul High Court.

In addition, our business operations and transactions with our subsidiaries, affiliates and other companies within the Lotte Group are subject to ongoing scrutiny by the FTC as to, among other things, whether such transactions constitute undue financial support among companies of the same business group. Although we received corrective orders from, and were assessed fines by, the FTC for providing undue financial support in the past, no such regulatory actions were taken against us since 2015.

Our retail business operations are also subject to ongoing scrutiny by the FTC in connection with potential violations of relevant laws and FTC regulations governing the retail industry. We are not permitted, among other things, to (i) unduly return products, in whole or in part, that we have purchased from our suppliers, (ii) unduly reduce the purchase price after we have purchased products from our suppliers, (iii) delay payment of the purchase price to our suppliers or our store lessees without justifiable reasons, (iv) make any undue and coercive demands for special discounts or free gifts to our suppliers or our store lessees or (v) unduly charge product promotion costs to our suppliers. Since 2015, we have received seven corrective orders from the FTC for engaging in certain of these and other unfair business practices, pursuant to which we took corrective measures and paid a total of ₩4.7 billion in penalties. See "Risk Factors—Risks Relating to Regulation—Our transactions with our subsidiaries, affiliates and other member companies of the Lotte Group may be restricted under Korean fair trade and tax regulations."

Employees

As of December 31, 2017, we employed 25,982 people in Korea (excluding employees of our subsidiaries), of which 16,631 were full-time members of our staff, 8,999 were part-time employees and 352 were temporary employees. Contract-based employees typically perform more specialized tasks and services compared to the regular members of our staff and include, among others, in-store nurse practitioners, public address system announcers and designers. Because our staffing requirements fluctuate during the year as a result of the seasonality of the retail industry, we typically also employ temporary workers, including full-time interns and part-time POS technicians. In addition, we outsource certain services, such as security, cleaning and janitorial services, building maintenance and parking services to third-party contractors.

The following table sets forth, as of December 31, 2017, the number of our employees (excluding those of our subsidiaries) and outsourced workers by category and the percentage that such category represented of our total employees:

	As of December 31, 2017			
	Full-time	Part-time	Temporary	Total
Department stores	5,127	—	209	5,336
Discount stores	4,606	8,999	3	13,608
Others(1)	6,898	—	140	7,038
Total	16,631	8,999	352	25,982

(1) Includes our supermarkets, LOHB's and Lotte Cinema.

Employee compensation is based on a combination of annual base salary and wages, overtime and periodic bonuses. Bonuses are paid based on individual performance and our overall performance. We grant our regular full-time employees annual increases in base salary. We also provide a wide range of benefits to our regular full-time employees, including medical insurance, group accident insurance, scholarships and private loans. We believe that our compensation package is similar to that offered by our peer retail companies in Korea.

As of December 31, 2017, approximately 26% of our employees in Korea (excluding employees of our subsidiaries) were members of our labor union, and we believe that overall our relationship with our employees and the union is good. Since the formation of our first union in 1987, we have not experienced any work slowdowns, work stoppages or strikes. Every two years the union and our management negotiate and enter into new collective bargaining agreements, which we last entered into in September 2016. We negotiate wage rate increases every year with our labor union.

Our full-time employees in Korea, including executive officers as well as non-executive employees, are subject to a pension insurance system pursuant to the National Pension Act of Korea, under which we make monthly contributions to the pension accounts of the employees, and upon retirement, such employees are paid from their pension accounts. We contribute an amount equal to 4.5% of an employee's standard monthly wages, and each employee contributes 4.5% of his or her standard monthly wages, into his or her personal pension account. In addition, in accordance with the Guarantee of Worker's Retirement Benefits Act of Korea, we have adopted retirement pension plans for our employees. Contributions under the retirement pension plans are deposited annually into a financial institution, and an employee may elect to receive a monthly pension or a lump-sum amount upon retirement, pursuant to either a defined benefit plan or a defined contribution plan. The defined benefit plan guarantees a certain payout at retirement, according to a fixed formula based on the employee's average salary and the number of years for which the employee has been a plan member. For further information regarding our retirement pension obligations with respect to our employees, see Note 21 of the notes to our consolidated financial statements as of and for the years ended December 31, 2017 and 2016 appearing elsewhere in this offering circular.

Under Korean law, we may not terminate the employment of our regular full-time employees except under specified circumstances.

In January 2006, our employees formed an employee stock ownership association ("ESOA"), which has the right to purchase on behalf of its members up to 20% of the shares that we offer publicly in Korea pursuant to the FSCMA. Employees who purchase our shares through the ESOA will be subject to a one-year lock-up period pursuant to the Employee Welfare Standard Act of Korea. As of December 31, 2017, the ESOA owned 30,220 shares, or 0.1% of our outstanding capital stock.

MANAGEMENT

Board of Directors

Our board of directors has ultimate responsibility for the administration of our affairs. Our articles of incorporation currently provide for a board of directors of no less than three and no more than 11 members, more than half of whom and no less than three members must be outside directors. Directors are elected at a general meeting of shareholders by a majority vote of those present or represented so long as the affirmative votes also represent not less than 25% of the issued and outstanding shares with voting rights. The term of office for our directors may not exceed three years. However, the term of office will be extended to the close of the annual general meeting of shareholders if the term of office for the director ends before the close of the annual general meeting of shareholders convened with respect to the last fiscal year within such term of office.

A representative director is a director elected by a majority of the board of directors and is empowered to make decisions regarding our day-to-day business. A representative director may be removed at any time by a majority of the board of directors. We currently have two representative directors: Won-joon Lee, who also serves as the chairman of our board of directors, and Hee-tae Kang, who also serves as our president and chief executive officer.

Our outside directors are non-standing directors elected from among those persons who do not have a special relationship with us that would interfere with the exercise of their independent judgment.

The business address of each of our directors (as well as our executive officers) is at our registered office at Lotte Building, 81, Namdaemun-ro, Jung-gu, Seoul 04533, Korea.

Standing Directors

Our current standing directors are as follows:

Name	Position	Age	Expiration of Current Term
Dong-bin Shin	Standing director	63	March 2020
Won-joon Lee	Representative Director, Chairman of the Board of Directors	61	March 2020
Hee-tae Kang	Representative Director, President and Chief Executive Officer	58	March 2019
Jong-min Yoon	President	57	March 2019

Outside Directors

Our current outside directors are as follows:

Name	Principal Occupation	Age	Expiration of Term of Office
Jae-sool Lee	Auditor of Pyungchang Winter Olympic Organization Committee	59	March 2019
Hye-ryun Kang	Professor of Management, Ewha University	60	March 2019
Jae-won Lee	Attorney, Yulchon LLC	60	March 2020
Jae-wan Park	Dean of National Affairs Graduate School, Sungkyunkwan University	63	March 2020
Suk-young Choi	Adjunct Professor, Seoul National University	62	March 2020

Senior Management

Executive Officers

In addition to our standing directors, who are also executive officers, we have the following senior executive officers:

Name	Title and Responsibilities	Age
Jong-in Kim	Vice President, Head of Discount Store Division	55
Jin-sung Lee	Senior Managing Director, Future Strategy Institute	49
Jae-yoon Suh	Senior Managing Director, Management Innovation (China)	59
Jang-hwa Lee	Senior Managing Director, Department Store Operations	58
Ho-joo Chang	Senior Managing Director, Finance	57
Yoon-chul Roh	Senior Managing Director, New Business	56
Dong-hyuk Chung	Senior Managing Director, Department Store Merchandising	55
Young-kyun Kim	Senior Managing Director, Overseas Mart Business	57
Chang-hee Nam	Senior Managing Director, Discount Store Merchandising	51
Choon-suk Choi	Senior Managing Director, Head of Supermarkets	58
Won-chun Cha	Senior Managing Director, Head of Cinema	60
Tae-hak Cho	Managing Director, Department Store Operations	57
Min-yeol Ryu	Managing Director, Department Store Management Support	52
Joon Chang	Managing Director, Design	59
Hyung-sik Chun	Managing Director, Department Store Merchandising	54
Yoon-sung Chung	Managing Director, China Operations	53
Kyu-wan Hwang	Managing Director, Myungdong Department Store	53
Jung-ho Song	Managing Director, Department Store Operations	52
Joo-kyung Yoon	Managing Director, Discount Store (Hypermart) Operations	52
Dae-sik Chang	Managing Director, Discount Store (VICMarket) Operations	51
Chang-yong Kim	Managing Director, Discount Store Management Support	51
Ji-hyun Han	Managing Store, Discount Store Home Products	50
Jong-hwan Kim	Managing Director, Supermarket Sales	55
Won-ho Chung	Managing Director, Supermarket Merchandising	49
Kwan-no Lee	Managing Director, Cinema Business Strategy	55
Sung-hyun Kang	Managing Director, LOHB's	48

Board Practices

We currently have three committees that serve under our board of directors:

- the Audit Committee;
- the Outside Director Candidate Nomination Committee; and
- the Intercompany Transaction Committee.

Our board of directors may establish other committees if it deems them necessary. Our board of directors appoints each member of these committees, except for members of our Audit Committee.

Audit Committee

Under Korean law and our articles of incorporation, we are required have an Audit Committee consisting of three or more directors, at least two-thirds of whom must be outside directors. Members of the Audit Committee are elected by our shareholders at the general meeting of shareholders. Currently, our Audit Committee consists of three directors, all of whom are outside directors: Suk-young Choi, Jae-wan Park and Jae-sool Lee. Jae-wan Park serves as the chairman of the Audit Committee.

The Audit Committee reviews all audit and compliance-related matters and makes recommendations to our board of directors. The Audit Committee's primary responsibilities include:

- engaging independent auditors;
- approving independent audit fees;
- approving audit and non-audit services;
- reviewing annual financial statements;
- reviewing audit results and reports, including management comments and recommendations;
- reviewing our system of controls and policies, including those covering conflicts of interest and business ethics;
- considering significant changes in accounting practices; and
- examining improprieties or suspected improprieties.

In addition, in connection with the annual general meeting of shareholders, the Audit Committee examines the agenda for, and financial statements and other reports to be submitted by, the board of directors at each annual general meeting of shareholders. Our internal and external auditors report directly to the chairman of the Audit Committee .

The Audit Committee holds regular meetings at least once every quarter, and more frequently as needed.

Outside Director Candidate Nomination Committee

In compliance with Korean corporate governance requirements applicable to publicly-held companies, at least half of the members of the Outside Director Nomination Committee must be outside directors. The Outside Director Nomination Committee reviews the qualifications of potential candidates and proposes outside director nominees to serve on our board of directors. Currently, our Outside Director Nomination Committee consists of three directors, two of whom are outside directors: Won-joon Lee, Hye-ryun Kang and Jae-wan Park. Won-joon Lee serves as the chairman of the Outside Director Nomination Committee.

Intercompany Transaction Committee

The Intercompany Transaction Committee consists of three or more directors, at least two-thirds of whom must be outside directors. The Intercompany Transaction Committee has the authority to review and approve:

- any private agreements with our affiliates relating to construction, logistics, advertising or IT systems with a value in excess of ₩5 billion; or
- Other transactions with affiliates or on behalf of an affiliates that would require the Intercompany Transaction Committee's review pursuant to its qualitative guidelines.

Currently the members of the Intercompany Transaction Committee are Hee-tae Kang, Jae-sool Lee and Jae-won Lee. Hee-tae Kang serves as the chairman of the Intercompany Transaction Committee.

Compensation of Directors and Executive Officers

The aggregate short-term remuneration paid and benefits in kind granted during the year ended December 31, 2017 to our directors, including directors who also held senior management positions, was ₩6.1 billion. As of December 31, 2017, there were no loans granted by us to any of our directors and senior management. We do not have service contracts with any of our directors or executive officers.

SHAREHOLDERS

The following table sets forth information regarding to the holders of our common stock as of December 31, 2017:

Shareholders	Number of Shares Held	Percent of Total Shares Issued
Lotte Corporation[(1)]	7,275,675	25.87%
Dong-bin Shin	2,781,409	9.89
Hotel Lotte Co., Ltd. [(1)]	2,484,338	8.83
Korea Fuji Film Co., Ltd. [(1)]	2,209,819	7.86
Lotte IT Tech Co., Ltd. [(1)]	1,353,510	4.81
Kyuk-ho Shin	262,438	0.93
Hotel Lotte Pusan Co., Ltd. [(1)]	220,326	0.78
Young-ja Shin	207,911	0.74
Dong-ju Shin	133,953	0.48
Others	11,192,668	39.81
Total	28,122,047	100.0%

(1) Entities in which members of the Shin family have a direct or indirect beneficial ownership interest. Certain of our directors and executive officers are members of the Shin family, including Dong-bin Shin, our standing director.

LOTTE GROUP

We are a member company of the Lotte Group. The Lotte Group traces its origins to the opening of Lotte Confectionery Co., Ltd. in 1967 by Mr. Kyuk-ho Shin, the founder of the Lotte Group. Since the founding of Lotte Confectionery, the Lotte Group has entered businesses as diverse as construction, petrochemical, tourism and retail. The Lotte Group has grown into a diversified industrial group and the fifth largest private sector business group in Korea in terms of combined assets as of May 15, 2017 according to the Korea Fair Trade Commission. As of December 31, 2017, the Lotte Group consisted of ten listed companies and 82 unlisted companies.

Member companies of the Lotte Group are organized into four sub-groups — food; retail; chemical, construction and manufacturing; and tourism, service and finance.

The following chart shows major member companies of the Lotte Group as of December 31, 2017:

LOTTE GROUP

Food	Retail	Chemical, Construction and Manufacturing	Tourism, Service and Finance
• Lotte Confectionary	• Lotte Shopping	• Lotte MCC	• Hotel Lotte
• Lotte Chilsung Beverages	• Korea Seven	• Lotte Engineering & Construction	• Hotel Lotte Busan
• Lotte Food	• LOTTE Himart	• Lotte Aluminium	• Lotte Insurance
• Lotte Nestle	• Woori Home Shopping & Television	• Lotte Chemical	• Lotte Card
• Lotte Asahi Liquor	• FRL Korea	• Lotte Engineering & Machinary	• Lotte JTB
• Lotte Merchandising Service Center		• Lotte Fine Chemicals	• Lotte Capital
• Lotte GRS		• Lotte Advanced Materials	• Lotte PS Net
• Lotte R&D Center		• KP Chemtech	• Lotte Global Logis
		• Korea Fujifilm	• Lotte Rental
		• Canon Korea Business Solutions	• Lotte Logistics
			• Lotte Resort
			• Lotte Duty Free
			• Lotte Members
			• Lotte Culture Foundation

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

We engage from time to time in various transactions with related parties, including our associates, joint ventures and affiliates. We believe that we have conducted our transactions with related parties as we would in comparable arm's-length transactions with a non-related party, on a basis substantially as favorable to us as would be obtainable in such transactions.

Under the Monopoly Regulation and Fair Trade Act of Korea, in the event that (i) we provide funds, securities or assets to, or enter into a transaction (or series of transactions) with, a "specially-related" party, which includes affiliates, and (ii) the value of such transaction (or series of transactions) or provision is greater than either (x) 5% of the greater of our paid-in capital and total capital or (y) Won 5 billion, we are required to obtain approval for such transaction or provision by resolution of our board of directors and to disclose the main terms and conditions of such transaction or provision to the public. We are currently required to disclose any such transaction or provision within one day following adoption of the relevant board resolution.

Under the Korean Commercial Code, in the event that we plan to enter into a transaction with (i) a major shareholder who owns or beneficially owns more than 10% of the total number of our issued and outstanding shares (other than non-voting shares), (ii) a director, (iii) a spouse or lineal ascendant or descendent of the persons described in (i) and (ii), (iv) a company in which half or more of the total number of issued and outstanding voting shares is held by a person falling under (i) through (iii), solely or jointly with others, or his/her subsidiary company, or (v) a company in which half or more of the total number of issued and outstanding voting shares is held by a person falling under (i) through (iii) together with a company falling under (iv), we are required to obtain prior approval by more than two thirds of our board of directors. In connection with the approval by the board of directors, the major terms of the transaction must be disclosed, and the terms and conditions as well as the procedure of the transaction are required be structured and conducted in a fair manner.

Furthermore, as a publicly listed company in Korea, we are restricted under the Korean Commercial Code (subject to certain exceptions) from providing any loan, guarantee or collateral to or for the benefit of any of our major shareholders or their specially-related parties, directors, executive officers or auditors. In addition, as a company listed on the Korea Exchange with total assets of not less than Won 2 trillion as of the end of the most recent fiscal year, if we intend to engage in any of the following transactions with our largest shareholder (or such shareholder's specially-related parties) or with any of our other specially-related parties, the Korean Commercial Code generally requires us to obtain approval of our board of directors for such transaction and report relevant information (such as the purpose of the transaction, the identities of the counterparties, the terms and conditions of the transaction, and the estimated value of the transaction) at the first regular general meeting of shareholders held after the board meeting approving such transaction, unless certain exceptions apply: (i) any single transaction the value of which amounts to 1% or more of our total assets or total revenue as of the end of the most recent fiscal year; or (ii) a series of transactions executed during a fiscal year the aggregate value of which amounts to 5% or more of our total assets or total revenue as of the end of the most recent fiscal year.

For additional information regarding our transactions with related parties, see Note 40 of the notes to our consolidated financial statements as of and the for the years ended December 31, 2017 and 2016 included elsewhere in this offering circular.

HI-MART

Overview

Hi-mart is the largest consumer electronics specialty retailer in Korea, with the largest sales and store network. It specializes in consumer electronics products and household appliances and offers a diverse selection of domestic and international brands through a nationwide chain of retail stores. Since opening its first electronics retail store in 1987, Hi-mart has built a nationwide chain of 462 stores that it directly operates in all nine provinces and major cities in Korea. Hi-mart operates all of its stores under the Hi-mart brand name, which has been recognized by Chosun Biz as the most popular consumer electronics retailer brand in Korea in each of the past 8 years.

Hi-mart believes its brand recognition, broad product selection, dedicated and knowledgeable sales consultants, effective brand marketing strategies and distinct store formats differentiate it from its competitors by positioning its stores as the preferred destination for consumer electronics products and household appliances in a shopping environment that is informative and designed to capture customers' attention. Hi-mart has achieved its market leading position through a nationwide chain of retail stores that provides a "one-stop" shopping experience by offering at competitive prices a wide selection of consumer electronics products and household appliances, including portable electronics, computers, mobile communication devices and various household and kitchen appliances, for price-sensitive yet quality conscious customers. Hi-mart's stores are staffed by highly-trained sales consultants who have undertaken Hi-mart's rigorous in-house training programs to ensure that they are well-equipped to provide its customers with a quality shopping experience. Hi-mart carries a wide selection of approximately 26,000 products, comprising approximately 1,850 brands sourced from approximately 790 suppliers in Korea and overseas. The large amounts of purchases that Hi-mart makes enable it to reduce its purchasing costs through volume discounts.

Hi-mart believes that its position as the largest specialty retailer in the Korean consumer electronics retail industry, its marketing expertise and distribution know-how will continue to differentiate it as a provider of quality retail services and help it to take advantage of attractive growth opportunities. Hi-mart plans to continue to selectively expand its nationwide retail network, enhance the competitiveness of its existing stores, maintain flexibility with respect to store locations and property ownership, and improve its operating efficiency and profitability through further utilizing economies of scale, expanding the pool of its domestic and international suppliers and improving its IT systems. Hi-mart also plans to continue to focus on enhancing its online presence in order to more effectively target younger customers who are familiar with the e-commerce retail environment.

Hi-mart was established in 1987 as Korea Credit Distribution Co., Ltd. primarily to engage in the distribution of Daewoo Electronics products. In 2000, Hi-mart changed its corporate name to Hi-mart Co., Ltd. and launched an online electronics shopping mall, to capitalize on growing e-commerce opportunities and to enable it to more effectively target younger consumers with a high propensity to use the internet. Hi-mart was listed on the KRX KOSPI Market of the Korea Exchange in June 2011. In October 2012, Hi-mart became our consolidated subsidiary upon our acquisition of a 65.25% equity interest in Hi-mart from certain of its shareholders, and we changed the company's name to LOTTE Hi-mart Co., Ltd., while electing to continue operating the company's stores under the brand name Hi-mart.

Hi-mart's sales amounted to ₩4,099 billion in 2017 compared to ₩3,939 billion in 2016 and ₩3,896 billion in 2015. Hi-mart's net income amounted to ₩148 billion in 2017 compared to ₩121 billion in 2016 and ₩107 billion in 2015. Hi-mart had total assets of ₩3,205 billion and total equity of ₩2,026 billion as of December 31, 2017. Due to the effects of Hi-Mart's adoption of Korean IFRS 1115 commencing in 2017, its sales for 2015 and 2016 are not directly comparable to its sales for 2017. See Note 3 of the notes to Hi-mart's financial statements as of and for the years ended December 31, 2017 and 2016 included elsewhere in this offering circular.

Hi-mart maintains its principal executive offices at Hi-mart Building, 156 Samsung-ro, Gangnam-gu, Seoul, Korea.

Retail Store Operations

Hi-mart currently operates 462 retail stores in Korea. Hi-mart's retail stores are designed to provide a "one-stop" shopping experience by offering, at competitive prices, a broad assortment of consumer electronics products and household appliances. At Hi-mart's stores, customers are able to compare, with the assistance of its sophisticated and knowledgeable sales consultants, a wide variety of the leading brand products. Hi-mart's market leadership position enables it to shape industry standards when developing and introducing new features to its retail stores.

In each of its stores, Hi-mart operates a digital "shop-in-shop" special demonstration area where it places on display most of its latest digital products such as notebook computers, tablets, digital cameras and headphones, so that its customers have the opportunity to touch and feel the products before making their purchase decisions. In some of its larger stores, Hi-mart also operates special demonstration areas dedicated to its mobile phones and premium products such as high-end LED and "smart" televisions, as well as demonstration rooms for high-end home theater systems. Hi-mart aims to provide sufficient parking space at each of its stores to enhance their accessibility and wide passageways inside the stores to accommodate customers with baby strollers. Hi-mart's stores also offer complimentary same- or next-day nationwide delivery and installation service. For most of the products sold by Hi-mart, customers may return the product within seven days for a full refund.

Store Locations and Ownership

Since its inception, Hi-mart has achieved growth by rapidly expanding throughout Korea and continually renovating, remodeling and relocating stores to optimize its operational performance and commercial reach.

The following table sets forth the number of Hi-mart's retail stores (including stores located within our Lotte Mart discount stores under a "shop-in-shop" format) by region and the gross floor space of such stores as of December 31, 2017:

Region	Number of stores	Gross floor space (square meters)
Seoul	65	71,680
Busan	31	32,017
Daegu	21	24,619
Incheon	27	24,635
Gwangju	15	16,145
Daejeon	15	16,446
Ulsan	12	12,860
Gyeonggi-do	123	114,643
Gangwon-do	15	13,616
Chungcheongbuk-do	15	16,204
Chungcheongnam-do	23	21,276
Jeollabuk-do	23	24,119
Jeollanam-do	16	13,807
Gyeongsangbuk-do	22	21,093
Gyeongsangnam-do	34	34,857
Jeju-do	5	5,340
Total	462	465,156

The following table sets forth, for the periods indicated, changes in the total number of stores (including those stores located within our Lotte Mart discount stores):

	For the year ended December 31,		
	2015	2016	2017
Number of stores at beginning of period	436	440	457
Number of new stores opened	5	19	10
Number of stores closed	1	2	5
Number of stores at end of period	440	457	462
Number of stores relocated	4	5	6

Hi-mart's general strategy has been to enter into lease arrangements that enable it to retain flexibility to relocate to another area in a relatively short timeframe and mitigate the impact on its capital expenditures. Hi-mart also seeks to minimize the economic risks associated with its purchase of stores by limiting such investments to more attractive commercial areas. Hi-mart typically uses one of the following methods:

- purchasing the land and constructing the retail space or remodeling the existing building;
- entering into a lease for the land and either having the landlord construct the building on such land or constructing the retail space itself, or
- entering into a lease agreement for a pre-existing building, followed by remodeling.

The following table sets forth, as of the dates indicated, the number of stores (including those stores located within our Lotte Mart discount stores) and their gross floor space by type of ownership:

	As of December 31,					
	2015		2016		2017	
Type of ownership of property	**Number**	**Gross floor space (m^2)**	**Number**	**Gross floor space (m^2)**	**Number**	**Gross floor space (m^2)**
Land and buildings owned	38	51,522	38	51,522	39	53,924
Land leased and new building constructed by Hi-mart or the landlord	188	192,058	190	190,868	186	193,736
Buildings leased	214	199,976	229	213,854	237	217,495

If Hi-mart elects to enter into lease arrangements, it is generally required to deposit a lump-sum amount as key money and pay a monthly rent for the duration of the lease, which term is typically five to seven years. In the event that Hi-mart is unable to use the leased property for its operations due to damage or other reasons, the lease may be terminated and the responsible party will be required to compensate the other party for losses suffered. In general, Hi-mart renews its lease agreements for five- to seven-year terms based on pre-agreed monthly rent amounts. With respect to Hi-mart stores located within our Lotte Mart discount stores, monthly rent amounts are typically renegotiated every two to three years to reflect the prevailing market rent. Hi-mart has not experienced significant difficulties in the past in renewing its lease agreements. Certain of the leases were not renewed primarily due to Hi-mart's strategic decision to relocate the stores to a more commercially attractive location.

In recent years, following our acquisition of a controlling equity interest in Hi-mart in October 2012, Hi-mart has opened a significant number of new stores as "shop-in-shop" stores located within our Lotte Mart discount stores. Such store format allows both our Hi-mart and Lotte Mart operations to provide a more convenient one-stop shopping venue to customers and generate increased customer traffic. As of December 31, 2017, 109 Hi-mart stores were located within our Lotte Mart discount stores.

Store Size

As of December 31, 2017, Hi-mart's retail stores had selling areas with sizes ranging from approximately 320 to 4,500 square meters. As of such date, Hi-mart's retail stores had an average size per store of 1,007 square meters and 7.0 sales consultants excluding sales consultants provided by its vendors and suppliers. Hi-mart categorizes its stores into three broad categories by size: small, standard and mega.

The following table sets forth, as of the dates indicated, the number of stores by type and the average size of stores:

	As of December 31,		
	2015	2016	2017
Store type:			
Mega	70	70	71
Standard	118	119	123
Small	252	268	268
Total	440	457	462
Average size	1,008 m^2	998 m^2	1,007 m^2

The most common among Hi-mart's retail stores are its standard stores. Hi-mart operates small-sized stores to target niche areas that are not covered by its standard stores. Hi-mart also operates mega stores, which are its flagship stores, that provide a more extensive selection of products. In recent years, the average size of Hi-mart's stores has remained relatively constant. The key characteristics of Hi-mart's stores based on category are as follows:

- ***Mega stores.*** Hi-mart's mega stores have selling areas with sizes ranging from approximately 1,320 to 4,500 square meters. These stores typically have approximately 10,000 to 15,000 products on display and are staffed by nine to 23 sales consultants (excluding sales consultants provided by Hi-mart's vendors and suppliers). Hi-mart's mega stores also have special demonstration areas for its high-margin, premium products such as high-end "smart" and LED televisions and home theater systems.
- ***Standard stores.*** Hi-mart's standard stores have selling areas with sizes ranging from approximately 990 to 1,320 square meters. These stores typically have approximately 8,000 to 12,000 products on display and are staffed by five to ten sales consultants (excluding sales consultants provided by Hi-mart's vendors and suppliers).
- ***Small stores.*** Hi-mart's small stores typically have selling areas with sizes ranging from approximately 320 to 990 square meters. They typically have approximately 6,000 to 9,000 products on display and are staffed by three to seven sales consultants (excluding sales consultants provided by Hi-mart's vendors and suppliers).

The addition of new retail stores has contributed to Hi-mart's sales growth and achieving economies of scale that enable Hi-mart to obtain operational cost savings. Hi-mart is planning to selectively expand its nationwide network of its retail stores, subject to market conditions. In addition, Hi-mart plans to continue expanding, reconstructing or relocating a number of its existing stores to add more selling space.

Store Personnel

Each Hi-mart store is headed by a branch manager who works with its head of sales department to maximize the performance of its sales consultants. Hi-mart's stores are equipped with an in-store point-of-sale system that maintains a record of all transactions and allows its management to track the performance levels of its sales consultants on a real-time basis. Depending on the store's sales volume, the sales department of each store is supplemented by one or more sales managers. The sales manager provides additional leadership on the sales floor, and the manager position creates a more defined career path for sales consultants. Hi-mart's retail stores are staffed by sales consultants who are its employees, as well as sales consultants provided by its key suppliers and vendors. As of December 31, 2015, 2016 and 2017, Hi-mart employed 2,866, 2,803 and 2,782 sales consultants, respectively, excluding sales consultants provided by its suppliers and vendors. The sales consultants are not only responsible for sales and customer service activities but they rotate on a regular basis to engage in inventory control and stocking, product displaying, cashiering and accounting activities. Hi-mart believes that engaging its sales consultants in a wide range of activities provides Hi-mart with greater options to manage its store personnel effectively as well as enabling it to maximize the overall performance of each store.

Sales Consultants

Hi-mart believes that it has one of the largest and most sophisticated sales staffs in the Korean consumer electronics retail industry and that its dedication to sales staff training differentiates Hi-mart from its competitors and provides Hi-mart with a competitive advantage. Hi-mart's sales consultants are trained to match customers of varying income levels and demographic segments with specific products that fit their particular needs. As more customers base their consumer electronics products and household appliance purchase decisions on specific features of the product that meet their individual needs and such products become increasingly more complex, Hi-mart has put additional emphasis on training its sales consultants in order to more effectively target different desired customer segments, including housewife consumers in their 30s to early 50s who typically exercise significant decision-making power regarding purchases in households. Hi-mart's sales consultants are able to offer discretionary discounts to potential customers within a pre-approved discount level in order to complete a sale. Hi-mart believes that its sales consultants allow it to build and maintain long-term relationships with many of its customers.

Many of Hi-mart's key suppliers and vendors provide support to Hi-mart's sales operations by dispatching their sales consultants to its stores. As of December 31, 2017, slightly less than half of Hi-mart's sales consultants at its stores had been provided by its suppliers and vendors. Such sales consultants are required to undergo Hi-mart's rigorous in-house training prior to working at its stores. They sell products from all brands that Hi-mart offers at its stores and wear the Hi-mart uniform.

Sales Staff Compensation. Compensation for the sales consultants directly employed by Hi-mart consists of a combination of annual base salary and wages, overtime and periodic bonuses. Bonuses are paid largely based on the overall performance of the individual store and Hi-mart's overall performance as a company. The salaries and benefits of sales consultants provided by Hi-mart's suppliers and vendors are paid by them. On a case-by-case basis, Hi-mart also pays such sales consultants a limited amount of periodic bonuses largely based on the overall performance of the individual store.

Sales Staff Training. Hi-mart believes its ability to effectively manage, train and support its sales consultants has been one of the keys to its success, and Hi-mart seeks to continually upgrade its sales force to ensure that it further advances its leadership position in the industry. The ongoing training of Hi-mart's sales consultants to enhance the productivity and professionalism of its sales force is an essential element in this endeavor. Hi-mart provides its new sales consultants with an intensive and comprehensive training program prior to deploying them to the retail stores. In addition, Hi-mart provides a number of ongoing training programs and resources for its sales consultants so that they can continue to expand their knowledge of products sold and the latest developments in consumer electronics retail industry. At each of its retail stores, Hi-mart conducts a daily training session each morning to introduce and explain new and upgraded products. Hi-mart also hosts various small group study sessions for its sales consultants, as well as conducting information seminars. Hi-mart has also established an internal online knowledge management and sharing system where its sales consultants can share knowledge and insights regarding the products sold, as well as make available to its employees industry-related educational video broadcasts and materials that provide product training and sales strategies. By providing its sales force and management with a consolidated and readily-available database, Hi-mart believes that it is able to promote knowledge sharing and provide higher quality customer service.

In addition to its periodic training sessions, Hi-mart offers its sales consultants the opportunity to participate in its Sales Master and Service Master training programs. Implemented in 2005 and approved by the Ministry of Employment and Labor, the Sales Master training program is an intensive training program that evaluates a number of measures, including detailed knowledge of products, ability to explain product features and effectiveness of sales skills. Prior to employment, all new sales consultants are required to take a written test for the third-level certification. Further written and oral tests are required for second-level certification for mastery of household appliances and first-level certification for mastery of high technology electronics products. The certifications are required to be renewed every three years, and a minimum of second-level certification is required to be considered for promotion to a senior sales management position. As of December 31, 2017, approximately 45% of Hi-mart's sales consultants (excluding sales consultants provided by Hi-mart's suppliers and vendors) have obtained first-level Sales Master certification and approximately 28% have obtained second-level certification.

Starting in 2008, Hi-mart also implemented the Service Master training program, which focuses more specifically on customer interaction skills and enhancing customer service. As part of Hi-mart's new employee orientation program, new sales consultants are required to take a written test for the beginner-level certification. Employees who fail the written test are required to take remedial classes. Further written and oral tests are required for the intermediate-level certification. As of December 31, 2017, approximately 27% of Hi-mart's sales consultants (excluding sales consultants provided by Hi-mart's suppliers and vendors) have obtained beginner-level Service Master certification and approximately 29% have obtained intermediate-level certification.

Products Offered

Hi-mart offers a wide range of consumer electronics products and household appliances in its stores. Hi-mart believes that its substantial experience and expertise in product procurement, supplemented by analysis of the latest market trends and customer databases as well as industry analysis and product research studies, enable Hi-mart to offer products that meet the needs of changing consumer demand.

The table below provides an overview of Hi-mart's main product categories.

Product category	Representative products	Representative brands
Televisions	LCD televisions, LED televisions, Blue-ray DVD players, mini-beam projectors, home theater systems and audio systems	Samsung Electronics, LG Electronics, Haier, Sony
Refrigerators	Dual-door refrigerators, vertical two-door refrigerators	LG Electronics, Samsung Electronics, Electrolux and Dongbu Daewoo Electronics
Washing machines	Drum washers, top-loading washers, dryers	LG Electronics, Samsung Electronics, Dongbu Daewoo Electronics
Kimchi refrigerators	Standing kimchi refrigerators, drawer-type kimchi refrigerators	LG Electronics, Samsung Electronics and Daeyoo Winia
Personal computers	Desktop computers, notebook computers, computer monitors, printers, multifunction copiers, computer games, computer accessories, ink cartridges and toners	Samsung Electronics, LG Electronics, Apple, Acer, Dell and Hewlett Packard

Product category	Representative products	Representative brands
Air conditioners	Standing, wall-mounted, ceiling/ portable type, multi-purpose	LG Electronics, Samsung Electronics, Dongbu Daewoo Electronics, Daeyoo Winia and Carrier
Mobile communications	Mobile phones, tablets and accessories	Samsung Electronics, LG Electronics and Apple
Other electronics	Air purifiers, humidifiers, dish washers, rice cookers, electric stoves, gas ovens, gas ranges, grills, mixers, coffee machines, microwave ovens, etc.	Samsung Electronics, LG Electronics, Dongbu Daewoo Electronics, Cuckoo Homsys, Lihom, SK Magic, GE, Rinnai, Tefal, Panasonic, Braun and Sharp
Other non-electronics	Various categories of complementary non-electronics products such as toys, pet care products, sports and leisure, office supplies, furniture and home decoration products and kitchenware	Various

Hi-mart derives its revenues principally from the sales of televisions, personal computers, refrigerators, air conditioners and washing machines, which together accounted for 57.4% of its sales in 2015, 58.7% in 2016 and 59.5% in 2017.

Although the product procurement department has standardized the product categories that Hi-mart offers at all of its retail stores to take advantage of volume buying opportunities and logistics efficiency, its branch managers seek to tailor the product mix of each of its retail stores according to the preferences of the customers in the particular communities in which its stores are located. Hi-mart will continue to diversify the products that it offers to its customers by introducing the latest products as well as importing products from leading overseas suppliers and vendors. In recent years, in order to capitalize on changes in electronics market trends and consumer preferences, Hi-mart has expanded its offerings of high-end LED televisions, air conditioners and other seasonal electronics products, health-related electronics products (such as air purifiers) and mobile phones. Virtually all products that Hi-mart sells carry manufacturers' warranties.

The following table sets forth, for the periods indicated, Hi-mart's sales of consumer electronics products and household appliances by principal product category:

	For the year ended December 31,					
	2015		2016		2017	
	(In billions of Won and percentages)					
Televisions	₩ 503	12.9%	₩ 457	11.6%	₩ 422	10.3%
Refrigerators	604	15.5	563	14.3	525	12.8
Washing machines	304	7.8	319	8.1	418	10.2
Air conditioners	331	8.5	473	12.0	603	14.7
Kimchi refrigerators	335	8.6	315	8.0	299	7.3
Personal computers	495	12.7	500	12.7	471	11.5
Mobile communications	483	12.4	453	11.5	414	10.1
Other electronics	768	19.7	796	20.2	890	21.7
Other non-electronics	74	1.9	63	1.6	57	1.4
Total	₩3,986	100.0%	₩3,939	100.0%	₩4,099	100.0%

Delivery and Installation

Hi-mart offers a next-day nationwide delivery and installation service, including customer training on how to use the products. For certain eligible products, Hi-mart also offers a same-day delivery and installation service in Seoul and other major metropolitan areas in Korea if orders are made before noon. Hi-mart believes that its ability to promptly deliver and install products purchased by its customers is a critical part of enhancing their shopping experience. In the limited instances where the products are directly delivered from the manufacturer because Hi-mart does not have the products in its distribution center, delivery and installation service is provided through the manufacturer.

As of December 31, 2017, Hi-mart engaged various third-party vendors on an exclusive basis, including:

- 18 regional logistics partners, which provide inventory storage, delivery and installation services; and
- eight service centers.

Hi-mart works closely with its third-party vendors to provide ongoing training programs and resources for the personnel employed by the vendors so that they can meet Hi-mart's service quality standards.

As of December 31, 2017, Hi-mart had processing capacity to make approximately 6,500 deliveries per day with the capacity to handle up to approximately 3,500 additional deliveries per day in the event of extraordinary levels of demand. Hi-mart's third-party vendors are able to utilize outsourced personnel during the busy seasons in order to process higher than normal levels of deliveries.

Suppliers

The products Hi-mart sells are sourced from a wide variety of domestic and international suppliers. Many of Hi-mart's suppliers rely significantly on Hi-mart's store network to distribute their products in Korea. Hi-mart's strategy largely depends on its ability to offer customers a broad selection of well-known brand products and a critical component of its success is satisfactory and stable supplier relationships. Hi-mart purchases its products from approximately 790 suppliers, including major domestic manufacturers such as Samsung Electronics and LG Electronics as well as major foreign manufacturers such as Apple, Philips and Electrolux. Approximately 9.5% in 2015, 10.2% in 2016 and 10.6% in 2017 of Hi-mart's sales consisted of foreign brand products. Hi-mart also procures products through vendors that merchandise products from smaller manufacturers. The large amount of purchases that Hi-mart makes enables it to reduce its purchasing cost through volume discounts.

The table below sets forth, for the periods indicated, the percentage of Hi-mart's sales derived from sales of products supplied by its key suppliers:

	For the year ended December 31,		
	2015	2016	2017
		(percentages)	
Samsung Electronics	29.1%	27.9%	28.5%
LG Electronics	24.3	24.8	25.3
Dongbu Daewoo Electronics	5.2	5.6	5.3
Daeyoo Winia	4.5	4.7	5.0
Cuckoo	2.7	2.7	2.6
Others	34.3	34.3	33.2
Total	100.0%	100.0%	100.0%

The product procurement department responsible for the relevant major product category oversees product selection and merchandising, and is responsible for negotiating the price, promotions and details of payment with suppliers. The product procurement departments employ merchandising specialists who are responsible for purchases of a specific product category and are required to maintain Hi-mart's relationships with the suppliers. Hi-mart has standardized the product categories that it offers at all of its retail stores to take advantage of volume buying opportunities and other chain operation benefits. Hi-mart buys products throughout the year, which enables it to offer its discerning customers products that are appropriate for the specific time of year and are up-to-date with current technology trends and consumer demands. Hi-mart's merchandising specialists also conduct extensive market research and closely collaborate with suppliers to stay abreast of emerging consumer demands in Korea. .

Hi-mart generally does not have long-term supply contracts with its major suppliers. Instead, Hi-mart's relationships with major suppliers are typically governed by written contracts that specify general terms and conditions applicable to purchase orders. Such contracts are continually renewable for an additional year absent objection from either party. Hi-mart negotiates payment arrangements with its suppliers on an individual basis. Hi-mart makes payments within 30 days from the end of the month in which the purchase was made for products it procures from some of its major suppliers, including Samsung Electronics, LG Electronics and mobile phone suppliers. With other suppliers, Hi-mart typically makes payments within 30 to 60 days from the end of the month in which the purchase was made.

Supply Chain Management

Hi-mart operates a network of interconnected distribution centers, which are integrally linked to its retail stores by online order and inventory tracking systems that enable Hi-mart to ensure that its products are delivered to its customers in a cost-efficient and reliable manner while at the same time ensuring appropriate levels of inventories. Generally, products to be sold in Hi-mart's stores are shipped directly from manufacturers to Hi-mart's distribution centers. As of December 31, 2017, Hi-mart operated 13 distribution centers located throughout Korea, which are supplemented by a nationwide network of logistics vendors that it manages.

For large products, such as televisions, refrigerators, washing machines and air conditioners, Hi-mart typically delivers them to its customers after completion of purchase. Accordingly, it is more efficient to store them at Hi-mart's distribution centers. In limited cases where Hi-mart does not have inventory of certain products at its distribution centers, it checks with the supplier and arranges for the manufacturer to deliver the product directly to its customer. Hi-mart has entered into strategic inventory management arrangements with Samsung Electronics and LG Electronics that enable Hi-mart to engage in collaborative short-term and mid-term planning, forecasting and replenishment arrangements with these key suppliers. Hi-mart believes that such close collaboration enables it to more accurately predict customer demand and minimize loss of sales opportunities. In addition, Hi-mart operates an online inventory management system that enables its key suppliers to monitor Hi-mart's purchase order details of their products as well as their delivery status to Hi-mart's distribution centers on a real-time basis.

For small products, such as cameras, rice cookers and coffee machines, Hi-mart maintains a sufficient level of inventory at each of its stores as such goods are typically carried away by its customers at the time of purchase. As a result, it is more efficient for each store to place orders for such goods according to its needs. To facilitate efficient and effective inventory management of small products, each Hi-mart store uses an automated order system, which places orders automatically to Hi-mart's distribution centers when in-store inventory of certain small products drops below a pre-determined minimum level. Each Hi-mart store is equipped with an in-store point-of-sale system that maintains a record of all transactions and allows the management to track inventory levels on a real-time basis. In addition, Hi-mart operates a dedicated distribution center for the storage and shipping of small products offered in its online shopping mall.

Customer Service

One of Hi-mart's highest priorities is customer satisfaction, and it has implemented various initiatives to enhance the level of its customer service. Since its founding, Hi-mart has considered customer-focused management as one of its core corporate values, and it has made various efforts to instill a customer-focused corporate culture among its sales consultants and other employees and outsourced workers.

Each Hi-mart store has a dedicated customer service unit, where any customer who has purchased products at any Hi-mart store nationwide or online through its online shopping mall may visit for repair, replacement or refund consultation. Hi-mart provides complimentary referral services to its customers who inquire about repairing malfunctioning products. For products manufactured by Samsung Electronics and LG Electronics as well as large products manufactured by other manufacturers, warranty repair services are provided directly by the respective manufacturer's service centers. However, Hi-mart has been designated by many of its other suppliers, including Electrolux and Canon, as an authorized service center. Hi-mart receives reimbursement from the manufacturer if the product that Hi-mart repairs is covered under the manufacturer's warranty and receives a service fee from the customer if the product is no longer covered under the manufacturer's warranty. In the event Hi-mart is unable to service and repair a product, Hi-mart coordinates directly with the manufacturer, which then provides the necessary technical support. As of December 31, 2017, Hi-mart operated 11 regional service centers located throughout Korea, which are supplemented by a nationwide network of service vendors.

Hi-mart also operates an outsourced customer call center located in Chuncheon, Korea. Hi-mart's customer call center provides a wide range of customer service and marketing activities, including fielding inbound calls with questions and complaints from customers as well as making outbound calls to follow up with dissatisfied customers and providing information regarding its sales events, new store openings and loyalty program.

Hi-mart's customers can also make inquiries, complaints and service requests through its website www.e-himart.co.kr, which also provides customer-specific information and services, such as status of delivery of purchased items.

Marketing and Promotions

Marketing and promotional activities are critical aspects of Hi-mart's operations and have significantly contributed to the enhancement of its brand image and increased sales. Hi-mart aims to continually promote the strong Hi-mart brand as a leading consumer electronics retailer. Hi-mart's marketing strategy is directed at projecting its image as a retailer that offers value through a combination of extensive selection of products, high-quality service and competitive prices. While Hi-mart's customers span the full range of ages and socio-economic groups, Hi-mart's core target customer group is housewife consumers in their 30s to early 50s who typically exercise significant decision-making power regarding purchases in households. Hi-mart is also increasingly focusing on targeting younger customers, particularly for its online shopping mall.

Since launching its first television advertising campaign in 1999, Hi-mart has relied extensively on the use of television advertising to build awareness of its brand, and Hi-mart plans to continue to devote a substantial portion of its advertising budget to television advertising campaigns. Hi-mart's other advertising outlets include major newspapers, radio and online portal sites (including social networking sites), as well as advertising on billboards and various public venues and utilizing mobile phone text messaging to target customers. Hi-mart also operates a women's professional golf team, which members have won numerous domestic and international golf tournaments since the team's foundation in 2002. In addition, Hi-mart utilizes its online shopping mall to market its products and services online.

Periodically throughout the year, Hi-mart's retail stores offer significant discounts on many of the products it offers as part of its efforts to enhance its brand image and increase sales. Hi-mart typically holds chain-wide sales events in February, April, July and October of each year, during which Hi-mart offers significant discounts on many of its products either to promote new seasonal products or to clear inventory from prior seasons and to substantially increase the number of customers visiting its stores, and each such sales event is typically held for a period of approximately 15 to 20 days. During the rest of the year, Hi-mart also holds smaller sales events tailored for specific product segments. Hi-mart utilizes nationwide television, newspaper and online advertising campaigns to promote its chain-wide sales events.

As part of its strategy to promote customer loyalty, Hi-mart introduced the Hi-mart Point Card program in June 2001. Following our acquisition of a controlling equity interest in Hi-mart in October 2012, the Hi-mart Point Card program was merged into the Lotte Group's group-wide loyalty program, currently called the L. Point membership program, which we believe encourages customer loyalty by enabling members to earn L. Point award points equivalent to 0.1% to 0.5% of the purchase price paid at Hi-mart based on their spending level. L. Point award points may also be earned upon, or redeemed for, any purchases of merchandise, food or services provided by any Lotte Group affiliate as well as certain other leading Korean retailers that participate in the program.

Hi-mart has also entered into strategic alliances with Hyundai Card and Lotte Card, our former consolidated subsidiary and current Lotte Group affiliate, which are two of the leading credit card companies in Korea, for the issuance of customer loyalty credit cards bearing the Hi-mart brand.

Competition

Competition in the electronics retail industry is based on a number of factors, including customer service, brand recognition, product selection and availability, price and store location and design. Hi-mart believes its brand recognition, broad product assortment, dedicated and knowledgeable sales consultants, effective brand marketing strategies and distinct store formats differentiate it from its competitors by positioning its stores as the preferred destination for consumer electronics products and household appliances in an attractive and informative shopping environment. Hi-mart competes principally with consumer electronics specialty retailers, which include manufacturer-owned retailers and independent specialty electronics retailers, discount stores and department stores, as well as agency stores that sell exclusively a single brand of products and independently-operated specialized retail complexes that focus on consumer electronics products and household appliances. In addition, competition has intensified in recent years with increasing competition from online retailers, including those that target younger customers who are familiar with the e-commerce retail environment, as well as other alternative non-traditional retail formats such as home shopping channels.

- ***Consumer electronics specialty retailers.*** Historically, the electronics retail industry in Korea had been dominated by nationwide distribution channels owned by manufacturers. Manufacturer-owned retailer chains primarily consist of Samsung Electronics Sales, which is operated by Samsung Electronics, and Hi-Plaza, which is operated by LG Electronics. Hi-mart also competes with Electro Land, an independent multi-brand consumer electronics retailer with a nationwide chain of stores.
- ***Discount stores and department stores.*** Nationwide chains of discount stores and department stores offer consumer electronics products and household appliances as part of their product portfolio. Hi-mart's primary discount store competitors include E-Mart operated by Shinsegae, Lotte Mart operated by us, and Home Plus owned by MBK Partners, an Asian private equity fund. Hi-mart's primary department store competitors include us, Shinsegae and Hyundai. These discount retailers and department stores have nationwide presences but typically provide limited selections of products and lack dedicated sales staff that specializes in selling consumer electronics products and household appliances.
- ***Agency stores.*** Agency stores primarily consist of stores that exclusively sell a single brand of products pursuant to a franchise agreement with the manufacturer as well as independently operated stores that are located in specialized retail complexes that focus on sales of consumer electronics products and household appliances, such as Techno Mart and Yongsan Electronics Market. In recent years, the overall market share of such agency stores has decreased, as consumers increasingly prefer to be able to compare various products prior to making their purchasing decision. Specialized retail complexes are located in urban areas and lack the nationwide distribution and logistics network to effectively reach non-urban customers.
- ***Online retailers and home shopping channels.*** Some of the leading online retailers include Gmarket, a subsidiary of eBay Inc., 11th Street, Auction, Coupang and Interpark. Some of the leading home shopping channels (other than our Lotte Home Shopping business) include GS Home Shopping, CJ O

Shopping and Hyundai Home Shopping. Such online retailers and home shopping channels typically have significantly lower operating costs than traditional retailers because they do not rely on costly networks of stores or large sales forces. Some of the more price-conscious consumers may elect to compare products physically at retail stores such as Hi-mart's but purchase them online or through the home shopping channels if they offer the same or similar products at lower prices. However, they typically offer limited selections of consumer electronics products and household appliances as part of their product portfolio.

IT Systems

The continual improvement of Hi-mart's IT systems and the efficient utilization of such systems are part of its core strategies. Hi-mart has made significant investments in its IT systems over the years, and it is committed to continually investing in and enhancing its systems, which provide support to many aspects of its businesses, including supply chain management, marketing and distribution and customer relationship management. All Hi-mart stores are linked to its IT network that facilitates the flow of information among its retail stores and its headquarters. Hi-mart invested approximately ₩23 billion in its IT systems in 2015, ₩21 billion in 2016 and ₩33 billion in 2017. As of December 31, 2017, Hi-mart 's IT systems were primarily managed by a staff of approximately eight experienced engineers, technicians and specialists with additional support from our affiliate, Lotte Data Communication Co., Ltd., and other third-party specialists.

Hi-mart's sales support system provides real-time sales data, as well as analysis of profitability of each store, product and manufacturer, to its management to improve the efficiency of its operations and enhance its sales strategy. Hi-mart's operational management systems provide Hi-mart with up-to-date information that enables Hi-mart to manage its inventory, negotiate more effectively with its suppliers, monitor consumer trends and otherwise improve overall operating efficiency. See "— Supply Chain Management." In addition, Hi-mart's extensive customer relationship management database enables it to better focus its marketing efforts.

Business continuity and information security are high priorities for Hi-mart. Hi-mart has designed various contingency plans to provide reasonable assurance of business continuity in the event of disruptions at its critical facilities. Hi-mart's primary IT systems and their backup systems are located in Seoul. Hi-mart's backup systems provide mirror coverage for critical functions such as point of sales, supply chain management, customer relationship management and warehouse management, and provide standby coverage for other operational activities and customer call center functions.

Regulations

Hi-mart's operations are subject to governmental regulation similar in character and scope to that which is applicable to us. See "Business — Regulations."

Hi-mart believes that it is in compliance in all material respects with these laws and regulations. Hi-mart cannot assure you, however, that any future changes in the requirements or mode of enforcement of these laws and regulations will not have a material adverse effect on its business, financial condition or results of operations. See "Risk Factors — Risks Relating to Regulation — We are subject to numerous laws and regulations that could affect our operations."

Properties

Hi-mart operates retail stores, distribution centers and service centers, many of which are leased from third parties. Hi-mart owns its headquarters building located at Hi-mart Building, 156 Samsung-ro, Gangnam-gu, Seoul, Korea. Hi-mart believes that its properties are generally well maintained and suitable for their intended use. Hi-mart continually renovates and remodels its stores and evaluates markets that present attractive opportunities to open new stores in light of current and expected market conditions.

The following table sets forth certain information regarding Hi-mart's facilities as of December 31, 2017:

Facilities	Land and buildings owned		Land leased and new building constructed by Hi-mart or the landlord		Buildings leased	
	Number	Gross floor space	Number	Gross floor space	Number	Gross floor space
Retail stores	39	53,924m²	186	193,736m²	237	217,495m²
Distribution centers	8	75,645m²	1	8,757m²	3	24,172m²
Service centers	8	2,640m²	1	215m²	2	575m²

Trademarks and Servicemarks

Hi-mart owns its trademarks and service marks, including the "Hi-mart" mark and the Hi-mart logo. Hi-mart's trademarks and servicemarks are registered in Korea. The term of these registrations is generally 10 years, and they are renewable for additional 10-year periods indefinitely, so long as the marks are still in use at the time of renewal. Hi-mart is not aware of any claims of infringement or other challenges to its right to register or use its marks in Korea or in any other jurisdiction. Hi-mart regards its trademarks and service marks as valuable assets in the marketing of its products and takes appropriate action when necessary to protect them.

Insurance

Hi-mart maintains insurance to cover risks associated with the ordinary operation of its business, including general liability, property coverage and workers' compensation insurance. Hi-mart insures its headquarters, stores and distribution, delivery and service centers against such hazards as fire, explosion, theft, flood, mischief and accidents. Hi-mart does not maintain business interruption insurance. All of Hi-mart's policies are underwritten with reputable insurance providers. Hi-mart believes that its insurance coverage is sufficient for the risks associated with its operations.

Employees

As of December 31, 2017, Hi-mart had 3,873 employees in Korea, of which 3,638 were full-time employees and 235 were contract-based employees.

The following table sets forth the number of Hi-mart employees and outsourced workers by category and the percentage that such category represented of its total employees:

	As of December 31, 2017	
Full-time employees		
Headquarters	388	10.0%
Branches	216	5.6
Retail stores	2,782	71.8
Others	235	6.5
Sub-total	3,638	92.9
Contract-based employees	235	6.1
Total employees	3,873	100.0%
Outsourced workers	399	

For a discussion of sales consultants provided by suppliers and vendors, see "— Retail Store Operations — Sales Consultants."

Compensation for Hi-mart's full-time employees consists of a combination of annual base salary and wages, overtime and periodic bonuses. Bonuses are paid largely based on the overall performance of the individual store where the Hi-mart employee worked and Hi-mart's overall performance as a company. Hi-mart also provides a wide range of benefits to its full-time employees, including medical insurance, group accident insurance, medical checkup and scholarships.

As of December 31, 2017, approximately 14.3% of Hi-mart employees were members of its labor union. Hi-mart believes that its relationship with its employees and the union is generally good. Every two years the union and Hi-mart's management negotiate and enter into new collective bargaining agreements, which Hi-mart last entered into in 2017. Hi-mart negotiates wage rate increases every year. Under Korean law, Hi-mart may not terminate the employment of its regular full-time employees except under specified circumstances.

Hi-Mart's full-time employees in Korea, including executive officers as well as non-executive employees, are subject to a pension insurance system pursuant to the National Pension Act of Korea, under which Hi-mart makes monthly contributions to the pension accounts of the employees, and upon retirement, such employees are paid from their pension accounts. Hi-mart contributes an amount equal to 4.5% of an employee's standard monthly wages, and each employee contributes 4.5% of his or her standard monthly wages, into his or her personal pension account. In addition, in accordance with the Guarantee of Worker's Retirement Benefits Act of Korea, Hi-mart has adopted retirement pension plans for its employees. Contributions under the retirement pension plans are deposited annually into a financial institution, and an employee may elect to receive a monthly pension or a lump-sum amount upon retirement, pursuant to either a defined benefit plan or a defined contribution plan. The defined benefit plan guarantees a certain payout at retirement, according to a fixed formula based on the employee's average salary and the number of years for which the employee has been a plan member. For further information regarding our retirement pension obligations with respect to our employees, see Note 20 of the notes to Hi-mart's consolidated financial statements as of and for the years ended December 31, 2017 and 2016 appearing elsewhere in this offering circular.

In September 2010, Hi-mart's employees formed an employee stock ownership association, which has the right to purchase on behalf of its members up to 20% of the shares that Hi-mart offers publicly in Korea pursuant to the FSCMA. As of December 31, 2017, the employee stock ownership association owned approximately 0.5% of the outstanding Hi-mart shares.

Legal and Regulatory Proceedings

Hi-mart has been involved in various litigation arising out of the ordinary course of business. As of December 31, 2017, Hi-mart had 16 pending lawsuits filed against it. Hi-mart does not believe that the ultimate outcome of these proceedings would have a material adverse effect on its business, financial condition or results of operations.

Management

Board of Directors

Hi-mart's board of directors has ultimate responsibility for the administration of its affairs. Hi-mart's articles of incorporation currently provide for a board of directors of three to nine directors, more than half and at least three of whom must be outside directors. Directors are elected at a general meeting of shareholders by a majority vote of those present or represented so long as the affirmative votes also represent no less than 25% of the issued and outstanding shares with voting rights. The term of office for Hi-mart's directors is two years. However, the term of office will be extended to the close of the annual general meeting of shareholders if the term of office for the director ends before the close of the annual general meeting of shareholders convened with respect to the last fiscal year within such term of office.

The representative director is a director elected by a majority of the board of directors and is empowered to make decisions regarding Hi-mart's day-to-day business as its chief executive officer. Dong-Woo Lee, Hi-mart's chief executive officer, currently serves as its representative director.

The outside directors are non-standing directors elected from among those persons who do not have a special relationship with Hi-mart that would interfere with the exercise of their independent judgment. Hi-mart's outside directors are elected at the general meeting of shareholders from among those candidates recommended by Hi-mart's Outside Director Nomination Committee.

The table below sets forth Hi-mart's directors and executive officers, and their ages and positions, as of the date of this offering circular. The business address of each of Hi-mart's directors and executive officers is at Hi-mart's registered office at Hi-mart Building, 156 Samsung-ro, Kangnam-gu, Seoul 135-280, Korea.

Directors

Name	Age	Position	End of Current Term	Other Current Positions
Dong-Woo Lee	57	Representative Director and Chief Executive Officer	March 24, 2019	None
Byung-Yeon Lim	53	Non-Standing Director	March 24, 2019	Head of Value Management Team, Lotte Group
Hyun-Chul Kim[(1)]	60	Standing Director and Head of Merchandising	March 30, 2018	None
Dae-Jong Chang	58	Standing Director and Head of Sales	March 24, 2019	None
Young-Hong Choi[(1)]	63	Outside Director	March 30, 2018	Professor, Korea University Law School
Seong-Ho Ahn[(1)]	56	Outside Director	March 30, 2018	Professor, School of Business Administration, Soongshil University
Jang-Young Lee[(1)]	62	Outside Director	March 30, 2018	Senior Advisor, Kim & Chang
Won-Pal Bang[(1)]	62	Outside Director	March 30, 2018	Adjunct Professor, Department of Military Studies, Gunyang University
Chae-Pil Lee	61	Outside Director	March 24, 2019	Co-representative, Citizen's Coalition for Safety

(1) Up for re-election at Hi-mart's annual general meeting of shareholders scheduled to be held on March 30, 2018.

Executive Officers

Hi-mart's executive officers currently consist of the Chief Executive Officer, Senior Vice Presidents, Senior Directors (non-registered) and Directors (non-registered). The executive officers are appointed by the board of directors.

Hi-mart's current executive officers, other than its directors, are as follows:

Name	Age	Title and Responsibilities	Executive Officer Since
Woo Tak Jeon	55	Director, Sales 4	January 1, 2007
Jin Ho Kim	54	Director, Sales 2	January 1, 2009
Young Keun Hwang	50	Director, Home Electronics	January 1, 2015
Young Sunwoo	46	Director, Online Sales	January 1, 2011
Yoon Ho Kim	56	Director, Sales 1	February 5, 2013
Jae Wouk Park	51	Director, Product Management	January 1, 2011
Nak Kyu Song	58	Director, Sales 3	January 1, 2011
Joo Suk Moon	51	Director, Marketing	February 1, 2014
Ho Sub Lee	53	Director, SCM	January 1, 2012
Young Soo Ha	47	Director, Product Development	February 1, 2017
Joong Oh Maeng	50	Director, Finance,	January 1, 2015
Kyung Sun Kim	51	Director, Lifestyle Products	January 1, 2015
Kab Bae Gong	50	Director, Management Support	January 1, 2016
Nam Ho Kim	50	Director, Mobile Division	January 1, 2016
Jae Hak Lee	51	Director, Sales Management	February 1, 2017
Chan Il Lee	46	Director, Planning	February 1, 2017

Board Committees

Audit Committee

Under Korean law and Hi-mart's articles of incorporation, Hi-mart is required to have an Audit Committee consisting of three or more directors, at least two-thirds of whom must be outside directors. The committee reviews all audit and compliance-related matters and makes recommendations to Hi-mart's board of directors. Hi-mart's Audit Committee's primary responsibilities include:

- engaging independent auditors;
- approving independent audit fees;
- approving audit and non-audit services;
- reviewing annual financial statements;
- reviewing audit results and reports, including management comments and recommendations;
- reviewing Hi-mart's system of controls and policies, including those covering conflicts of interest and business ethics;
- considering significant changes in accounting practices; and
- examining improprieties or suspected improprieties.

This committee also reviews regulatory reports and materials to be submitted by Hi-mart to regulators. In addition, in connection with the annual general meeting of shareholders, the committee examines the agenda for, and financial statements and other reports to be submitted by the board of directors at, each annual general meeting of shareholders. Hi-mart's internal and external auditors report directly to the Audit Committee chairman.

Currently, Hi-mart's Audit Committee consists of three members: Young-Hong Choi, Jang-Young Lee and Chae-Pil Lee. The chairman is Young-Hong Choi. The committee holds regular meetings at least once a year, and more frequently as needed.

Outside Director Nomination Committee

Under Korean law and Hi-mart's articles of incorporation, Hi-mart is required to have an Outside Director Nomination Committee consisting of two or more directors, at least half of whom must be outside directors. Hi-mart's Outside Director Nomination Committee is responsible for reviewing and recommending candidates for outside directors at the general meeting of shareholders. Currently, Hi-mart's Outside Director Nomination Committee consists of three members: Byung-Yeon Lim, Seung-Ho Ahn and Won-Pal Bang. The chairman is Byung-Yeon Lim. The committee holds meetings when an outside director needs to be appointed.

Related Party Transaction Committee

The Related Party Transaction Committee is comprised of three members, Seung-Ho Ahn, Young-Hong Choi and Won-Pal Bang. The chairman is Seung-Ho Ahn. The committee reviews certain related party and other internal transactions.

Compensation Committee

The Compensation Committee is comprised of three outside directors, Jang-Young Lee, Chae-Pil Lee and Hyun-Chul Kim. The chairman is Jang-Young Lee. The committee's primary responsibilities include determining and reviewing Hi-mart's compensation schemes and compensation levels for its executive officers, including their performance-based compensation.

Compensation of Directors and Executive Officers

The aggregate remuneration paid and benefits in kind granted to Hi-mart's directors, including directors who also held senior management positions, was ₩1.6 billion in 2017. As of December 31, 2017, there were no loans granted by Hi-mart to any of its directors and executive officers. Hi-mart does not have service contracts with any of its directors or executive officers.

Interests of Directors and Executive Officers

As of December 31, 2017, there were no outstanding transactions other than in the ordinary course of business undertaken by Hi-mart in which its directors or executive officers were interested parties.

Certain of Hi-mart's directors and executive officers have direct or beneficial interests in Hi-mart Shares, either through the employee stock ownership association or public trading, but none of them holds more than 5% of the Hi-mart Shares.

Description of Capital Stock

This section provides information relating to Hi-mart Shares, including brief summaries of material provisions of Hi-mart's articles of incorporation, the FSCMA, the Korean Commercial Code and related laws of Korea, all as currently in effect. The following summaries are subject to, and are qualified in their entirety by reference to, Hi-mart's articles of incorporation and the applicable provisions of the FSCMA and the Korean Commercial Code.

General

Under Hi-mart's amended articles of incorporation, Hi-mart's authorized share capital is 100,000,000 shares, which consists solely of common shares with a par value of ₩5,000. Hi-mart may also issue preferred shares. Preferred shares without voting rights may be issued up to a maximum of 25% of the outstanding shares.

As of the date hereof, there are 23,607,712 common shares issued and outstanding. All of the issued and outstanding common shares are fully-paid and non-assessable and are in registered form. Hi-mart issues share certificates in denominations of one, five, 10, 50, 100, 500, 1,000 and 10,000 shares.

Hi-mart is registered under the laws of Korea under the commercial registry number 110111-0532633.

Dividends

Hi-mart distributes dividends to its shareholders in proportion to the number of shares owned by each shareholder, following the approval thereof at the annual general meeting of shareholders. While Hi-mart intends to develop a dividend policy, there can be no assurance that it will pay dividends in the future.

Hi-mart may distribute its annual dividends in cash or in shares to shareholders or share pledgees listed on its shareholders' registry as of December 31 of each year. A dividend in shares must be distributed at par value. Pursuant to the FSCMA, in the case of listed companies, if the market price of the shares is less than par value, a dividend in shares may not exceed one-half of the annual dividends. Hi-mart may pay interim dividends in cash once per fiscal year in accordance with its articles of incorporation and the Korean Commercial Code. Hi-mart has no obligation to pay any annual cash dividend unclaimed for five years from the payment date, at which time rights to such dividends lapse. Unclaimed cash dividends revert to Hi-mart.

Under the Korean Commercial Code, Hi-mart may pay its dividends only out of the excess of its net assets, on a non-consolidated basis, over the sum of (i) its stated capital, (ii) the total amount of its capital surplus reserve and earned surplus reserve accumulated up to the end of the relevant dividend period, (iii) the earned surplus reserve required to be set aside for the annual dividend and (iv) the amount equivalent to the increased net assets on its balance sheet, based on the evaluation of the assets and liabilities according to general, fair and valid accounting practices that are not subject to set-off against unrealized losses. In addition, Hi-mart may not pay any dividend unless it has set aside as a legal reserve an amount equal to at least 10% of the cash portion of the dividend or unless it has accumulated a legal reserve of not less than one-half of its stated capital. Hi-mart may also set aside certain amounts as "other reserves" for certain purposes with the approval of shareholders at the annual general meeting of shareholders instead of distributing such amounts as dividends. Hi-mart may not use legal reserve to pay cash dividends but may transfer amounts from legal reserve to stated capital or use legal reserve to reduce an accumulated deficit.

Distribution of Free Shares

In addition to paying dividends in shares out of its retained or current earnings, Hi-mart may also distribute to its shareholders an amount transferred from its capital surplus or legal reserve to its stated capital in the form of free shares. Hi-mart must distribute such free shares to all of its shareholders in proportion to their existing shareholdings.

Preemptive Rights and Issuance of Additional Shares

Hi-mart may issue authorized but unissued shares at the time and, unless otherwise provided in the Korean Commercial Code, on the terms Hi-mart's board of directors may determine. Subject to the limitation described below, all Hi-mart's shareholders are generally entitled to subscribe for any newly-issued shares in proportion to their existing shareholdings. Hi-mart must offer new shares on uniform terms to all shareholders who have preemptive rights and are listed on its shareholders' registry as of the relevant record date. Under the Korean

Commercial Code, Hi-mart may vary, subject to certain limitations, the terms of these preemptive rights for different classes of shares. Hi-mart must give public notice of the preemptive rights regarding new shares and their transferability at least two weeks (excluding any time period during which the shareholders' registry is closed) before the relevant record date. Hi-mart's board of directors may determine how to distribute shares for which preemptive rights have not been exercised or forfeited or where fractions of shares occur.

Under its articles of incorporation, Hi-mart may issue new shares pursuant to a board resolution to persons other than existing shareholders, who in these circumstances will not have preemptive rights, if the new shares are:

- publicly offered subject to existing shareholders' preemptive rights;
- issued as a general public offering, provided that the total number of shares issued does not exceed 20% of Hi-mart's total issued and outstanding capital stock;
- issued upon issuance of depositary receipts, provided that the total number of shares issued does not exceed 20% of Hi-mart's total issued and outstanding capital stock;
- offered through a public offering or to underwriters for a public offering for the purpose of listing Hi-mart Shares on the KRX KOSPI Market or the KRX KOSDAQ Market, provided that the total number of shares issued does not exceed 30% of Hi-mart's total issued and outstanding capital stock;
- issued preferentially to members of an employee stock ownership association in accordance with the FSCMA;
- issued generally to members of an employee stock ownership association in Korea, other than in accordance with restrictions described above, provided that the total number of shares issued does not exceed 20% of Hi-mart's total issued and outstanding capital stock;
- issued to achieve Hi-mart's operational objectives, such as introducing new technology and improving its financial structure, in accordance with the Korean Commercial Code, provided that the shares are issued to the relevant party and the total number of shares so issued does not exceed 20% of Hi-mart's total issued and outstanding capital stock; or
- issued to domestic or foreign financial institutions, creditors or other entities or individual investors at fair market value at the time of issuance by resolution of the board of directors, in order to finance urgent needs for corporate management purposes, provided that the total number of shares issued does not exceed 20% of Hi-mart's total issued and outstanding capital stock.

In case Hi-mart issues new shares to persons other than the existing shareholders, Hi-mart must notify the shareholders or give public notice of the major terms of the new share issuance by no later than two weeks prior to the date of payment of the subscription price for such new shares.

General Meeting of Shareholders

Hi-mart holds its annual general meeting of shareholders within three months after the end of each fiscal year. Hi-mart may convene an extraordinary general meeting of shareholders when necessary or at the request of shareholders who have held 1.5% or more of the outstanding shares for at least six consecutive months, subject to a resolution of the board of directors or court approval. An extraordinary meeting of shareholders may also be convened at the request of Hi-mart's Audit Committee, subject to a resolution of the board of directors or an approval of a competent court.

A general meeting of shareholders is to be convened by Hi-mart's representative director in accordance with a resolution of the board of directors. In the event Hi-mart's representative director is unable to perform his duty, a person determined by Hi-mart's board of directors in accordance with Article 17(2) of Hi-mart's articles of incorporation will be responsible for convening the meeting. Hi-mart must give shareholders written or electronic notice setting out the date, place and agenda of the meeting at least two weeks before the date of the general meeting of shareholders. However, for holders of not more than 1% of the total number of Hi-mart's issued and outstanding voting shares, Hi-mart may give notice by placing at least two public notices in at least two daily newspapers or posting such notice on the electronic disclosure system operated by the Financial Supervisory Service or the Korea Exchange at least two weeks in advance of the meeting. Hi-mart uses Korea Economic Daily and Maeil Business Newspaper published throughout Korea for this purpose. Shareholders not on the shareholders' registry as of the record date are not entitled to receive notice of the general meeting of shareholders or attend or vote at the meeting.

Hi-mart's general meetings of shareholders are held at Hi-mart's principal office or in venues as prescribed by its articles of incorporation. The proceedings and decisions of the general meeting of shareholders are recorded in the minutes, and the representative directors and directors who are present at the meeting must sign or affix their seals on the minutes of the meeting.

Voting Rights

Holders of Hi-mart's voting shares are entitled to one vote for each voting share, except that voting rights of voting shares held by Hi-mart, or by a corporate shareholder for which more than 10% of the outstanding shares of capital stock is directly or indirectly owned by Hi-mart and/or its parent company, individually or in the aggregate, may not be exercised.

In the case of listed companies, for the purpose of electing or dismissing a statutory auditor or a member of the Audit Committee who is not an independent director, if the number of shares with voting right held by any of the following shareholders exceeds, in the aggregate, 3% of the total number of Hi-mart's share with voting right, then such shareholder may not exercise its voting right with respect to the shares held in excess of the 3%: the largest shareholder, a shareholder specially related to the largest shareholder, any shareholder who holds Hi-mart Shares for the account of the largest shareholder or a person specially related to the largest shareholder, or any shareholder who appoints the largest shareholder or a person specially related to the largest shareholder as a proxy for the exercise of voting rights. In addition, in the case of listed companies with total assets of ₩2 trillion or more as of the end of the latest fiscal year, if the aggregate number of shares with voting rights held by any shareholder exceeds 3% of the total number of issued and outstanding shares with voting rights, then such shareholder may not exercise its voting rights with respect to the shares it holds in excess of such 3% threshold for the purpose of electing a member of the Audit Committee who is an independent director. While the articles of incorporation of a company may prescribe a threshold shareholding percentage that is lower than 3.0%, Hi-mart's articles of incorporation do not provide for a lower threshold shareholding percentage.

The Korean Commercial Code permits cumulative voting, under which each shareholder would have multiple voting rights corresponding to the number of directors to be appointed at the general meeting of shareholders and may exercise all voting rights cumulatively to elect one director. However, Hi-mart's shareholders have decided not to adopt cumulative voting.

Hi-mart's shareholders may adopt a resolution at a general meeting by an affirmative majority vote of the voting shares present or represented at the meeting, where the affirmative votes also represent at least one-fourth of Hi-mart's total voting shares then issued and outstanding. However, under the Korean Commercial Code, the following matters, among others, require approval by the holders of at least two-thirds of the voting shares present or represented at a meeting, where the affirmative votes also represent at least one-third of Hi-mart's total voting shares then issued and outstanding:

- amending Hi-mart's articles of incorporation;
- removing a director;
- effecting any dissolution, merger or consolidation;

- transferring the whole or any significant part of Hi-mart's business;
- effecting Hi-mart's acquisition of the whole or part of the business of another company that may have a material effect on Hi-mart's business;
- issuing any new common shares at a price lower than their par value; or
- reducing capital.

Shareholders may exercise their voting rights by proxy.

Rights of Dissenting Shareholders

In some limited circumstances, including the transfer of the whole or any significant part of Hi-mart's business and Hi-mart's merger or consolidation with another company, dissenting shareholders may have the right to require Hi-mart to purchase their shares. In order for a dissenting shareholder to be entitled to such right, Hi-mart Shares must have been acquired before the relevant resolution of the board of directors was disclosed to the public or the contract for the purchase of the shares must have been entered into no later than the date immediately following the date on which the resolution was disclosed. To exercise this right, shareholders must submit to Hi-mart a written notice of their intention to dissent before the general meeting of shareholders. Within 20 days after the relevant resolution is passed at a meeting, the dissenting shareholders must request Hi-mart in writing to purchase their shares. Hi-mart is obligated to purchase the shares of dissenting shareholders within one month after the expiration of the 20-day period.

The purchase price for the common shares is required to be determined through negotiation between the dissenting shareholders and Hi-mart. Under the FSCMA, if a listed company cannot agree on a price through negotiation with the dissenting shareholders, the purchase price will be the average of (1) the weighted average of the daily common share price on the Korea Exchange for the two-month period before the date of the adoption of the relevant board resolution, (2) the weighted average of the daily common share price on the Korea Exchange for the one month period before the date of the adoption of the relevant resolution and (3) the weighted average of the daily common share price on the Korea Exchange for the one week period before the date of the adoption of the relevant resolution. However, if either the company or the relevant shareholder objects to the purchase price calculated using the method above, then the objecting party may ask the court to determine the purchase price.

Registry of Shareholders and Record Dates

Hi-mart's transfer agent, Korea Securities Depository, maintains the registry of Hi-mart's shareholders at its office at 34-6 Yoido-dong, Youngdeungpo-gu, Seoul, 150-948, Korea. It registers transfers of Hi-mart Shares on the registry of shareholders on presentation of the share certificates.

The record date for annual dividends is December 31. For the purpose of determining the shareholders or the share pledgees entitled to the rights pertaining to the shares at the annual general meeting of shareholders, Hi-mart suspends the alteration of entry in the registry of shareholders for the period from January 1 to January 7 of each year. Further, for the purpose of determining the shareholders or the share pledgees entitled to the rights pertaining to the shares for an extraordinary shareholders' meeting or other necessary circumstances, Hi-mart may, on at least two weeks' public notice and upon a board's resolution, set a record date or close the registry of shareholders for not more than three months. The trading of shares and the delivery of share certificates may continue while the registry of shareholders is closed.

Annual Report

At least one week before the annual general meeting of shareholders, Hi-mart must make its annual report and audited financial statements available for inspection at its principal office and at all of its branch offices. In addition, copies of annual reports, the audited financial statements and any resolutions adopted at the general meeting of shareholders will be available to Hi-mart's shareholders.

Hi-mart must file with the Financial Services Commission and the Korea Exchange (1) an annual business report within 90 calendar days after the end of its fiscal year and (2) interim reports with respect to the three month period, six month period and nine month period from the beginning of each fiscal year within 45 calendar days following the end of each period under the FSCMA. Copies of these reports are or will be available for public inspection at the Financial Services Commission and the Korea Exchange.

Transfer of Common Shares

Under the Korean Commercial Code, the transfer of common shares is effected by delivery of share certificates. However, to assert shareholders' rights against Hi-mart, the transferee must have his name and address registered on Hi-mart's shareholders' registry. For this purpose, a shareholder is required to file his name, address and seal with Hi-mart's transfer agent. A non-Korean shareholder may file a specimen signature in place of a seal, unless he is a citizen of a country with a sealing system similar to that of Korea. In addition, a non-resident shareholder must appoint an agent authorized to receive notice on his behalf in Korea and file a mailing address in Korea.

Under current Korean regulations, Korean brokers, dealers and collective investment managers ("financial investment firms") and foreign exchange banks in Korea (including licensed branches of non-Korean financial investment firms and banks), internationally recognized foreign custodians and the Korea Securities Depository may act as agents and provide related services for foreign shareholders. Certain foreign exchange controls and securities regulations apply to the transfer of common shares by non-residents of Korea or non-Koreans. See "Korean Foreign Exchange and Securities Regulations."

Acquisition of Common Shares by Hi-mart

Under the Korean Commercial Code, Hi-mart may acquire its shares through purchases on the KRX KOSPI Market or through a tender offer or through public notification to all shareholders of its intention to buy back its own shares, subject to approval at the general meeting of shareholders. The aggregate purchase price for the common shares owned by Hi-mart may not exceed the total amount available for distribution of dividends at the end of the preceding fiscal year.

In general, corporate entities in which Hi-mart owns an equity interest of at least 50% are prohibited from acquiring Hi-mart Shares.

Pursuant to the FSCMA, Hi-mart, which is a listed-company, also may acquire its common shares through purchases on the KRX KOSPI Market or through a tender offer, subject to the approval of the board of directors. Hi-mart may also acquire interests in its own common shares through trust agreements with trust business companies. The aggregate purchase price for the common shares owned by Hi-mart may not exceed the total amount available for distribution of dividends at the end of the preceding fiscal year.

In accordance with the Korean Commercial Code, Hi-mart may resell or transfer any shares acquired by Hi-mart to a third party subject to approval by the board of directors and subject to certain selling restrictions under the FSCMA.

Liquidation Rights

In the event of Hi-mart's liquidation, after payment of all debts, liquidation expenses and taxes, Hi-mart's remaining assets will be distributed among shareholders in proportion to their shareholdings.

Dividends

The following table sets forth annual dividends declared and paid on outstanding Hi-mart Shares to shareholders of record on December 31 of the years indicated, as well as the number of outstanding Hi-mart Shares entitled to such dividends. The dividends set forth for each of the years below were paid in the immediately following year.

Year Ended December 31,	Number of Outstanding Hi-mart Shares	Dividend per Hi-mart Share	Total Amount of Dividends Declared
		(In Won)	(In billions of Won)
2015	23,607,712	₩ 430	₩10
2016	23,607,712	500	12
2017	23,607,712	1,850	44

Hi-mart's dividend policy is to declare dividends in amounts that take into consideration various factors, including its profitability and financial condition as well as legal requirements for such declaration. No assurance can be given as to whether or when Hi-mart can declare dividends or, if declared, the amount of dividends per share. Payments of cash dividends and distributions, if any, will be made in Won to the Korea Securities Depository.

Annual dividends, if any, on Hi-mart Shares must be recommended by its board of directors and must be approved at its annual general meeting of shareholders. This meeting is generally held within three months after December 31, the end of Hi-mart's fiscal year, and the annual dividend is generally paid shortly thereafter to the shareholders of record as of the end of the preceding fiscal year. Hi-mart may distribute annual dividends in cash or in shares.

Hi-mart may also pay interim dividends once a year to shareholders who are registered in the registry of shareholders as of July 1 of each year in accordance with its articles of incorporation and the Korean Commercial Code. Hi-mart may distribute interim dividends in cash.

Under the Korean Commercial Code, Hi-mart may pay dividends only out of the excess of its net assets, on a non-consolidated basis, over the sum of (i) its stated capital, (ii) the total amount of its capital surplus reserve and earned surplus reserve accumulated up to the end of the relevant dividend period, (iii) the earned surplus reserve required to be set aside for the annual dividend and (iv) the amount equivalent to the increased net assets on its balance sheet, based on the evaluation of the assets and liabilities according to general, fair and valid accounting practices that are not subject to set-off against unrealized losses. No assurance can be given as to the amount of future dividends on Hi-mart Shares or that any such dividends will be declared.

Principal Shareholders

The following table sets forth information relating to the shareholding composition and total number of outstanding Hi-mart Shares as of December 31, 2017:

Shareholders	Number of Hi-mart Shares	Percentage of Total Outstanding Hi-mart Shares
Lotte Shopping Co., Ltd.	15,403,274	65.25%
Employee Stock Ownership Association	116,651	0.49
Others	8,087,787	34.26
Total	23,607,712	100.00%

Other than as described in the table above, no other person or entity (or groups of persons or entities) known by Hi-mart to be acting in concert, including its directors and executive officers, directly or indirectly, owned 5% or more of the outstanding Hi-mart Shares or exercised control or could exercise control over Hi-mart as of the date hereof.

Hi-mart's major shareholders do not have different voting rights from its other shareholders.

Historical Market Price of Hi-mart Shares

The Hi-mart Shares were listed on the KRX KOSPI Market in June 2011. The table below shows the high and low daily closing prices and the average daily volume of trading activity on the KRX KOSPI Market for the Hi-mart Shares for the periods indicated.

Period	Price		Average Daily Trading Volume
	High	Low	
	(in Won)		(Number of Shares)
2013	90,500	64,000	81,540
2014	89,600	63,800	69,630
2015			
First Quarter	67,500	51,600	116,631
Second Quarter	84,000	64,900	97,618
Third Quarter	74,300	57,100	92,019
Fourth Quarter	66,700	53,500	55,106
2016			
First Quarter	60,400	51,200	43,619
Second Quarter	56,400	44,200	101,416
Third Quarter	47,200	42,600	70,043
Fourth Quarter	46,700	42,000	50,198
2017			
First Quarter	53,600	40,950	65,871
Second Quarter	71,600	53,600	78,301
Third Quarter	70,300	61,800	65,557
Fourth Quarter	76,500	66,000	67,534
2018			
First Quarter (through March 27)	77,800	65,900	65,053
January	77,800	67,400	44,763
February	75,100	65,900	61,598
March (through March 27)	74,400	67,100	93,309

Source: Korea Exchange

KOREAN FOREIGN EXCHANGE AND SECURITIES REGULATIONS

General

The Foreign Exchange Transaction Act of Korea and the Presidential Decree and regulations under that Act and Decree, which we refer to collectively as the Foreign Exchange Transaction Laws, regulate investments in Korean securities by non-residents and issuances of securities outside Korea by Korean companies. Non-residents may invest in Korean securities pursuant to the Foreign Exchange Transaction Laws. The Financial Services Commission has also adopted, pursuant to its authority under the FSCMA, regulations that regulate investments by foreigners in Korean securities and issuances of securities outside Korea by Korean companies.

Subject to certain limitations, the Ministry of Strategy and Finance has the authority to take the following actions under the Foreign Exchange Transaction Laws for a period of up to six months, or longer under extraordinary circumstances:

- if Korean government deems it necessary on account of war, armed conflict, natural disaster or grave and sudden and significant changes in domestic or foreign economic circumstances or similar events or circumstances, the Ministry of Strategy and Finance may temporarily suspend performance under any or all foreign exchange transactions, in whole or in part, to which the Foreign Exchange Transaction Laws apply (including suspension of payment and receipt of foreign exchange), impose an obligation to deposit, safe-keep or sell any means of payment to The Bank of Korea, a foreign exchange equalization fund or certain other governmental agencies or financial institutions or impose an obligation to residents holding claims against non-residents to collect the claims back to Korea; and
- if Korean government concludes that the international balance of payments and international financial markets are experiencing or are likely to experience significant disruption or that the movement of capital between Korea and other countries is likely to adversely affect the its currency policies, exchange rate policies or other macroeconomic policies, the Ministry of Strategy and Finance may take action to require any person who intends to effect a capital transaction to obtain permission or to require any person who effects a capital transaction to deposit a portion of the means of payment acquired in such transactions with The Bank of Korea, a foreign exchange equalization fund or certain other governmental agencies or financial institutions, in each case subject to certain limitations.

However, such authority of the Ministry of Strategy and Finance is not applicable to foreign investments made pursuant to the Foreign Investment Promotion Act of Korea.

Government Review of Issuance of the Bonds

In order for us to issue the Bonds in excess of US$30 million, we are required to file a report with the Ministry of Strategy and Finance with respect to the issuance of the Bonds prior to and after such issuance; provided that such US$30 million threshold amount would be reduced by the aggregate principal amount of any foreign currency loans borrowed, and any securities offered and issued, outside Korea during the one-year period immediately preceding the report's submission date. The Ministry of Strategy and Finance may at its discretion direct us to take necessary measures to avoid exchange rate fluctuation in connection with its acceptance of report of the issuance of the Bonds. No further Korean governmental approval is necessary for the initial offering and issuance of the Bonds. No further governmental approval is necessary for the exchange of Bonds into Hi-mart Shares and the delivery of the Hi-mart Shares inside Korea, provided that a non-Korean who intends to acquire the Hi-mart Shares must obtain an investment registration card from the Financial Supervisory Service as described below. Upon acquisition of the Hi-mart Shares by a non-Korean, such non-Korean or his standing proxy in Korea must immediately report such acquisition to the governor of the Financial Supervisory Service.

Reporting Requirements for Holders of Substantial Interests

Under the FSCMA, any person whose direct or beneficial ownership of a listed company's shares with voting rights, equity-related debt securities including convertible bonds, bonds with warrants, exchangeable bonds, certificates representing the rights to subscribe for shares, derivatives-linked securities and depository receipts for the aforementioned securities, which we refer to collectively as equity securities, together with the equity securities directly or beneficially owned by certain related persons or by any person acting in concert with the person, accounts for 5% or more of the total outstanding equity securities of such listed company is required to report the status and purpose (in terms of whether the purpose of the shareholding is to participate in the management of the issuer) of the holdings and the material contents of the agreements relating to the equity securities and other matters prescribed by the Presidential Decree under the FSCMA to the Financial Services Commission and the Korea Exchange within five business days after reaching the 5% ownership interest.

In addition, (A) any change in the number of the owned equity securities that equals or exceeds 1% of the total outstanding equity securities or (B) any change in (i) the purpose of the shareholding or in the ownership of the equity securities, (ii) the major terms and conditions of the agreements relating to the equity securities owned (such as trust agreements and collateral agreements) to the extent the number of relevant equity securities is 1% or more of the total outstanding equity securities or (iii) the type of the ownership (direct ownership or holdings) to the extent the number of relevant equity securities is equal to or exceeds 1% of the total outstanding equity securities, subsequent to the report, must be reported to the Financial Services Commission and the Korea Exchange within five business days from the date of such change (or by the tenth day of the month following the month in which the change described in (A) above occurs, in the case of a person (other than certain professional investors designated by the Financial Services Commission) with no intent to seek management control). Notwithstanding the foregoing, certain professional investors designated by the Financial Services Commission may report the 5% ownership status and the changes described in (A) above to the Financial Services Commission and the Korea Exchange by the tenth day of the month immediately following the end of the quarter in which such 5% ownership interest is reached or the change occurs.

When filing a report to the Financial Services Commission and the Korea Exchange in accordance with the reporting requirements described above, a copy of such report must also be sent to the relevant listed company.

Violation of these reporting requirements may subject a person to sanctions such as prohibition on the exercise of voting rights with respect to the equity securities for which the reporting requirement was violated, or fines and/or imprisonment. Furthermore, the Financial Services Commission may order the disposal of the equity securities for which the reporting requirement was violated.

A person reporting to the Financial Services Commission and the Korea Exchange that his purpose of holding the equity securities is to participate in the management of the listed company is prohibited from acquiring additional equity securities of the listed company and exercising voting rights during the period commencing from the date on which the event triggering the reporting requirement occurs and ending on the fifth day from the date on which the report is made.

In addition to the reporting requirements described above, any person whose direct or beneficial ownership of our voting stock and/or depository receipts for our voting stock accounts for 10% or more of the total issued and outstanding voting stock, whom we refer to as a major shareholder, must file a report to the Securities and Futures Commission of Korea and to the Korea Exchange within five business days after the date on which the person reached such shareholding limit. In addition, such person must file a report to the Securities and Futures Commission of Korea and to the Korea Exchange regarding any subsequent change in his/her shareholding. Such report on subsequent change in shareholding must be filed within five business days of the occurrence of any such change. Violation of these reporting requirements may subject a person to criminal sanctions such as fines and/or imprisonment.

Restrictions Applicable to Common Shares

As a result of amendments to the Foreign Exchange Transaction Laws and Financial Services Commission regulations adopted in connection with the stock market opening from January 1992, which we refer to collectively as the Investment Rules, foreigners may invest, with limited exceptions and subject to procedural requirements, in shares of all Korean companies listed on the KRX KOSPI Market or the KRX KOSDAQ Market unless prohibited by specific laws. Foreign investors may trade shares listed on the KRX KOSPI Market or the KRX KOSDAQ Market only through the KRX KOSPI Market or the KRX KOSDAQ Market, except in limited circumstances, including:

- odd lot trading of shares;
- acquisition of shares, which we refer to as converted shares, by exercise of warrants, conversion rights or exchange rights under bonds with warrants, convertible bonds or exchangeable bonds or withdrawal rights under depositary receipts issued outside of Korea by a Korean company;
- acquisition of shares as a result of inheritance, donation, bequest or exercise of shareholders' rights, including preemptive rights or rights to participate in free distributions and receive dividends;
- over-the-counter transactions between foreigners of a class of shares for which the ceiling on aggregate acquisition by foreigners, as explained below, has been reached or exceeded;
- shares acquired by way of direct investment and/or the disposal of such shares by the investor;
- the disposal of shares pursuant to the exercise of appraisal rights of dissenting shareholders;
- the acquisition or disposal of shares in connection with a tender offer;
- the acquisition of underlying shares by a foreign depositary in connection with the issuance of depositary receipts;
- the acquisition and disposal of shares through overseas stock exchange market if such shares are simultaneously listed on the KRX KOSPI Market or the KRX KOSDAQ Market and such overseas stock exchange; and
- arm's length transactions between foreigners, if all of such foreigners belong to the investment group managed by the same person.

For over-the-counter transactions of shares between foreigners outside the KRX KOSPI Market or the KRX KOSDAQ Market for shares with respect to which the limit on aggregate foreign ownership has been reached or exceeded, an investment broker licensed in Korea must act as an intermediary. Odd-lot trading of shares outside the KRX KOSPI Market or the KRX KOSDAQ Market must involve an investment dealer licensed in Korea as the other party. Foreign investors are prohibited from engaging in margin transactions by borrowing shares from investment brokers or investment dealers with respect to shares that are subject to a foreign ownership limit.

The Investment Rules require a foreign investor who wishes to invest in, or dispose of, shares on the KRX KOSPI Market or the KRX KOSDAQ Market (including shares being issued or sold for initial listing on the KRX KOSPI Market or the KRX KOSDAQ Market) to register its identity with the Financial Supervisory Service prior to making any such investment or disposal unless it has previously registered. However, the registration requirement does not apply to foreign investors who (i) acquire shares by exercising rights attached to securities offered by Korean companies outside Korea (including convertible bonds, bonds with warrants, exchangeable bonds, depositary receipts, distribution depositary securities, and any other similar securities or certificates) with the intention of selling such shares within three months from the date of acquisition of the shares or (ii) acquire or dispose of shares outside the KRX KOSPI Market or the KRX KOSDAQ Market in connection with a foreign direct investment under the Foreign Investment Promotion Act of Korea. Upon registration, the Financial Supervisory Service will issue to the foreign investor an investment registration certificate which must be presented each time the foreign investor opens a dealing account or a brokerage account with an investment dealer or an investment broker licensed in Korea. Foreigners eligible to obtain an investment registration certificate include foreign nationals who have not been residing in Korea for a consecutive period of six months or more, foreign governments, foreign municipal authorities, foreign public institutions, international financial institutions or similar international organizations, corporations incorporated under foreign laws and any person in any additional category designated by a decree promulgated under the FSCMA. The offices of a foreign corporation in Korea are not subject to investment registration and are treated as a Korean national separately from the offices of the corporation outside Korea for the purpose of investment registration. A foreign corporation or depositary issuing depositary receipts may obtain one or more investment registration certificates in its name in certain circumstances as described in the relevant regulations.

Upon a foreign investor's purchase of shares through the KRX KOSPI Market or the KRX KOSDAQ Market, no separate report by the investor is required because the investment registration certificate system is designed to control and oversee foreign investment through a computer system. However, a foreign investor's acquisition or sale of shares outside the KRX KOSPI Market or the KRX KOSDAQ Market (as discussed above) must be reported by the foreign investor or his standing proxy to the governor of the Financial Supervisory Service at the time of each such acquisition or sale; provided, however, that a foreign investor must ensure that any acquisition or sale by it of shares outside the KRX KOSPI Market or the KRX KOSDAQ Market in the case of trades in connection with a tender offer, odd-lot trading of shares or trades of a class of shares for which the aggregate foreign ownership limit has been reached or exceeded, is reported to the governor of the Financial Supervisory Service by the investment dealer or investment broker engaged to facilitate such transaction. A foreign investor may appoint a standing proxy from among the Korea Securities Depository, foreign exchange banks (including domestic branches of foreign banks), investment dealers, investment brokers and collective investment companies ("financial investment firms") (including licensed domestic branches of foreign financial investment firms) and internationally recognized custodians which will act as a standing proxy to exercise shareholders' rights or perform any matters related to the foregoing activities if the foreign investor does not perform these activities itself. Generally, a foreign investor may not permit any person, other than its standing proxy, to exercise rights relating to its shares or perform any tasks related thereto on its behalf. However, a foreign investor may be exempted from complying with these standing proxy rules with the approval of the governor of the Financial Supervisory Service in cases deemed inevitable by reason of conflict between the laws of Korea and the home country of the foreign investor.

Certificates evidencing shares of Korean companies must be kept in custody with an eligible custodian in Korea. Only foreign exchange banks (including domestic branches of foreign banks), financial investment firms (including domestic branches of foreign financial investment firms), the Korea Securities Depository and internationally recognized custodians are eligible to act as a custodian of shares for a foreign investor; provided, however, that a foreign investor may have the certificate evidencing shares released from such custody when it is necessary to exercise its rights to such shares or to inspect and confirm the presence of the certificate(s) of such shares. The custodian of a foreign investor must deposit such foreign investor's shares with the Korea Securities Depository. However, a foreign investor may be exempted from complying with this deposit requirement with the approval of the governor of the Financial Supervisory Service in circumstances where compliance with that requirement is made impracticable, including cases where compliance would contravene the laws of the home country of such foreign investor.

Under the Investment Rules, with certain exceptions, foreign investors may own shares of a Korean company without being subject to any foreign investment ceiling. As one such exception, designated public corporations are subject to a 40% ceiling on the acquisition of shares by foreigners in the aggregate, and the designated public service corporations may set a ceiling on the acquisition of shares by a single person in their articles of incorporation. Currently, Korea Electric Power Corporation is the only designated public service corporation which has set a ceiling on the acquisition of shares by a single person regardless of its nationality within 3% of the total number of shares by its articles of incorporation, although it has no ceiling specifically set for foreign shareholders.

Under the Foreign Exchange Transaction Laws, a foreign investor who wishes to trade shares without obtaining separate governmental approvals or submitting separate reports to Korean government must designate a foreign exchange bank and open a foreign currency account and a Korean Won account with the bank exclusively for stock investments. No approval is required for remittance of foreign currency funds into Korea or for deposit of foreign currency funds in the foreign currency account. Foreign currency funds may be transferred from the foreign currency account to a Korean Won account opened with an investment dealer or an investment broker at the time the foreign investor is required to place a deposit for, or settle the purchase price of, a stock purchase transaction to an investment dealer or investment broker's Won account. Funds in the foreign currency account may be remitted abroad without any governmental approval.

Furthermore, an investment by a foreign investor in 10% or more of the outstanding shares of voting stock of a Korean company is defined as a foreign direct investment under the Foreign Investment Promotion Act of Korea. Generally, foreign direct investments must be reported to a delegate institution of the Ministry of Trade, Industry and Energy prior to such investment (or within 30 days from the date of such investment, if the investment is made through acquisition of outstanding shares of a Korean company listed on the Korea Exchange). The acquisition of shares of a Korean company by a foreign investor may also be subject to certain industry-specific or business-specific foreign or other shareholding restrictions.

Dividends on shares of Korean companies are paid in Korean Won. No governmental approval is required for foreign investors to receive dividends on, or the Korean Won proceeds of the sale of, any shares to be paid, received and retained in Korea. Dividends paid on, and the Korean Won proceeds of the sale of, any shares held by a non-resident of Korea may be deposited either in a Korean Won account with the investor's investment dealer or investment broker or his Korean Won account. Funds in the investor's Korean Won account may be transferred to his foreign currency account or withdrawn for local living expenses, provided that any withdrawal of local living expenses in excess of a certain amount must be reported to the governor of the Financial Supervisory Service by the foreign exchange bank at which the Korean Won account is maintained. Funds in the Korean Won account in Korea may also be used for future investment in shares or for payment of the subscription price of new shares obtained through the exercise of preemptive rights.

Investment dealers and investment brokers are allowed to open foreign currency accounts with foreign exchange banks exclusively for accommodating foreign investors' stock investments in Korea. Through these accounts, investment dealers and investment brokers may enter into foreign exchange transactions on a limited basis, such as conversion of foreign currency funds and Korean Won funds, either as a counterparty to or on behalf of foreign investors, without the investors having to open their own accounts with foreign exchange banks.

KOREAN SECURITIES MARKET

The Korea Exchange

On January 27, 2005, the Korea Exchange was established pursuant to the Korea Securities and Futures Exchange Act by consolidating the Korea Stock Exchange, the Korea Futures Exchange, the KOSDAQ Stock Market, Inc., or the KOSDAQ, and the KOSDAQ Committee of the Korea Securities Dealers Association, which had formerly managed the KOSDAQ. On July 1, 2013, the Korea Exchange launched the Korea New Exchange (KONEX), a new securities exchange that focuses on small- and medium-sized enterprises. There are four different markets operated by the Korea Exchange: the KRX KOSPI Market, the KRX KOSDAQ Market, the KONEX Market and the KRX Derivatives Market. The Korea Exchange has three trading floors located in Seoul, one for the KRX KOSPI Market, one for the KRX KOSDAQ Market and one for the KONEX Market, and one trading floor in Busan for the KRX Derivatives Market. The Korea Exchange is a stock corporation ("*chusik hoesa*" in Korean), the shares of which are held by (i) investment brokers and investment dealers that were formerly members of the Korea Futures Exchange or the Korea Stock Exchange and (ii) the stockholders of the KOSDAQ. Currently, the Korea Exchange is the only stock exchange in Korea and is operated by membership, having as its members most of the Korean investment brokers and investment dealers and some Korean branches of foreign investment brokers and investment dealers.

According to data published by the Korea Exchange, as of December 31, 2017, the aggregate market value of equity securities listed on the KRX KOSPI Market was approximately Won 1,606 trillion, and the average daily trading volume of equity securities in 2017 was approximately 340 million shares with an average daily transaction value of Won 5.3 trillion.

The Korea Exchange has the power in some circumstances to suspend trading in the shares of a specific company or to de-list a security pursuant to the Regulation on Listing on the Korea Exchange. The Korea Exchange also restricts share price movements. All listed companies are required to file accounting reports annually, semi-annually and quarterly and to release immediately certain information that may affect trading in a security.

The Korea Exchange publishes the KOSPI every ten seconds, which is an index of all equity securities listed on the KRX KOSPI Market. On January 1, 1983, the method of computing KOSPI was changed from the Dow Jones method to the aggregate value method. In the new method, the market capitalizations of all listed companies are aggregated, subject to certain adjustments, and this aggregate is expressed as a percentage of the aggregate market capitalization of all listed companies as of the base date, January 4, 1980.

Movements in KOSPI are set out in the following table:

	Opening	High	Low	Closing
1985	139.53	163.37	131.40	163.37
1986	161.40	279.67	153.85	272.61
1987	264.82	525.11	264.82	525.11
1988	532.04	922.56	527.89	907.20
1989	919.61	1,007.77	844.75	909.72
1990	908.59	928.77	566.27	696.11
1991	679.75	763.10	586.51	610.92
1992	624.23	691.48	459.07	678.44
1993	697.41	874.10	605.93	866.18
1994	879.32	1,138.75	860.47	1,027.37
1995	1,013.57	1,016.77	847.09	882.94
1996	888.85	986.84	651.22	651.22
1997	653.79	792.29	350.68	376.31
1998	385.49	579.86	280.00	562.46
1999	587.57	1,028.07	498.42	1,028.07
2000	1,059.04	1,059.04	500.60	504.62
2001	520.95	704.50	468.76	693.70

	Opening	High	Low	Closing
2002	724.95	937.61	584.04	627.55
2003	635.17	822.16	515.24	810.71
2004	821.26	936.06	719.59	895.92
2005	893.71	1,379.37	870.84	1,379.37
2006	1,389.27	1,464.70	1,203.86	1,434.46
2007	1,435.26	2,064.85	1,355.79	1,897.13
2008	1,853.45	1,888.88	938.75	1,124.47
2009	1,157.40	1,718.88	1,018.81	1,682.77
2010	1,696.14	2,051.00	1,552.79	2,051.00
2011	2,070.08	2,228.96	1,652.71	1,825.74
2012	1,826.37	2,049.28	1,769.31	1,997.05
2013	2,031.10	2,059.58	1,780.63	2,011.34
2014	1,967.19	2,082.61	1,886.85	1,915.59
2015	1,926.44	2,173.41	1,829.81	1,961.31
2016	1,918.76	2,068.72	1,835.28	2,026.46
2017	2,026.16	2,557.97	2,026.16	2,467.49
2018 (through March 27)	2,479.65	2,598.19	2,363.77	2,452.06

Source: The Korea Exchange

Shares are quoted "ex-dividend" on the trading day immediately preceding the last trading day of the relevant company's accounting period. Since the calendar year is the accounting period for the majority of listed companies, this may account for the drop in KOSPI between the closing price of the second trading day preceding the last trading day of one calendar year and the opening price of the trading day immediately preceding the last trading day of such calendar year.

With certain exceptions, principally to take account of a share being quoted "ex-dividend" and "ex-rights," permitted upward and downward movements in share prices of any category of shares on any trading day are limited under the rules of the Korea Exchange to 30% of the previous trading day's closing price of the shares, rounded down as set out below:

Previous trading day's closing price (Won)	Rounded Down to (Won)
Less than 1,000	1
1,000 to less than 5,000	5
5,000 to less than 10,000	10
10,000 to less than 50,000	50
50,000 to less than 100,000	100
100,000 to less than 500,000	500
500,000 or more	1,000

As a consequence, if a particular closing price is the same as the price set by the fluctuation limit, the closing price may not reflect the price at which persons would have been prepared, or would be prepared to continue, if so permitted, to buy and sell shares. Orders are executed on an auction system with priority rules to deal with competing bids and offers.

Due to deregulation of restrictions on brokerage commission rates, the brokerage commission rate on equity securities transactions may be determined by the parties, subject to commission schedules being filed with the Korea Exchange by the investment brokers and the investment dealers. In addition, a securities transaction tax (including agricultural and fishery special surtax thereon) of 0.3% of the sales price will generally be imposed on the transfer of shares or certain securities representing rights to subscribe for shares on the Korea Exchange. See "Taxation — Korean Taxation."

The number of companies listed on the KRX KOSPI Market, the corresponding total market capitalization at the end of the periods indicated and the average daily trading volume for those periods are set forth in the following table:

	Market Capitalization on the Last Day of Each Period		Average Daily Trading Volume, Value	
Year	Number of Listed Companies	(Billions of Won)	Thousands of Shares	(Millions of Won)
1985	342	₩ 6,570	18,925	₩ 12,315
1986	355	11,994	31,755	32,870
1987	389	26,172	20,353	70,185
1988	502	64,544	10,367	198,364
1989	626	95,477	11,757	280,967
1990	669	79,020	10,866	183,692
1991	686	73,118	14,022	214,263
1992	688	84,712	24,028	308,246
1993	693	112,665	35,130	574,048
1994	699	151,217	36,862	776,257
1995	721	141,151	26,130	487,762
1996	760	117,370	26,571	486,834
1997	776	70,989	41,525	555,759
1998	748	137,799	97,716	660,429
1999	725	349,504	278,551	3,481,620
2000	704	188,042	306,163	2,602,211
2001	689	255,850	473,241	1,997,420
2002	683	258,681	857,245	3,041,598
2003	684	355,363	542,010	2,216,636
2004	683	412,588	372,895	2,232,108
2005	702	655,075	467,629	3,157,662
2006	731	704,588	279,096	3,435,180
2007	745	951,900	363,732	5,539,588
2008	763	592,635	355,205	5,189,643
2009	770	887,935	485,657	5,795,426
2010	777	1,141,885	380,859	5,619,768
2011	791	1,041,999	353,759	6,863,146
2012	784	1,154,294	486,480	4,823,643
2013	777	1,185,974	328,325	3,993,422
2014	773	1,192,253	278,082	3,983,580
2015	770	1,242,832	455,256	5,351,734
2016	779	1,308,440	376,773	4,523,044
2017	774	1,605,821	340,457	5,325,760
2018 (through March 27)	777	1,631,743	385,925	6,969,019

Source: The Korea Exchange

(1) Converted at the concentration base rate of The Bank of Korea or Market Average Exchange Rate, as the case may be, at the end of the periods indicated.

The Korean securities markets are principally regulated by the Financial Services Commission and under the regulations set forth in the FSCMA. In August 2007, the National Assembly of Korea enacted the FSCMA. The FSCMA, which came into effect on February 4, 2009, comprehensively regulates the Korean capital markets, the financial investment businesses (including collective investment businesses and trust businesses) and financial investment products (such as securities and derivatives). The FSCMA imposes, among others, restrictions on insider trading and price manipulation, requires specified information to be made available by listed companies to investors and establishes rules regarding margin trading, proxy solicitation, takeover bids, acquisition of treasury shares and reporting requirements for shareholders holding substantial interests. The FSCMA regulates the operation and monitoring of the securities and derivatives markets.

Protection of Customer's Interest in Case of Insolvency of Investment Brokers or Investment Dealers

Under Korean law, the relationship between a customer and an investment broker or an investment dealer in connection with a securities sell or buy order is deemed to be a consignment and the securities acquired by a consignment agent (i.e., the investment broker or the investment dealer) through such sell or buy order are regarded as belonging to the customer insofar as the customer and the consignment agent's creditors are concerned. Therefore, in the event of a bankruptcy or reorganization procedure involving an investment broker or an investment dealer, the customer of the investment broker or the investment dealer is entitled to claim the securities acquired by the investment broker or the investment dealer for the customer's account.

Under the FSCMA, the Korea Exchange is obliged to indemnify any loss or damage incurred by a counterparty as a result of a breach by members of the KRX KOSPI Market or the KRX KOSDAQ Market. If an investment broker or an investment dealer that is a member of the KRX KOSPI Market or the KRX KOSDAQ Market breaches its obligation in connection with a buy order, the Korea Exchange is obliged to pay the purchase price on behalf of the breaching member. Therefore, the customer can acquire the securities subject to the buy order that it has placed with the breaching member.

When a customer places a buy order with a non-member company and the non-member company places a buy order with a member company, the customer has the legal right to the securities received by the non-member company from the member company because the purchased securities are regarded as belonging to the customer insofar as the customer and the non-member company's creditors are concerned.

As cash deposited with an investment broker or an investment dealer is regarded as belonging to the investment broker or investment dealer, which is liable to return the same at the request of its customer, the customer cannot take back deposited cash from the investment broker or the investment dealer if a bankruptcy or rehabilitation procedure is instituted in respect of the investment broker or the investment dealer and, therefore, can suffer a loss or damage as a result. However, the Depositor Protection Act provides that the Korea Deposit Insurance Corporation will, upon the request of an investor, pay the investor up to Won 50 million of cash deposited with an investment broker or an investment dealer in case of the investment broker or the investment dealer's bankruptcy, liquidation, cancellation of investment broker or investment dealer license or other insolvency events. Investment brokers and investment dealers pay premiums to the Korea Deposit Insurance Corporation for this insurance. Pursuant to the FSCMA, investment brokers or investment dealers are required to deposit cash received from its customers at the Korea Securities Finance Corporation, a special entity established pursuant to the FSCMA. Set-off or attachment of any such cash deposits by investment brokers or investment dealers is prohibited.

Clearance and Settlement

The settlement of trades on the Korea Exchange is required to be handled by a settlement agency of the Korea Exchange. The Korea Securities Depository is the institution commissioned by the Korea Exchange to handle all such settlement of trades.

The settlement of trades on the Korea Exchange takes place through a clearance and settlement procedure. The Korea Exchange has adopted the multilateral netting system and carries out the clearance of the trades by netting the sales and purchases of each Korea Securities Depository participant. The Korea Exchange is required to provide the daily net settlement results of the trades to the Korea Securities Depository by 7 p.m. on the business day immediately prior to the settlement date. The Korea Securities Depository then handles settlement of the securities and the funds based on the information received from the Korea Exchange. The securities are settled through book-entry changes in the accounts of Korea Securities Depository participants and the funds are settled by transfer to an accounts at a bank designated by the Korea Securities Depository. Settlement of trades is generally required to take place on the third trading day following the day of the sale and purchase contract (with the day of the sale and purchase contract being the first trading day).

TAXATION

The following is a summary of the principal Korean tax consequences to owners of the Bonds or Hi-mart Shares, as the case may be, who are non-resident individuals or non-Korean corporations without a permanent establishment in Korea to which the relevant income is attributable or with which the relevant income is effectively connected ("Non-resident Holders"). The statements regarding Korean tax laws set forth below are based on the laws in force and as interpreted by the Korean taxation authorities as of the date hereof. This summary is not exhaustive of all possible tax considerations which may apply to a particular investor and potential investors are advised to satisfy themselves as to the overall tax consequences of the acquisition, ownership and disposition of the Bonds or the Hi-mart Shares, including specifically the tax consequences under Korean law, the laws of the jurisdiction of which they are resident, and any tax treaty between Korea and their country of residence, by consulting their own tax advisors.

Korean Taxation Relating to the Bonds

The information provided below does not purport to be a complete summary of Korean tax law and practice currently applicable. Prospective investors who are in any doubt as to their tax position should consult with their own professional advisors.

The taxation of non-resident individuals and non-Korean corporations ("Non-Residents") depends on whether they have a "permanent establishment" (as defined under Korean law and applicable tax treaty) in Korea to which the relevant Korean source income is attributable or with which such income is effectively connected. Non-Residents without a permanent establishment in Korea are taxed in the manner described below. Non-Residents with permanent establishments in Korea are taxed in accordance with different rules.

Tax on Capital Gains

Korean tax laws currently exclude from Korean taxation gains made by a Non-Resident without a permanent establishment in Korea from the sale of the Bonds to Non-Residents (other than to their permanent establishments in Korea) under the Corporation Tax Law ("CTL"). In addition, capital gains earned by Non-Residents with or without permanent establishments in Korea from the transfer taking place outside Korea of the Bonds are currently exempt from taxation by virtue of the Special Tax Treatment Control Law of Korea (the "STTCL"), provided that the issuance of the Bonds is deemed to be an overseas issuance under the STTCL.

If the exclusion or exemption from Korean taxation referred to above were to cease to be in effect, in the absence of an applicable tax treaty reducing or eliminating tax on capital gains, the applicable rate of tax would be the lower of 11% (including local income tax) of the gross realization proceeds and (subject to the production of satisfactory evidence of the acquisition cost and certain direct transaction costs of the relevant Bond) 22% (including local income tax) of the realized gain (i.e., the excess of the gross realization proceeds over the acquisition cost and certain direct transaction costs) made. If such evidence shows that no gain (or a loss) was made on the sale, no Korean tax is payable. With respect to computing the above-mentioned 22% withholding tax (including local income tax) on the realized gain, please note that there is no provision under relevant Korean law for offsetting gains and losses or otherwise aggregating transactions for the purpose of computing the net gain attributable to sales of Bonds issued by Korean companies. The purchaser or any other designated withholding agent of Bonds is obliged under Korean law to withhold the applicable amount of Korean tax and make payment thereof to the relevant Korean tax authority. Unless the seller can claim the benefit of an exemption from tax under an applicable tax treaty or on the failure of the seller to produce satisfactory evidence of his acquisition cost and certain direct transaction costs in relation to the instruments being sold, the purchaser or such withholding agent must withhold an amount equal to 11% of the gross realization proceeds. Any amounts withheld by the purchaser or withholding agent must be paid to the competent Korean tax office. The purchaser or withholding agent must pay any withholding tax no later than the tenth day of the month following the month in which the payment for the purchase of the relevant instruments occurred. Failure to transmit the withheld tax to the Korean tax authorities in time subjects the purchaser or the withholding agent to penalties under Korean tax laws. The Korean tax authorities may attempt to collect such tax from a Non-Resident who is liable for payment of any Korean tax on gains, as a purchaser or withholding agent who is obliged to withhold such tax, through proceedings against payments due to the Non-Resident from its Korean investments and the assets or revenues of any of the Non-Resident's branch or representative offices in Korea.

Share Exchange

The tax liability in connection with the Bonds and the capital gains resulting from the exchange of Bonds into the Hi-mart Shares is not clear. The interpretation of the Korean tax authorities in connection with exchangeable bonds is that the acquisition cost of such common shares should be deemed as the issuance price of the exchangeable bonds. In other words, the Korean tax authorities do not recognize separate capital gains from the exchange of shares pursuant to the exchangeable bonds, and it is likely that there will not be any tax liabilities in connection with the exchange of Bonds into Hi-mart Shares.

Upon the exchange of Bonds into Hi-mart Shares, if the relevant payment is made by cash, then it is likely to trigger a taxable event for Korean income tax purpose, and the gain from the exchange will be subject to Korean withholding tax on the income tax and/or corporation tax. However, it is not clear whether the gain from the exchange will be treated as interest income, capital gains, or "other income" and how the amount subject to such tax would be calculated. If treated as interest income, the gain from the exchange will be subject to Korean withholding tax at the rate of 15.4% (including local income tax) unless exempt under an applicable Korean tax treaty. If treated as capital gains, the gain from the exchange may be exempt from Korean taxation under an applicable Korean tax treaty or by virtue of the CTL and STTCL as discussed above. However, if treated as "other income", the gain from the exchange will be subject to the Korean withholding tax at the rate of 22% (including local income tax) unless exempt under an applicable Korean tax treaty.

If cash payment is made to a Non-resident Holder in lieu of the exchange of the Bonds into Hi-mart Shares, the amount in excess of the principal and the accrued interest of the Bonds may be deemed to be a taxable event by the Korean tax authorities, and such Non-resident Holder may be subject to Korean withholding tax. Although it is uncertain whether the gain arising from such cash payment is treated as interest income, capital gains or "other income" and how the amount subject to such tax would be calculated, the Korean National Tax Service issued a ruling to the effect that the cash payments received by the non-resident holders of a foreign currency denominated exchangeable bonds in excess of the issuance price and the accrued interest of such bonds should be treated as premium, and thus, Korean source interest income, which is exempt from Korean income taxation under Article 21 of the STTCL.

Early Redemption and Redemption at Maturity

Upon exercise of the put option by either the Issuer or the Bondholder, the Bonds will be redeemed at their Early Redemption Amount. Under the interpretation of the Korean tax authorities, the excess of the Early Redemption Amount over the principal of the Bonds will be classified as Korean source interest income. Since Article 21 of the STTCL only exempts interest income from foreign currency denominated bonds from taxation, such interest income from the Bonds which is denominated in Korean Won is subject to withholding tax at the rate of 15.4% (including local income tax) unless exempt under an applicable Korean tax treaty.

When redeemed at the Maturity Date, the Bonds will be redeemed at the Final Redemption Amount. Although there is currently no express ruling concerning redemption of exchangeable bonds at maturity, it is likely that the Korean tax authorities will equally treat the excess of the Final Redemption Amount over the principal of the Bonds as Korean source interest income that is subject to withholding tax at the rate of 15.4% (including local income tax) unless exempt under an applicable Korean tax treaty.

Korean Taxation Relating to the Hi-mart Shares

Tax on Dividends

Dividends on the Hi-mart Shares paid (whether in cash or in shares) to a Non-resident Holder will be subject to Korean withholding taxes at the rate of 22% (including local income tax) or such lower rate as is applicable under a treaty between Korea and such Non-resident Holder's country of tax residence. Free distributions of shares representing a capitalization of certain capital surplus reserves may be subject to Korean withholding taxes.

The tax is withheld by the payor of the dividend. In order to obtain a reduced rate of withholding tax pursuant to an applicable tax treaty, a Non-resident Holder must submit to us, prior to the dividend payment date, such evidence of tax residence as the Korean tax authorities may require in order to establish its entitlement to the benefits of the applicable tax treaty.

Tax on Capital Gains

As a general rule, capital gains earned by Non-resident Holders upon transfer of the Hi-mart Shares are subject to Korean withholding tax at the lower of (i) 11% (including local income tax) of the gross proceeds realized or (ii) 22% (including local income tax) of the net realized gains (subject to the production of satisfactory evidence of the acquisition costs and certain direct transaction costs), unless exempt from Korean income taxation under the effective Korean tax treaty with the Non-resident Holder's country of tax residence.

However, a Non-resident Holder will not be subject to Korean income taxation on capital gains realized upon the sale of the Hi-mart Shares through the Korea Exchange if the Non-resident Holder (i) has no permanent establishment in Korea and (ii) did not or has not owned (together with any shares owned by any entity with certain special relationships with such Non-resident Holder) 25% or more of our total issued and outstanding shares at any time during the calendar year in which the sale occurs and during the five calendar years prior to the calendar year in which the sale occurs.

Korean Inheritance Tax and Gift Tax

Korean inheritance tax is imposed upon (a) all assets (wherever located) of the deceased if at the time of his death he was domiciled in Korea or resided in Korea for at least 183 days immediately prior to the death and (b) all property located in Korea which passes on death (irrespective of the domicile of the deceased). Gift tax is imposed in similar circumstances to the above. The taxes are imposed if the value of the relevant property is above a certain limit and the tax rates vary from 10% to 50% according to the value of the relevant property and the identity of the persons involved. At present, Korea has not entered into any tax treaties regarding its inheritance or gift taxes.

Under Korean inheritance and gift tax laws, notes issued by Korean corporations are deemed located in Korea irrespective of where they are physically located or by whom they are owned. Consequently, the Korean inheritance and gift taxes will be imposed on transfers of the Bonds by inheritance or gift. Holders should consult their personal tax advisers regarding the consequences of the imposition of the Korean inheritance or gift tax.

Korean Stamp Duty and Securities Transaction Tax

No stamp, issue or registration duties will be payable in Korea by the Holders in connection with the issue of the Bonds except for a nominal amount of stamp duty on certain documents executed in Korea which will be paid by us.

No securities transaction tax will be imposed upon the transfer of the Bonds.

Securities transaction tax is imposed on the transfer of shares issued by a Korean corporation generally at the rate of 0.5% of the sales price. In the case of the transfer of shares listed on the KRX KOSPI Market (such as the common shares), the securities transaction tax is imposed generally at the rate of (i) 0.3% of the sales price of such shares (including agricultural and fishery special surtax thereon) if traded on the KRX KOSPI Market or (ii) subject to certain exceptions, 0.5% of the sales price of such shares if traded outside the KRX KOSPI Market.

Securities transaction tax or the agricultural and fishery special surtax is not applicable if (i) the shares are listed on a designated foreign stock exchange and (ii) the sale of the shares takes place on such exchange.

Securities transaction tax, if applicable, must be paid by the transferor of the shares, in principle. When the transfer is effected through a securities settlement company, such settlement company is generally required to withhold and pay (to the tax authority) the tax, and when such transfer is made through a financial investment company with a brokerage license only, such company is required to withhold and pay the tax. Where the transfer is effected by a Non-resident Holder without a permanent establishment in Korea, other than through a securities settlement company or a financial investment company with a brokerage license, the transferee is required to withhold the securities transaction tax. Failure to do so will result in the imposition of penalties equal to the sum of (i) between 10% to 40% of the tax amount due, depending on the nature of the improper reporting, and (ii) 10.95% per annum on the tax amount due for the default period.

Tax Treaties

At the date of this offering circular, Korea has tax treaties with, inter alia, Australia, Austria, Belgium, Brazil, Bulgaria, Canada, China, Czech Republic, Denmark, Egypt, Finland, France, Germany, India, Indonesia, Ireland, Italy, Japan, Luxembourg, Malaysia, Mexico, Mongolia, the Netherlands, New Zealand, Norway, Pakistan, Philippines, Poland, Republic of Fiji, Romania Singapore, Spain, Sri Lanka, Sweden, Switzerland, Thailand, Tunisia, Turkey, the United Kingdom, the United States of America and Vietnam under which the rate of withholding tax on interest is reduced, generally to between 5 and 16.5% (including local income tax), and the tax on capital gains is often eliminated.

Each Holder should inquire whether he is entitled to the benefit of a tax treaty with respect to any transaction involving the Bonds. It is the responsibility of the party claiming the benefits of a tax treaty in respect of interest payments to file with the payer or the Issuer a certificate as to his country of tax residence. In the absence of sufficient proof, the payer or the Issuer, as the case may be, must withhold taxes in accordance with the above discussion.

Further, in order for a non-resident to obtain the benefit of a tax exemption under an applicable tax treaty, Korean tax law requires such non-resident (or its agents) to submit to the payer of such Korean source income an application for tax exemption under a tax treaty along with a certificate of tax residency of such non-resident issued by a competent authority of the non-resident's country of residence, subject to certain exceptions. The payer of such Korean source income, in turn, is required to submit such exemption application to the relevant district tax office in Korea by the ninth day of the month following the date of the first payment of such income. However, this requirement does not apply to tax exemptions under Korean tax law such as the STTCL. Furthermore, in order to obtain a reduced rate of withholding tax on interest, a Non-Resident as a beneficial owner of the interest, must submit to the payer of the interest, prior to the payment date, the Application for Entitlement to Reduced Tax Rate. If interest is paid to an overseas investment vehicle, the overseas investment vehicle must submit a Report of Overseas Investment Vehicle and a Schedule of Beneficial Owners, with certain exceptions.

Withholding and Gross Up

In the event that the payer or we are required by law to make any withholding or deduction for or on account of any Korean taxes (as more fully described in "Terms and Conditions of the Bonds — Taxation") we have agreed to pay (subject to the customary exceptions as set out in "Terms and Conditions of the Bonds — Taxation") such

Additional Amounts as may be necessary in order that the net amounts received by the Holder of any Bond after such withholding or deduction shall equal the respective amounts which would have been received by such Holder in the absence of such withholding or deduction.

The Proposed Financial Transaction Tax

The European Commission has published a proposal (the "Commission's Proposal") for a Directive for a common financial transaction tax (the "FTT") in Austria, Belgium, Estonia, France, Germany, Greece, Italy, Portugal, Slovakia, Slovenia and Spain (the "participating Member States"). However, Estonia has since stated that it will not participate.

The Commission's Proposal has very broad scope and could, if introduced in its current form, apply to certain dealings in the Notes in certain circumstances.

Under the Commission's Proposal, the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

The FTT remains subject to negotiation between participating Member States and the legality of the proposal is uncertain. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional European Union Member States may decide to participate and/or certain of the participating Member States may decide to withdraw.

Prospective holders of the Bonds are advised to seek their own professional advice in relation to the FTT.

SUBSCRIPTION AND SALE

We have entered into a subscription agreement dated March 14, 2018 (the "Subscription Agreement") with the managers named below (the "Managers"), pursuant to which we have agreed to sell to the Managers, and the Managers have severally and not jointly agreed to subscribe and pay for, or procure subscribers to subscribe and pay for, the Bonds in such principal amounts as are listed opposite their respective names below, at an issue price of 100% of the principal amount of the Bonds less a combined management and underwriting commission and selling concession as agreed between the Mangers and us.

Manager	Principal Amount
BNP Paribas Securities (Asia) Limited	₩ 151,800,000,000
Nomura International (Hong Kong) Limited	151,800,000,000
Total	₩ 303,600,000,000

The Subscription Agreement provides that the obligation of the Managers to subscribe and pay for the Bonds is subject to approval of certain legal matters by counsel and to certain other conditions. The Subscription Agreement may be terminated in certain circumstances prior to payment being made to us. The Subscription Agreement also provides that if a Manager defaults, the purchase commitments of the non-defaulting Manager may be increased or this offering may be terminated.

We have agreed to indemnify the Managers against certain liabilities, including liabilities under the Securities Act.

The Bonds are a new issue of securities with no established trading market. Approval in-principle has been received from the SGX-ST for the listing and quotation of Bonds on the SGX-ST. However, no assurance can be given as to the liquidity of the trading market for the Bonds.

In connection with the offering of the Bonds, the Managers or any of their respective affiliates may purchase the Bonds for its own account and enter into transactions, including (i) credit derivatives (including convertible asset swaps, repackaging transactions and credit default swaps) relating to the Bonds and/or our securities, and (ii) equity derivatives and stock loan transactions relating to Hi-mart Shares. Such transactions may occur either at the same time as the offer and sale of the Bonds, or in secondary market transactions. Such transactions would be carried out as bilateral transactions with selected counter-parties and separately from any existing sale or resale of the Bonds to which this offering circular relates (notwithstanding that such selected counter-parties may also be purchasers of the Bonds).

Investors who purchase the Bonds from the Managers may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country of purchase in addition to the offering price set forth on the cover page of this offering circular.

The Managers for the offering and their respective affiliates may have in the past engaged, and may in the future engage, in transactions with and perform services, including financial advisory and investment banking services, for us and our affiliates in the ordinary course of business, for which they received or will receive customary fees and agreed expenses.

Lock-up

We have agreed with the Managers that we (or any person acting on our behalf) will not (a) issue, offer, sell, pledge, contract to sell or otherwise dispose of or grant options, issue warrants or offer rights entitling persons to subscribe for or purchase any interest in, or any securities convertible into, exchangeable for or which carry rights to subscribe for or purchase, the Hi-mart Shares or securities of the same class as the Hi-mart Shares or other instruments representing interests in the Hi-mart Shares or other securities of the same class as them (collectively, the "Securities"), (b) enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of the ownership of the Hi-mart Shares, whether any such transaction of the kind described in (a) or (b) is to be settled by delivery of Hi-mart Shares or other securities, in cash or otherwise or (c) announce or otherwise make public an intention to do any of the foregoing, in any such case without the prior written consent of the Managers, between the date of the Subscription Agreement and the date which is 90 days after the Closing Date; except for (i) the Hi-mart Shares delivered on exchange of the Bonds and (ii) any offer, sale and pledge of, contract to sell or other disposal of, any Securities to any of our subsidiaries or affiliates, or public announcement of an intention to effect any such transaction, so long as the subsidiary or affiliate agrees in writing to be bound to the restrictions on the Securities for the remainder of the 90 day period in the same manner as set out above.

In addition, Hi-mart has agreed with the Managers that it will not, without the prior written consent of the Managers, (a) issue, offer, sell, pledge, contract to sell or otherwise dispose of or grant options, issue warrants or offer rights entitling persons to subscribe for or purchase any interest in, or any securities convertible into, exchangeable for or which carry rights to subscribe for or purchase, the Securities, (b) enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of the ownership of the Hi-mart Shares, whether any such transaction of the kind described in (a) or (b) is to be settled by delivery of Hi-mart Shares or other securities, in cash or otherwise or (c) announce or otherwise make public an intention to do any of the foregoing, for a period of 90 days after the Closing Date; except for any offer, sale or contract to sell of any Securities to any of its subsidiaries or affiliates, or public announcement of an intention to effect any such transaction, so long as the subsidiary or affiliate agrees in writing to be bound to the restrictions on the Securities for the remainder of the 90 day period in the same manner as set out above.

Selling Restrictions

United States

The Bonds have not been and will not be registered under the Securities Act and may be offered or sold only outside the United States in offshore transactions in accordance with Regulation S or pursuant to an exemption from the registration requirements of the Securities Act. Terms used in this clause have the meanings given to them by Regulation S.

Each Manager represents and agrees that neither it nor any of its affiliates (as defined in Rule 501(b) of Regulation D), nor any person acting on its or their behalf has engaged or will engage in any directed selling efforts (within the meaning of Regulation S) in connection with any offer and sale of the Bonds.

European Economic Area – Prohibition of Sales to European Economic Area Retail Investors

Each Manager has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Bonds to any retail investor in the European Economic Area. For the purposes of this provision, the expression "retail investor" means a person who is one (or more) of the following: (a) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU, as amended ("MiFID II"); or (b) a customer within the meaning of Directive 2002/92/EC, as amended, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

United Kingdom

Each Manager has represented, warranted and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the "FSMA")) received by it in connection with the issue or sale of any Bonds in circumstances in which section 21(1) of the FSMA does not apply to us; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom.

Hong Kong

Each Manager has represented, warranted and agreed that (i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Bonds other than (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and (ii) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Bonds, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Bonds which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

Singapore

Each Manager acknowledges that this offering circular will not be registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"). Accordingly, such Manager represents, warrants and agrees that it has not offered or sold any Bonds or caused such Bonds to be made the subject of an invitation for subscription or purchase and will not offer or sell such Bonds or cause such Bonds to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this offering circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such Bonds, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the SFA, (ii) to a relevant person, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions, specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Bonds are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee of which is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of which is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within 6 months after that corporation or that trust has acquired the Bonds pursuant to an offer made under Section 275 of the SFA except:

(1) to an institutional investor under Section 274 of the SFA or to a relevant person (as defined in Section 275(2) of the SFA); or (in the case of such corporation) where the transfer arises from an offer referred to in Section 276(3)(i)(B) of the SFA, or (in the case of such trust), where the transfer arises from an offer referred to in Section 276(4)(i)(B) of the SFA;

(2) where no consideration is or will be given for the transfer;

(3) where the transfer is by operation of law; or

(4) pursuant to Section 276(7) of the SFA.

Korea

The Bonds and the Hi-mart Shares to be delivered upon exchange of the Bonds have not been and will not be registered under the Financial Investment Services and Capital Markets Act. Each Manager represents and agrees that it has not offered, sold or delivered and will not offer, sell or deliver, directly or indirectly, any Bonds in Korea or to, or for the account or benefit of, any Korean resident (as such term is defined in the Foreign Exchange Transaction Law of Korea) or to others for reoffering or resale, directly or indirectly, in Korea, or for the account or benefit of, any Korean resident, except as otherwise permitted under applicable Korean laws and regulations. Furthermore, each Manager is aware that a holder of any Bonds will be prohibited from offering, selling or delivering any Bonds, directly or indirectly, in Korea or to any Korean resident for a period of one (1) year from the date of issuance of the Bonds, except as otherwise permitted by applicable Korean laws and regulations; provided that any investor to which any Manager sells the Bonds confirms that it is purchasing such Bonds as principal and agrees that it will comply with the restrictions described above. Each Manager further represents that it will take commercially reasonable best measures as underwriter in the ordinary course of its business to prevent any Bonds from being offered, sold or delivered to any resident of Korea within one (1) year from the issuance of the Bonds.

Japan

The Bonds have not been and will not be registered under the Securities and Exchange Law of Japan (the "Securities and Exchange Law"), and the Bonds which each Manager subscribes will be subscribed by it as principal. In connection with the initial offering of the Bonds, each Manager will not, directly or indirectly, offer or sell any Bonds in Japan, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and other applicable laws and regulations of Japan.

General

Neither we nor the Managers makes any representation that any action will be taken in any jurisdiction by any Managers or us that would permit a public offering of the Bonds, or possession or distribution of this offering circular (in preliminary proof or final form) or any other offering or publicity material relating to the Bonds (including roadshow materials and investor presentations), in any country or jurisdiction where action for that purpose is required. Each Manager will comply to the best of its knowledge and belief in all material respects with all applicable laws and regulations in each jurisdiction in which it acquires, offers, sells or delivers Bonds or has in its possession or distributes this offering circular (in preliminary proof or final form) or any such other material, in all cases at its own expense. It will also ensure that no obligations are imposed on us in any such jurisdiction as a result of any of the foregoing actions. We will have no responsibility for, and each Manager will obtain any consent, approval or permission required by it for, the acquisition, offer, sale or delivery by it of Bonds under the laws and regulations in force in any jurisdiction to which it is subject or in or from which it makes any acquisition, offer, sale or delivery. The Managers are not authorized to make any representation or use any information in connection with the issue, subscription and sale of the Bonds other than as contained in this offering circular (in final form) or any amendment or supplement to it.

LEGAL MATTERS

Certain legal matters with respect to the issue and sale of the Bonds will be passed upon for us by Cleary Gottlieb Steen & Hamilton LLP and Yulchon LLC, and for the Managers by Paul Hastings LLP. Yulchon LLC may rely on the opinions of Cleary Gottlieb Steen & Hamilton LLP and Paul Hastings LLP with respect to matters of English law, and Cleary Gottlieb Steen & Hamilton LLP and Paul Hastings LLP may rely on the opinion of Yulchon LLC with respect to matters of Korean law.

INDEPENDENT ACCOUNTANTS

Our consolidated financial statements as of December 31, 2017 and for the year then ended, which are included in this offering circular, have been audited by Samil PricewaterhouseCoopers, independent accountants, as stated in their report (which contains an emphasis of matter paragraph relating to the Spin-off/Merger as of October 1, 2017 as described in Note 43 of the notes to such consolidated financial statements) appearing herein.

Our consolidated financial statements as of December 31, 2016 and 2015 and for each of the years in the two-year period ended December 31, 2016, which are included in this offering circular, have been audited by KPMG Samjong Accounting Corp. ("KPMG"), independent auditors, as stated in their report appearing herein. The Spun-off Businesses were classified as discontinued operations in 2017. As a result, in preparing our consolidated financial statements as of and for the year ended December 31, 2017, we retrospectively adjusted the 2016 amounts which are presented as comparative period amounts. The consolidated financial statements as of and for the years ended December 31, 2016 and 2015 as audited by KPMG did not reflect any of the retrospective adjustments.

The financial statements of Hi-mart as of and for the years ended December 31, 2017 and 2016, which are included in this offering circular, have been audited by KPMG, independent auditors, as stated in their report appearing herein. KPMG's audit report for the years ended December 31, 2017 and 2016 contains an emphasis of matter paragraph that states that Hi-mart early-adopted Korean IFRS 1115 in 2017.

The financial statements of Hi-mart as of and for the years ended December 31, 2016 and 2015, which are included in this offering circular, have been audited by KPMG, independent auditors, as stated in their report appearing herein.

INDEX TO FINANCIAL STATEMENTS

LOTTE SHOPPING CO., LTD.

LOTTE HIMART CO., LTD.

Independent Auditor's Report

(English Translation of a Report Originally Issued in Korean)

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

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

Management's Responsibilities for the Financial Statements

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

Auditor's Responsibilities

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

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

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

Opinion

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

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 43 to these consolidated financial statements. As discussed in Note 43, in accordance with the resolution of the Board of Directors on April 26, 2017 and the approval of the extraordinary meeting of shareholders on August 29, 2017, Lotte Shopping Co., Ltd., Lotte Chilsung Beverage Co., Ltd. and Lotte Food Co., Ltd., spun off each of their investment divisions from their businesses and merged them into the investment division of Lotte Confectionery Co., Ltd. as of October 1, 2017. As a result of the spin-off and merger, Lotte Shopping Co., Ltd. and the newly established corporation are jointly and severally liable for liabilities of Lotte Shopping Co., Ltd. that existed before the spin-off.

Other Matters

The consolidated financial statements of the Group as 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.

/s/ Samil PricewaterhouseCoopers
Seoul, Korea
March 14, 2018

This report is effective as of March 14, 2018, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

Lotte Shopping Co., Ltd. and Subsidiaries
Consolidated Statements of Financial Position
December 31, 2017 and 2016

(in Korean won)	Notes	2017	2016
Assets			
Current assets			
Cash and cash equivalents	7,35,42	₩ 2,626,243,925,953	₩ 2,269,177,234,171
Trade and other receivables	5,7,41,42	870,455,686,564	1,031,337,759,860
Other financial assets	6,7,22,42	1,245,665,288,496	9,979,328,621,652
Inventories	8	1,354,039,250,052	3,324,376,740,398
Income tax refund receivable		2,105,153,010	2,961,216,473
Other non-financial assets	9	193,161,093,427	322,866,076,222
Non-current assets held for sale	10	3,640,679,050	2,267,276,611
		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		₩27,948,488,049,082	₩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
		8,544,529,589,237	13,385,955,105,769
Non-current liabilities			
Borrowings and debentures, net of issuance costs	7,17,39,41,42	4,588,891,563,125	9,424,335,124,500
Other financial liabilities	7,22,42	151,868,082,611	260,489,278,105
Net of defined benefit liabilities and other long-term employee benefits	21	34,713,839,844	68,907,457,812
Deferred tax liabilities	34	1,133,944,793,579	1,342,333,800,344
Unearned revenues	18	7,519,852,356	10,735,884,988
Provisions	19	3,302,633,974	40,024,400,898
Other non-financial liabilities	20	132,365,102,084	119,083,555,059
		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.

Lotte Shopping Co., Ltd. and Subsidiaries
Consolidated Statements of Comprehensive Income(loss)
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 or loss			
Changes in the fair value of available-for-sale financial assets		(22,886,356,631)	(15,689,384,633)
Exchange rate differences on translating foreign operations		(31,728,367,381)	8,756,132,572
Gain on valuation of derivatives	22	1,538,989,881	4,760,000,673
Share of other comprehensive income of associates	11,12	(28,575,417,631)	(16,228,547,687)
Income tax on items that may be reclassified to profit or loss		11,021,862,504	6,766,926,054
Total items that may be subsequently reclassified to profit or loss		(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		(182,926,701,489)	166,351,853,665
Non-controlling interests		99,014,528,887	75,487,522,288
		₩ (83,912,172,602)	₩ 241,839,375,953
Earnings (loss) per share	28		
Basic earnings (loss) per share (in won)			
From continuing operations		₩ (19,184)	₩ 1,491
From discontinued operations		14,082	3,766
Diluted earnings per share (in won)			
From continuing operations		₩ (19,201)	₩ 1,491
From discontinued operations		14,074	3,756

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

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

(in Korean won)

	Attributable to owners of the Parent Company								
	Share capital	Capital Surplus	Hybrid securities	Capital adjustments	Retained earnings	Accumuated other comprehensive income(loss)	Total	Non-controlling interest	Total equity
Balance at January 1, 2016	₩157,454,460,000	₩3,910,751,867,924	₩269,118,000,000	₩ (79,038,578,686)	₩11,893,663,354,746	₩ 95,501,513,287	₩16,247,450,617,271	₩ 840,391,657,571	₩17,087,842,274,842
Comprehensive income (loss) for the year									
Profit for the year	—	—	—	—	168,194,786,271	—	168,194,786,271	78,679,968,811	246,874,755,082
Other comprehensive income									
Changes in the fair value of available-for-sale financial assets	—	—	—	—	—	(8,376,367,630)	(8,376,367,630)	(2,715,964,297)	(11,092,331,927)
Exchange differences on translating foreign operations	—	—	—	—	—	10,171,814,607	10,171,814,607	(1,530,560,324)	8,641,254,283
Gain on valuation of derivatives	—	—	—	—	—	5,386,202,777	5,386,202,777	205,480,075	5,591,682,852
Remeasurements of net defined benefit liabilities	—	—	—	—	7,415,317,929	—	7,415,317,929	893,650,046	8,308,967,975
Share of other comprehensive income of associates	—	—	—	—	(1,709,469,266)	(14,730,431,023)	(16,439,900,289)	(45,052,023)	(16,484,952,312)
	—	—	—	—	5,705,848,663	(7,548,781,269)	(1,842,932,606)	(3,192,446,523)	(5,035,379,129)
Total comprehensive income (loss) for the year	—	—	—	—	173,900,634,934	(7,548,781,269)	166,351,853,665	75,487,522,288	241,839,375,953
Transactions with owners									
Interests paid for hybrid securities	—	—	—	—	(12,849,147,941)	—	(12,849,147,941)	—	(12,849,147,941)
Dividends	—	—	—	—	(59,104,408,000)	—	(59,104,408,000)	(18,449,391,876)	(77,553,799,876)
Issuance of new shares	—	—	—	(293,309,027)	—	—	(293,309,027)	36,314,479,212	36,021,170,185
Changes in the scope for consolidation	—	—	—	—	—	—	—	176,530,249	176,530,249
Other	—	—	—	(37,021,389,821)	—	—	(37,021,389,821)	25,586,879,086	(11,434,510,735)
Total transactions with owners	—	—	—	(37,314,698,848)	(71,953,555,941)	—	(109,268,254,789)	43,628,496,671	(65,639,758,118)
Balance at December 31, 2016	₩157,454,460,000	₩3,910,751,867,924	₩269,118,000,000	₩ (116,353,277,534)	₩11,995,610,433,739	₩ 87,952,732,018	₩16,304,534,216,147	₩ 959,507,676,530	₩17,264,041,892,677

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

(in Korean won)

	Attributable to owners of the Parent Company								
	Share capital	Capital Surplus	Hybrid securities	Capital adjustments	Retained earnings	Accumuated other comprehensive income(loss)	Total	Non-controlling interest	Total equity
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 acconting policies	—	—	—	—	(61,646,191,077)	—	(61,646,191,077)	(3,703,217,169)	(65,349,408,246)
Adjusted balance at January 1, 2017	157,454,460,000	3,910,751,867,924	269,118,000,000	(116,353,277,534)	11,933,964,242,662	87,952,732,018	16,242,888,025,070	955,804,459,361	17,198,692,484,431
Comprehensive income (loss) for the year									
Loss for the year	—	—	—	—	(136,395,172,880)	—	(136,395,172,880)	115,758,479,638	(20,636,693,242)
Other comprehensive income									
Changes in the fair value of available-for-sale financial assets	—	—	—	—	—	(3,897,679,690)	(3,897,679,690)	(8,589,707,859)	(12,487,387,549)
Exchange differences on translating foreign operations	—	—	—	—	—	(18,857,184,754)	(18,857,184,754)	(11,376,721,182)	(30,233,905,936)
Loss on valuation of derivatives	—	—	—	—	—	(7,563,058,388)	(7,563,058,388)	446,575,330	(7,116,483,058)
Remeasurements of net defined benefit liabilities	—	—	—	—	4,448,926,222	—	4,448,926,222	2,822,594,759	7,271,520,981
Share of other comprehensive income of associates	—	—	—	—	147,144,241	(20,809,676,240)	(20,662,531,999)	(46,691,799)	(20,709,223,798)
	—	—	—	—	4,596,070,463	(51,127,599,072)	(46,531,528,609)	(16,743,950,751)	(63,275,479,360)
Total comprehensive income (loss) for the year	—	—	—	—	(131,799,102,417)	(51,127,599,072)	(182,926,701,489)	99,014,528,887	(83,912,172,602)
Transactions with owners									
Interests paid for hybrid securities	—	—	—	—	(12,748,218,078)	—	(12,748,218,078)	—	(12,748,218,078)
Dividends	—	—	—	—	(59,104,408,000)	—	(59,104,408,000)	(21,990,777,300)	(81,095,185,300)
Spin-off	(16,844,225,000)	(405,066,335,685)	—	(2,799,190,016,582)	—	(119,553,432,442)	(3,340,654,009,709)	(321,231,606,801)	(3,661,885,616,510)
Other	—	—	—	11,129,933,022	—	—	11,129,933,022	(18,828,632,691)	(7,698,699,669)
Total transactions with owners	(16,844,225,000)	(405,066,335,685)	—	(2,788,060,083,560)	(71,852,626,078)	(119,553,432,442)	(3,401,376,702,765)	(362,051,016,792)	(3,763,427,719,557)
Balance at December 31, 2017	₩140,610,235,000	₩3,505,685,532,239	₩269,118,000,000	₩(2,904,413,361,094)	₩11,730,312,514,167	₩ (82,728,299,496)	₩12,658,584,620,816	₩ 692,767,971,456	₩13,351,352,592,272

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

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

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

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

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:

(in thousands of Korean won)	Number of shares	Amount	Percentage of ownership (%)
Lotte Corporation	7,275,675	₩ 36,378,375	25.87
Shin, Dong Bin	2,781,409	13,907,045	9.89
Hotel Lotte Co., Ltd.	2,484,338	12,421,690	8.83
Korea Fuji Film Co., Ltd.	2,209,819	11,049,095	7.86
Lotte IT Tech Co., Ltd.	1,353,510	6,767,550	4.81
Shin, Kyuk Ho	262,438	1,312,190	0.93
Hotel Lotte Pusan Co., Ltd.	220,326	1,101,630	0.78
Shin, Young Ja	207,911	1,039,555	0.74
Shin, Dong Ju	133,953	669,765	0.48
Treasury share	18,074	90,370	0.06
Others	11,174,594	55,872,970	39.75
	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. [1]	Korea	Consumer electronics	Dec. 31	65.25

	2017			
Subsidiaries	**Location**	**Main business**	**Fiscal year end**	**Perc entage of ownership (%)**
Lotte Department Store Masan Co., Ltd.	Korea	Distribution	Dec. 31	100.00
Lotte Ulsan Development Co., Ltd.	Korea	Real estate business, Real estate lease	Dec. 31	94.84
Lotte Cinema Co., Ltd.	Korea	Cinema	Dec. 31	100.00
Lotte (China) Management Co., Ltd.	China	Business management	Dec. 31	70.00
Lotte Shopping Holdings (Hong Kong) Co., Limited	Hong Kong	Holding company	Dec. 31	100.00
Qingdao LOTTE Mart Commercial Co., Ltd.	China	Distribution	Dec. 31	100.00
LOTTE MART COMPANY LIMITED	China	Distribution	Dec. 31	100.00
Liaoning LOTTE Mart Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Mart China Co., Ltd.	Cayman Islands	Distribution, Real estate development	Dec. 31	100.00
Swift Harvest Ltd. and its subsidiaries	Hong Kong	Distribution, Real estate development	Dec. 31	100.00
Hong Fung Ltd. and its subsidiaries	Hong Kong	Real estate development	Dec. 31	100.00
Nantong Meili Properties Limited	China	Real estate development	Dec. 31	100.00
Zhuji Decheng Properties Limited	China	Real estate development	Dec. 31	100.00
Nantong Yaodong Properties Limited	China	Real estate development	Dec. 31	100.00
Nantong Fuhua Properties Limited and its subsidiary	China	Real estate development	Dec. 31	100.00
Nantong Jinyou Properties Limited and its subsidiary	China	Real estate development	Dec. 31	100.00
Nantong Branda Properties Limited and its subsidiary	China	Real estate development	Dec. 31	100.00
Nantong Fortune Trade Properties Limited	China	Real estate development	Dec. 31	100.00
Nantong Fine Spring Properties Limited	China	Real estate development	Dec. 31	100.00
Nantong Fine Port Properties Limited and its subsidiary	China	Real estate development	Dec. 31	100.00
Huai An Full Faith Properties Limited	China	Real estate development	Dec. 31	100.00
Jilin LOTTE Mart Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Mart (Chongqing) Commercial Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Business Management (Tianjin) Co., Ltd.	China	Distribution	Dec. 31	100.00

	2017			
Subsidiaries	**Location**	**Main business**	**Fiscal year end**	**Perc entage of ownership (%)**
Lotte Department Store (Shenyang) Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte International Department Store (Weihai) Co., Ltd.	China	Distribution	Dec. 31	100.00
LOTTE DEPARTMENT STORE (TIANJIN) CO., LTD.	China	Distribution	Dec. 31	100.00
Lotte Department Store (Chengdu) Co., Ltd.	China	Distribution	Dec. 31	100.00
LOTTE MART (CHENGDU) COMMERCIAL COMPANY LIMITED	China	Distribution	Dec. 31	100.00
Lotte Shopping Business Management (Hong Kong) Limited	Hong Kong	SPC	Dec. 31	100.00
Lotte Cinema Hong Kong Co., Limited	Hong Kong	Cinema	Dec. 31	100.00
LHSC Limited	Cayman 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

	2017			
Subsidiaries	**Location**	**Main business**	**Fiscal year end**	**Perc entage of ownership (%)**
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%.

	2016			
Subsidiaries	**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

	2016			
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
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

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

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

(c) Summarized Financial Information

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

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

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

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

[1] Exchange rate differences on translating foreign operations are included.

(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.)

(e) Non-controlling interests

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

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

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

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

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

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

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

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

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

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

(in thousands of Korean won)	2017					
			The Parent Company's Percentage of ownership (%)		The Parent Company's portion in net assets	
Subsidiaries	**Transaction**	**Amount**	**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	Additional acquisition	40,793,530	100.00%	100.00%	(26,156,567)	14,636,964
		12,189,816	91.14%	100.00%	(23,837,938)	(26,156,567)
Swift Harvest Ltd. and its subsidiaries		16,998,150	100.00%	100.00%	(342,659,807)	(325,661,657)
		172,129,300	100.00%	100.00%	(325,661,657)	(153,532,357)
Lotte Cinema Hong Kong Co., Limited	Issuance of new shares	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.

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.

(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 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.

(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.

(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 [1]	2 - 10

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

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

4.10 Investment Property

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

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

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

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

4.11 Non-current Assets Held for Sale

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

4.20 Revenue

(i) Sales of goods and rendering of services

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

- Identify contracts with customers
- Identify the separate performance obligation

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

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

(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.

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.

(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.

	The contractual cash flows characteristics	
Business model	**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.

	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*

According to these enactments, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the entity shall determine a date of the transaction for each payment or receipt of advance consideration. These enactments will be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Group does not expect the enactments to have a significant impact on the financial statements.

- Enactment of Korean IFRS 1116 *Leases*

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

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

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

Lessee accounting

A lessee shall apply this standard to its leases either:

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

The Group has not yet elected the application method.

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

Lessor accounting

The Group expects the effect on the financial statements applying the new standard will not be significant as accounting for the Group, as a lessor, will not significantly change.

5. Trade and Other Receivables

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

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

6. Restricted Deposits

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

(in thousands of Korean won)

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

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7. Fair Value of Financial Instruments

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

(in thousands of Korean won)		2017		2016	
		Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Cash and cash equivalents	Cash and cash equivalents	₩2,626,243,926	₩2,626,243,926	₩ 2,269,177,234	₩ 2,269,177,234
Financial assets at fair value through profit or loss	Short-term financial instruments	11,110,030	11,110,030	40,002,762	40,002,762
	Long-term financial instruments	—	—	10,022,040	10,022,040
	Current derivative assets held for trading	—	—	1,312,363	1,312,363
	Non-current derivative assets held for trading	35,615,810	35,615,810	15,721,640	15,721,640
		46,725,840	46,725,840	67,058,805	67,058,805
Loans and receivables [1]	Current :				
	Trade and other receivables	870,455,687	870,455,687	1,031,337,760	1,031,337,760
	Short-term financial instruments	1,073,213,085	1,073,213,085	865,432,227	865,432,227
	Short-term loans	24,089,334	24,089,334	15,007,871	15,007,871
	Accrued income	11,826,412	11,826,412	36,169,095	36,169,095
	Current portion of deposits	124,995,104	124,995,104	89,751,301	89,751,301
	Card financial assets	—	—	8,853,172,273	8,853,172,273
	Non-current :				
	Long-term financial instruments	2,032,886	2,032,886	9,957,717	9,957,717
	Long-term loans	30,581,045	30,581,045	52,185,834	52,185,834
	Deposits	1,136,618,599	1,136,618,599	1,462,839,601	1,462,839,601
	Accrued income	—	—	18,261	18,261
		3,273,812,152	3,273,812,152	12,415,871,940	12,415,871,940
Available-for-sale financial assets	Marketable [2]	270,711,624	270,711,624	280,519,592	280,519,592
	Non-marketable [3]	214,256,852	214,256,852	346,767,908	346,767,908
		484,968,476	484,968,476	627,287,500	627,287,500
Derivative assets held for hedging	Current	236,515	236,515	78,401,396	78,401,396
	Non-current	12,876,319	12,876,319	141,368,294	141,368,294
		13,112,834	13,112,834	219,769,690	219,769,690
		₩6,444,863,228	₩6,444,863,228	₩15,599,165,169	₩15,599,165,169

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

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

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

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

(in thousands of Korean won)	**2017**	**2016**
Current:		
Short-term financial instruments	₩1,084,323,115	₩ 905,434,989
Short-term loans	24,089,334	15,007,871
Available-for-sale financial assets	194,808	79,334
Accrued income	11,826,412	36,169,095
Deposits	124,995,104	89,751,301
Card business financial assets	—	8,853,172,273
Derivative assets held for trading	—	1,312,363
Derivative assets held for hedging	236,515	78,401,396
	₩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

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

(in thousands of Korean won)	2017				2016
	Number of shares	Percentage of ownership	Acquisition cost	Carrying amount	Carrying amount
Marketable available-for-sale financial assets:					
BNK Financial Group Inc.	8,543,826	2.62%	₩ 56,179,407	₩ 80,482,841	₩ 74,160,410
Shinhan Financial Group Co., Ltd.	311,118	0.07%	2,247,353	15,369,229	14,078,090
LOTTE FOOD CO.,LTD.	—	—	—	—	30,619,820
momo.com Inc.	21,333,420	15.02%	37,684,154	166,669,477	154,828,149
Others	—	—	5,621,260	8,190,077	6,833,123
			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.

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

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

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

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

(in thousands of Korean won)	**2017**	**2016**
Current:		
Accrued expenses	₩228,431,288	₩333,554,026
Guarantee deposit	223,020,057	241,622,167
Derivative liabilities held for hedging	49,447,836	895,996
Derivative liabilities held for trading	—	14,420,293
Finance lease liabilities	1,642,574	25,720,574
Other	1,547,660	10,131,880
	₩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

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**	**Total**
Financial assets at fair value through profit or loss	₩ —	₩ 11,110,030	₩ —	₩ 11,110,030
Available-for-sale financial assets	270,711,624	10,820,970	139,255,208	420,787,802
Derivative assets	—	13,112,834	35,615,810	48,728,644
	₩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

(in thousands of Korean won)	**2016**			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit or loss	₩ —	₩ 50,024,802	₩ —	₩ 50,024,802
Available-for-sale financial assets	280,519,592	14,485,010	248,351,532	543,356,134
Derivative assets	—	219,769,690	17,034,003	236,803,693
	₩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.

Level 3 Fair values

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

(in thousands of Korean won)	**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

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

(in thousands of Korean won)	**Discount rate**		**Terminal growth rate**	
	1% Decrease	**1% Increase**	**0.5% Increase**	**1% Increase**
Available-for-sale financial assets	₩11,050,281	₩(8,985,844)	₩2,918,924	₩6,170,074

(ii) Stock options (liability-classified)

(in thousands of Korean won)	**Discount rate**		**Stock price volatility**	
	10% Decrease	**10% Increase**	**1% Decrease**	**1% Increase**
Stock options	₩48,917	₩(48,881)	₩—	₩—

8. Inventories

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

(in thousands of Korean won)	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.

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:

(in thousands of Korean won)	2017	2016
Cost of goods sold:		
- Amount of inventories recognized as cost of goods sold	₩10,204,552,436	₩15,917,147,393
- Increase in valuation allowance of inventories	18,368,179	5,497,168

9. Other Non-financial Assets

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

(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	—
	₩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

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

(in thousands of Korean won)	**2017**			
Name of entity	**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

(in thousands of Korean won)	2016			
Name of entity	**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.

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

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

(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.

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

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

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

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

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

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

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

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

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

1 Net assets excluded non-controlling interests.

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

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

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

1 Net assets excluded non-controlling interests.

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

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

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

12. Investments in Joint Venture

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

(in thousands of Korean won)

	2017			
Name of entity	**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

(in thousands of Korean won)

	2016			
Name of entity	**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

Lotte Shopping Co., Ltd. and Subsidiaries
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1 Transferred to the newly established corporation from spin-off of the investment division during the year ended December 31, 2017.
2 Reclassified to non-current assets held for sale during the year ended December 31, 2017.

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

(in thousands of Korean won)	2017				
	Beginning balance	**Acquisition**	**Dividends**	**Share of profit (loss) of associates**	**Share of other comprehensive income of associate**
D-Cinema of Korea Co., Ltd.	₩ 837,895	₩ —	₩ —	₩ (289,323)	₩ —
STL Co., Limited	510,980	—	—	(266,229)	—
LOTTE JTB Co., Ltd.	7,372,558	—	—	745,424	—
Shenyang SL Cinema Investment Management Co., Ltd.	928,568	—	—	(132,227)	(48,369)
Shandong Luckypai TV Shopping	9,683,860	—	—	—	—
Yunnan Maile TV Shopping Media Co., Ltd.	3,867,665	—	(15,763)	68,149	—
International Business Center Company Limited	63,895,260	—	(4,150,587)	4,862,273	(2,000,774)
PT. INDO LOTTE MAKMUR	12,721,367	9,410,067	—	(5,573,160)	323,923
CITIC PACIFIC LOTTE (SHANGHAI) COMMERCIAL MANAGEMENT CO.,LTD.	—	1,658,160	—	(254,498)	(48,600)
LOTTE ENTERTAINMENT VIETNAM CO.,LTD.	—	173,930	—	(4,561)	(9,618)
	₩99,818,153	₩11,242,157	₩(4,166,350)	₩ (844,152)	₩(1,783,438)

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

1 Changes in foreign currency translation and others are included.
2 Transferred to the newly established corporation from spin-off during the year ended December 31, 2017.

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(in thousands of Korean won)

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

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

(in thousands of Korean won)

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

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

(in thousands of Korean won)

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

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

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

(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
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 31, 2017.

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

1 Net assets excluded non-controlling interests.

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

13. Property, Plant and Equipment

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

(in thousands of Korean won)	2017			
	Acquisition cost	**Accumulated depreciation**	**Accumulated impairment losses**	**Book amount**
Land	₩ 7,652,277,892	₩ —	₩ —	₩ 7,652,277,892
Buildings	7,545,006,995	(2,520,297,749)	(199,200)	5,024,510,046
Structures	344,124,830	(118,497,973)	(3,264,653)	222,362,204
Machinery	190,572,712	(124,677,676)	(2,380,775)	63,514,261
Vehicles	7,970,967	(5,988,350)	(202,586)	1,780,031
Display fixtures	596,249,657	(418,905,344)	(21,347,360)	155,996,953
Furniture and fixtures	3,780,381,631	(2,882,906,191)	(95,096,592)	802,378,848
Tools and equipment	202,609,079	(122,415,410)	(31,392,957)	48,800,712
Other PP&E	233,890,710	(93,402,707)	(82,403,563)	58,084,440
Construction-in-progress	880,618,401	—	—	880,618,401
Finance lease assets	16,554,422	(8,305,784)	(262,031)	7,986,607
	₩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 losses**	**Book amount**
Land	₩ 8,043,145,478	₩ —	₩ —	₩ 8,043,145,478
Buildings	7,451,692,901	(2,380,298,036)	(62,433)	5,071,332,432
Structures	354,614,887	(116,068,670)	(2,959,054)	235,587,163
Machinery	304,071,815	(165,732,420)	(838,378)	137,501,017
Vehicles	7,937,458	(5,731,725)	(109,496)	2,096,237
Display fixtures	787,859,979	(503,834,678)	(13,670,901)	270,354,400
Furniture and fixtures	4,071,277,798	(2,993,914,302)	(35,265,778)	1,042,097,718
Tools and equipment	199,721,202	(113,427,174)	(9,757,241)	76,536,787
Other PP&E	260,000,101	(100,308,250)	(40,581,490)	119,110,361
Construction-in-progress	887,620,416	—	—	887,620,416
Finance lease assets	65,139,860	(14,671,568)	(3,608,244)	46,860,048
	₩22,433,081,895	₩(6,393,986,823)	₩(106,853,015)	₩15,932,242,057

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

The CGUs of department stores, discount stores and supermarkets which had events indicating that they might be impaired, were tested for impairment, and the impairment loss for the years ended December 31, 2017 and 2016, are recognized as follows:

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

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

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

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

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

14. Investment Property

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

(in thousands of Korean won)	2017			2016		
	Acquisition cost	**Accumulated depreciation**	**Book amount**	**Acquisition cost**	**Accumulated depreciation**	**Book amount**
Land	₩ 574,579,095	₩ —	₩ 574,579,095	₩380,714,574	₩ —	₩380,714,574
Buildings	673,763,861	(99,319,526)	574,444,335	404,926,729	(93,795,942)	311,130,787
	₩1,248,342,956	₩(99,319,526)	₩1,149,023,430	₩785,641,303	₩(93,795,942)	₩691,845,361

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

(in thousands of Korean won)	2017				
	Beginning balance	**Acquisitions**	**Depreciation**	**Others**[1]	**Ending balance**
Land	₩380,714,574	₩ 60,723	₩ —	₩193,803,798	₩ 574,579,095
Buildings	311,130,787	28,057,002	(11,578,244)	246,834,790	574,444,335
	₩691,845,361	₩28,117,725	₩(11,578,244)	₩440,638,588	₩1,149,023,430

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

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

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

Income and expense from investment property

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

(in thousands of Korean won)	**2017**	**2016**
Rental income	₩106,760,565	₩75,182,970
Direct operating expense (including maintenance and repair expenses)	52,755,087	29,609,824

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

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

15. Goodwill and Intangible Assets

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

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

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

(in thousands of Korean won)	2017							
	Beginning balance	Acquisitions	Amortization	Impairment	Disposals	Others [1]	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	**Acquisitions**	**Business combination**	**Amortization**	**Impairment**	**Disposals**	**Others [1]**	**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.

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:

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

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

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

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

- The annual revenue growth rate for the five-year period in the future was estimated based on an analysis of past revenue growth rates. The revenues after the five-year period are assumed to grow constantly from zero to two percent (2016: from zero to three percent).

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

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

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

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

(in thousands of Korean won)	**2017**		**2016**	
	Impairment losses	**Recoverable amounts**	**Impairment losses**	**Recoverable amounts**
Department stores	₩ 5,862,867	₩ —	₩ —	₩ —
Discount stores	239,163,572	610,600,915	83,311,406	539,789,726
Finance business	38,617,464	1,749,439,132	—	—
Consumer electronics retail	—	—	39,722,903	1,458,959,268
Others	87,314,280	236,398,194	31,826,795	1,448,482
	₩370,958,183	₩2,596,438,241	₩154,861,104	₩2,000,197,476

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

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

(in thousands of Korean won)	**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:

(in thousands of Korean won)	**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

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

(in thousands of Korean won)	**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)
Long-term debentures	3,497,263,515	7,729,855,000
Discount on debentures	(7,608,445)	(11,599,598)
	4,588,891,563	9,424,335,125
	₩7,667,683,920	₩14,482,948,259

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

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
			1,957,200,312	2,610,190,261
Less: Discount on borrowings			(6,042,456)	(877,580)
			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

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

(in thousands of Korean won)

Description	Maturity	Annual interest rate (%)	2017	2016
70-1st placed	Apr. 04, 2019	1.77	100,000,000	100,000,000
70-2nd placed	Apr. 04, 2021	2.02	170,000,000	170,000,000
70-3rd placed	Apr. 04, 2026	2.48	70,000,000	70,000,000
71th placed	Nov. 29, 2019	1M USD Libor	107,140,000	120,850,000
72-1st placed	Jan. 23, 2020	1.94	240,000,000	—
72-2nd placed	Jan. 23, 2022	2.36	160,000,000	—
73-1st placed	June 15, 2020	2.11	110,000,000	—
73-2nd placed	June 15, 2022	2.50	150,000,000	—
73-3rd placed	June 15, 2024	2.69	100,000,000	—
74th placed	June 29, 2022	2.48	50,000,000	—
75th placed	Aug. 07, 2024	2.74	150,000,000	—
2nd placed (Global bond)	—	—	—	483,400,000
Exchangeable bonds [1]	Jan. 24, 2018	—	13,800,000	13,800,000
Korea Seven Co., Ltd. (convertible bonds) [2]	—	—	—	7,920,000
Lotte Card Co., Ltd. [2]	—	—	—	5,783,095,000
LOTTE Himart Co., Ltd.	Multiple	2.08~3.04	650,000,000	650,000,000
LSBM (foreign currency)	Sept. 05, 2020	2.38	325,843,515	—
			4,801,043,515	10,356,715,000
Less: Discount on debentures			(7,885,781)	(20,717,400)
Convertible bonds redemption premium			—	1,172,659
Less: Conversion rights adjustment			—	(351,602)
Less: Exchange rights adjustment			(27,060)	(437,662)
			4,793,130,674	10,336,380,995
Less: Current portion of debentures, net of discount			(1,303,475,604)	(2,618,125,593)
			₩ 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.

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

(in thousands of Korean won)	**2017**		
	Borrowings	**Debentures**	**Total**
2018.01.01 ~ 2018.12.31	₩ 851,926,330	₩1,303,780,000	₩2,155,706,330
2019.01.01 ~ 2019.12.31	266,469,594	951,420,000	1,217,889,594
2020.01.01 ~ 2020.12.31	838,804,388	1,175,843,515	2,014,647,903
2021.01.01 ~ 2021.12.31	—	220,000,000	220,000,000
2022.01.01 and there after	—	1,150,000,000	1,150,000,000
	₩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:

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

19. Provisions

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

(in thousands of Korean won)	**2017**				
	Beginning balance	**Increase**	**Utilization**	**Changes due to spin-off**	**Ending balance**
Current:					
Provision for bonus points reward program	₩ 29,258,660	₩ 56,682,753	₩ (53,256,012)	₩(31,114,777)	₩ 1,570,624
Provision for bonus payable	6,734,855	68,058,709	(67,173,386)	—	7,620,178
Provision for sales return	9,362,687	10,305,962	(9,348,982)	(229,109)	10,090,558
Other provisions [1]	23,399,276	49,244,460	(31,077,134)	(5,726,397)	35,840,205
	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.

(in thousands of Korean won)	2016			
	Beginning balance	Increase	Utilization	Ending balance
Current:				
Provision for bonus points reward program	₩27,961,990	₩ 54,063,305	₩ (52,766,635)	₩ 29,258,660
Provision for bonus payable	8,525,307	39,426,201	(41,216,653)	6,734,855
Provision for sales return	9,023,315	9,347,108	(9,007,736)	9,362,687
Other provisions [1]	14,848,386	25,057,426	(16,506,536)	23,399,276
	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	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:

(in thousands of Korean won)	**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

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

(in thousands of Korean won)	**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

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

(in thousands of Korean won)	**2017**	**2016**
Present value of other long-term employee benefits	₩53,230,383	₩ 56,052,147

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

(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

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.

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

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

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

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

Sensitivity analysis

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

(in thousands of Korean won)	**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.

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

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.

Purpose	Type	Description
	Interest swaps	Pays fixed interest to receive floating rate
	Currency forward	At the maturity of the contract, purchase dollars at the fixed exchange rate
Trade	Total return swap	Exchanges beneficiary certificate of investor's total profit to constant flow of cash
	Stock options	Holds the right to buy preferred shares or grants the right to sell preferred shares of related companies

The Group entered into a contract of settlement for differences based on beneficiary certificates issued by real estate funds with beneficiaries including Shinhan BNPP Specialized Investment Type Private Equity Real Estate Investment Trust No. 22, a real estate collective investment vehicle, during the year ended December 31, 2017.

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

(in thousands of Korean won)

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

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

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

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

23. Share Capital and Capital Surplus

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

(in thousands of Korean won, except for number of shares)	2017	2016
Authorized shares(shares)	60,000,000	60,000,000
Par value per share	₩ 5	₩ 5
Number of shares issued(shares)	28,122,047	31,490,892
Share capital [1]	₩140,610,235	₩157,454,460

[1] Share capital decreased due to spin-off.

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

(in thousands of Korean won)		2017	2016
Share premium [1]	₩	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 premium decreased due to spin-off.

24. Hybrid Securities

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

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

[1] Details of hybrid securities are as follows:

	Hybrid security 1-1	Hybrid security 1-2
Issue price(in thousands of Korean won)	240,000,000	30,000,000
Maturity date	30 years (The Company has the unconditional right to extend the maturity date)	
Interest rate	Issue date ~ November 15, 2018: 4.723%, reset every 5 years as follows: After 5 years: treasury rate (5 years) + 1.50% After 10 years: additionally +1.00% according to Step-up clauses	
Interest payments condition	February 15, May 15, August 15 and November 15 of each calendar year (Conditional deferral of	March 30, June 30, September 30, December 30 of each calendar year (Conditional deferral of interest

	Hybrid security 1-1	Hybrid security 1-2
	interest payments is available to the Company)	payments is available to the Company)
Others	The Group can call the hybrid security at year 5 and interest payment date afterwards. The hybrid security holder's preference in the event of liquidation is the same as the preferred shareholders; higher than the ordinary shareholders but lower than other creditors.	

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

25. Capital Adjustments

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

(in thousands of Korean won)	**2017**	**2016**
Treasury shares [1]	₩ 3,795,475	₩ 1,805,705
Other capital adjustments [2]	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

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:

(in thousands of Korean won)	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)

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

28. Earnings (loss) per Share

(a) Basic earnings (loss) per share

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

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

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

(b) Diluted earnings (loss) per share

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

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

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

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

Diluted weighted average number of ordinary shares

(in number of shares)	2017	2016
Weighted average number of ordinary shares outstanding	29,231,757	29,552,204
Effect of conversion of convertible bonds [1]	—	—
Weighted average number of ordinary shares for diluted earnings per share	29,231,757	29,552,204

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

29. Sales

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

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

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

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

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

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

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

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

(in thousands of Korean won)

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

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:

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

(in thousands of Korean won)	2017	2016
Other income:		
Gain on foreign currency transactions	₩ 1,092,461	₩ 1,879,628
Gain on foreign currency translation	95,989	786,304
Gain on disposal of property, plant and equipment	6,814,354	2,625,948
Gain on disposal of intangible assets	35,455	—
Reversal of impairment losses on intangible assets	108,194	—
Gain on disposal of other non-current assets	2,885,979	—
Reversal of impairment losses on other non-current assets	41,824	9,347
Others	98,652,885	128,039,472
	₩109,727,141	₩133,340,699
Other expenses:		
Loss on foreign currency transactions	₩ 875,314	₩ 3,662,617
Loss on foreign currency translation	5,827,309	697,146
Loss on disposal of property, plant and equipment	7,254,421	5,669,448
Impairment loss on property, plant and equipment	136,470,788	73,482,235
Loss on disposal of intangible assets	292,906	183,894
Impairment loss on intangible assets	401,268,959	196,833,202
Impairment loss of assets held for sale	2,598,704	431,715
Impairment loss on other non-current assets	28,000,742	15,616,274
Donation	30,702,503	23,217,484
Other bad debt expenses	3,017,619	4,544,526
Taxes and dues	2,784,687	455,295
Others	115,068,986	138,199,928
	₩734,162,938	₩462,993,764

32. Breakdown of Expenses by Nature

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

(in thousands of Korean won)	**2017**	**2016**
Purchase of inventories	₩10,048,723,993	₩15,923,332,734
Changes in inventories	86,274,893	(35,586,911)
Employee benefits	1,755,873,499	1,752,259,810
Rental expenses	1,056,868,968	1,014,151,430
Depreciation and amortization	790,346,871	828,931,955
Sales commissions	192,591,250	223,289,530
Sales promotion expenses	174,254,186	226,585,507
Commission expenses	1,097,626,925	1,019,058,442
Service expenses	990,693,863	958,852,636
Advertising expenses	288,718,622	292,880,772
Utility expenses	331,041,050	348,561,270
Taxes and dues	194,325,960	157,265,999
Other	642,671,885	641,419,415
	₩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:

(in thousands of Korean won)	2017	2016
Finance income:		
Interest income	₩ 85,934,981	₩ 71,953,991
Dividend income	9,172,054	7,043,255
Gain on foreign currency transactions	33,088,916	10,783,442
Gain on foreign currency translation	207,878,857	38,755,861
Gain on valuation of financial assets and liabilities at fair value through profit or loss	110,030	—
Gain on disposal of available-for-sale financial assets	2,164,506	8,470
Gain on valuation of derivative instruments held for hedging	—	46,200,000
Gain on valuation of derivative instruments held for trading	23,363,142	15,754,477
Gain on transaction of derivative instruments held for hedging	12,354	—
Gain on disposal of investments in subsidiaries, associates and joint ventures	183,895	5,519,355
	₩361,908,735	₩196,018,851
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:

(in thousands of Korean won)	2017						
	Cash and cash equivalents	**Loans and receivables**	**Available-for-sale financial assets**	**Financial assets and liabilities at fair value through profit or loss**	**Derivative assets and liabilities held for hedging**	**Financial liabilities based on amortized cost**	**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) [1]:							
Changes in the fair value of available-for-sale financial assets	—	—	(22,886,357)	—	—	—	(22,886,357)
Gain on valuation of derivative instruments	—	—	—	—	1,538,990	—	1,538,990
	—	—	(22,886,357)	—	1,538,990	—	(21,347,367)
	₩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.

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

(in thousands of Korean won)

	2016						
	Cash and cash equivalents	**Loans and receivables**	**Available-for-sale financial assets**	**Financial assets and liabilities at fair value through profit or loss**	**Derivative assets and liabilities held for hedging**	**Financial liabilities based on amortized cost**	**Total**
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]:							
Changes in the fair value of available-for-sale financial assets	—	—	(15,689,385)	—	—	—	(15,689,385)
Gain on valuation of derivative instruments	—	—	—	—	4,760,001	—	4,760,001
	—	—	(15,689,385)	—	4,760,001	—	(10,929,384)
	₩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

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

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

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

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

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

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

(in thousands of Korean won)	**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%

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

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

(in thousands of Korean won)	**2017**				
	Beginning balance	**Profit or loss**	**Equity**	**Spin-off**	**Ending balance**
Impairment loss on available-for-sale financial assets	₩ 6,843,204	₩ 7,087,257	₩ —	₩ (5,854,852)	₩ 8,075,609
Buildings	(12,817,693)	1,213,261	—	—	(11,604,432)
Depreciation	63,232,737	12,533,601	—	(712,300)	75,054,038
Allowance for bad debt expense	1,971,353	876,885	—	(1,813,278)	1,034,960
Accrued income	(958,355)	(515,581)	—	84,240	(1,389,696)
Unearned revenues	13,639,112	3,020,286	—	(16,074,775)	584,623
Long-term prepaid expenses	(38,012,675)	4,935,967	—	441,902	(32,634,806)
Losses on valuation of inventories	6,927,312	1,085,123	—	(291,637)	7,720,798
Provision for sales return	2,281,459	(205,879)	—	(58,169)	2,017,411
Property, plant and equipment (capitalization of borrowing costs)	(9,361,945)	(1,970,656)	—	—	(11,332,601)

(in thousands of Korean won)	2017				
	Beginning balance	**Profit or loss**	**Equity**	**Spin-off**	**Ending balance**
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)

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

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:

(in thousands of Korean won)	**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

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

(in thousands of Korean won)	**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

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

(in thousands of Korean won)	**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

(in thousands of Korean won)	**2017**	**2016**
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

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

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

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

(in thousands of Korean won)	**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	—

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

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

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

36. Operating Leases

(a) Lessee

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

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

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

(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:

(in thousands of Korean won)	**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:

(in thousands of Korean won)	**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 994,053tCO_2-eq of emissions as at December 31, 2017. The emissions submitted to the government in 2015 and 2016 were 806,687 tCO_2-eq and 833,836 tCO_2-eq, respectively.

(b) Emission liability

The Group disposed of 155,000tCO_2-eq of emission and estimated to emit 859,455tCO_2-eq of CO_2 during the year ended in December 31, 2017.

38. Operating Segment

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

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

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

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

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

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

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

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

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

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

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

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

(in thousands of Korean won)	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

(in thousands of Korean won)	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

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

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

39. Contingencies and Commitments

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

(in thousands of Korean won)		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 Lotte Card Co., Ltd. BC CARD CO., LTD.	Issuing credit cards
	LOTTE LOGISTICS CORP. Lotte Global Logistics Co., LTD. (formerly, Hyundai Logistics Co.,Ltd.) CJ Korea Express Corporation HANJIN TRANSPORTATION CO., LTD.	Logistics services
	Cable TV operators	Providing broadcast programs
NCF Co., Ltd.	Nice Claup Co., Ltd.	Royalty payments based on net revenue of selling and manufacturing amounts

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

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

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

As Woori Home Shopping & Television Co., Ltd., a subsidiary of the Group, received a six-month suspension (6 hours per day) penalty from the government in 2016, Woori Home Shopping & Television

Co., Ltd. won the first trial of the administrative litigation for cancellation of business suspension. However, Ministry of Science and ICT filed an appeal and the litigation is in progress as at December 31, 2017. The Group cannot reliably estimate the impacts from litigation results.

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

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

(f) Brand usage contract, etc.

The Group has entered into contracts with Lotte Corporation (formerly, Lotte Confectionery Co., Ltd.) for the use of brand, management consulting, and management support service as at December 31, 2017. The cost of use of brand is 0.15% of sales less advertising expenses. The 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.

40. Inter-company Transactions and Balances with Consolidated Companies

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

Consolidated company	Guarantee recipient	Guaranteed amount	Guarantee period	Type of borrowings
Subsidiaries [1]				
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
LOTTE VIETNAM SHOPPING JOINT STOCK COMPANY	HSBC	VND 763,300,000,000	April 28, 2017 ~ May 28, 2018	Working capital
	HSBC	USD 35,000,000	May 29, 2017 ~ June 22, 2018	Working capital
LOTTE CINEMA VIETNAM CO., LTD.	DBS	USD 8,000,000	October 5, 2016 ~ October 5, 2019	Working capital
	DBS	USD 8,000,000	October 5, 2016 ~ October 5, 2019	Working capital
	Standard Chartered	VND 112,000,000,000	December 26, 2016 ~ December 25, 2019	Working capital
	HSBC	VND 267,332,651,072	March 3, 2017 ~ November 26, 2018	Working capital
	DBS	USD 10,000,000	April 17, 2017 ~ April 17, 2018	Working capital
	Kookmin Bank	USD 14,000,000	July 7, 2017 ~ July 6, 2018	Working capital
	The Export-Import Bank of Korea	USD 10,000,000	September 27, 2017 ~ September 27, 2018	Working capital
Lotte Shopping Holdings (Hong Kong) Co., Limited	ING	USD 120,213,804	January 20, 2015 ~ January 19, 2018	Working capital

Consolidated company	Guarantee recipient	Guaranteed amount	Guarantee period	Type of borrowings
	HSBC	USD 95,297,610	November 30, 2015 ~ November 30, 2018	Working capital
	BNP Paribas	USD 104,818,169	May 16, 2016 ~ May 16, 2019	Working capital
	KEB Hana Bank	USD 65,000,000	April 25, 2017 ~ March 13, 2020	Working capital
	Shinhan Bank	USD 49,818,783	June 1, 2017 ~ June 1, 2020	Working capital
	BNP Paribas	USD 28,209,857	June 1, 2017 ~ June 1, 2020	Working capital
	Credit Agricole	USD 29,526,898	July 27, 2017 ~ June 30, 2020	Working capital
	Kookmin Bank	USD 35,000,000	November 30, 2017 ~ May 30, 2018	Working capital
	HSBC	HKD 280,000,000	December 1, 2017 ~ December 1, 2018	Working capital
Lotte Shopping Business Management (Hong Kong) Limited	The Export-Import Bank of Korea	USD 300,000,000	September 5, 2017 ~ September 5, 2020	Working capital
LOTTE PROPERTIES (CHENGDU) HK LIMITED	The Export-Import Bank of Korea	USD 190,000,000	March 15, 2017 ~ March 16, 2020	Working capital
	KEB Hana Bank	USD 25,000,000	March 15, 2017 ~ March 13, 2020	Working capital

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

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

In 2015, the Group entered into an agreement to provide financial support for Suwon Landmark the Second Co., Ltd. in default of the principal and interest on the Asset Backed Commercial Paper ("ABCP", ₩250,000,000 thousand of par value in maturing in 36 months) issued by Suwon Landmark the Second Co., Ltd. on May 28, 2015, which was collateralized with the assets of LOTTE Suwon Station Shopping Town CO., LTD. In 2016, the Group entered into an agreement to provide financial support for KS the First Co., Ltd. in default of the principal and interest on the Asset Backed Commercial Paper ("ABCP", ₩266,000,000 thousand of par value in maturing in 27 months) issued by KS the First Co., Ltd. on August 30, 2016, which was collateralized with the assets of Lotte Ulsan Development Co., Ltd.

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

41. Related Party Transactions

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

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

1 It has a significant influence over the Group.

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

(in thousands of Korean won)	2017				
Related parties [1]	**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 spining off its information and communication business division and changed its name to Lotte IT Tech Co., Ltd.

(in thousands of Korean won)	2016				
Related parties	**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
	₩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.

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

(in thousands of Korean won)	2017				
Related parties [1]	**Loans**	**Borrowings**	**Repayment**	**Capital increase**	**Capital deduction**
Associates:					
Stonebridge Innovation Quarter Fund	₩ —	₩ —	₩ —	₩ 3,000,000	₩ —
Lotte-IMBC Contents Fund	—	—	—	1,500,000	—
Lotte Shopping Rus Ltd.	4,794,515	—	—	—	—
Others	—	—	—	1,223,930	1,222,700
	4,794,515	—	—	5,723,930	1,222,700
Joint ventures:					
PT. INDO LOTTE MAKMUR	—	—	—	9,410,067	—
CITIC PACIFIC LOTTE(SHANGHAI) COMMERCIAL MANAGEMENT CO.,LTD.	—	—	—	1,658,160	—
	—	—	—	11,068,227	—
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.

(in thousands of Korean won)	2016			
Related parties	**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

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

(in thousands of Korean won)	2017					
	Receivables			Payables		
Related parties [1]	**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 corporation) [3]	433,206	—	410,925	13,003,030	—	2,810,225
Lotte Chilsung Beverage Co., Ltd.	231,238	—	4,087,834	6,357,784	—	6,235,661
Lotte Data Communication Company(newly established corporation) [4]	—	—	47,574,999	3,912	—	27,333,753
Daehong Communications Inc.	6,473,428	—	286,607	7,062	—	27,182,611
Lotte Station Building Co., Ltd.	5,739,967	—	11,887,824	—	—	6,796,964
LotteGRS Co., Ltd. (formerly, Lotteria Co., Ltd.)	47,016	—	479,373	401,066	—	9,624,352
Lotte Trading Co., Ltd.	82,137	—	711,249	9,860,971	—	19,538
LOTTE FOOD CO., LTD.	278,663	—	1,611,317	13,206,768	—	8,728,890
Lotte Aluminum Co., Ltd.	244,713	—	39,809	1,882,119	—	4,580,111
Lotte Logistics Co., Ltd.	49,490	—	336,965	900,664	—	15,865,447
Others	158,705,111	—	21,654,705	4,182,612	149,142,415	190,696,481
	172,386,169	—	94,153,506	49,805,988	149,142,415	382,295,970
Total [5]	₩172,941,599	₩4,794,515	₩176,597,453	₩60,917,277	₩149,142,415	₩475,299,499

1 The related party classification reflects the changes in the ownership interest due to spin-off and 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				
	Receivables		Payables		
Related parties	**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
	₩23,011,722	₩470,745,919	₩338,440,270	₩150,335,421	₩469,545,346

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:

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

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

The Group entered into an agreement to jointly provide financial support for HND able 2nd limited (“HND able”), Invest Farmland Co., Ltd. and Mars L D, LLC. in default of the principal and interest on the Asset Backed Commercial Paper (“ABCP”, ₩700,000,000 thousand of par value in maturing in 57 months) issued by HND able on May 27, 2013, which is collateralized with the assets of Lotte Incheon Development Co., Ltd., on the asset backed loan (₩144,000,000 thousand of par value in maturing in 29 months) issued by Lotte Incheon Town Co., Ltd on December 26, 2016, and on the asset backed loan (₩620,000,000 thousand of par value in maturing on October 27, 2021) issued by LOTTE Town Dongtan Co.,LTD.

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

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

(in thousands of Korean won)

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

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

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

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

(in thousands of Korean won)

Type [1]	Company name	Contractual amount [2]	Used amount	Repayment	Unsettled amount [2]
Perspective of 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

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:

(in thousands of Korean won)	**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:

(in thousands of Korean won)	2017			
	Receivables that are neither past due nor impaired	**Receivables that are past due but not impaired[1]**	**Receivables impaired[1]**	**Total**
Trade and other receivables	₩ 853,503,714	₩16,951,973	₩17,058,175	₩ 887,513,862
Other financial assets (current)	1,245,665,288	—	33,978	1,245,699,266
Other financial assets (non-current)	1,228,350,821	—	3,592,302	1,231,943,123
	₩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.

(in thousands of Korean won)	2016			
	Receivables that are neither past due nor impaired	**Receivables that are past due but not impaired[1]**	**Receivables impaired[1]**	**Total**
Trade and other receivables	₩ 999,280,195	₩ 31,632,525	₩ 29,257,856	₩ 1,060,170,576
Other financial assets (current)	9,777,180,207	196,387,723	215,577,367	10,189,145,297
Other financial assets (non-current)	1,706,519,063	—	4,621,074	1,711,140,137
	₩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:

(in thousands of Korean won)	**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:

(in thousands of Korean won)	**2017**	**2016**
Beginning balance	₩ 209,816,675	₩ 206,989,961
Provision	167,006,689	206,405,720
Reversal of impairment loss	(3,068)	—
Write-offs	(179,431,966)	(221,663,327)
Recoveries	13,527,497	18,079,485
Transfer	—	4,836
Changes due to spin-off	(210,881,849)	—
Ending balance	₩ 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:

(in thousands of Korean won)	**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

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.

(d) Market Risks

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

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

i) Currency risk

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

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

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

(in thousands of Korean won)	2017		2016	
	Assets	**Liabilities**	**Assets**	**Liabilities**
USD	₩5,661,773	₩1,755,032,286	₩35,930,637	₩3,293,726,474
EUR	230,345	1,620,287	33,650	1,105,265
JPY	4,433	94,911,000	145,245	103,697,902
HKD	5,104,927	—	13,462,922	1,247,484
CNY	7,210,297	26,274	40,936,143	25,553,170
VND	—	—	3,044	—
GBP	—	—	82	—
SGD	238	—	—	—
	₩18,212,013	₩1,851,589,847	₩90,511,723	₩3,425,330,295

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

(in Korean won)	Average rate		Closing rate	
	2017	**2016**	**December 31, 2017**	**December 31, 2016**
USD	₩1,130.84	₩1,160.50	₩1,071.40	₩1,208.50
EUR	1,276.39	1,283.30	1,279.25	1,267.60
JPY	10.0852	10.6817	9.4911	10.3681
HKD	145.13	149.51	137.07	155.83
CNY [1]	167.46	174.40	163.65	173.26
VND	—	0.0519	—	0.0531
GBP	—	1,572.18	—	1,480.17
SGD	818.91	—	800.63	—

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

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

(in thousands of Korean won)	2017		2016	
	10% increase	10% decrease	10% increase	10% decrease
USD	₩(56,541,795)	₩56,541,795	₩ (9,524,913)	₩ 9,524,913
EUR	(138,994)	138,994	(107,162)	107,162
JPY	(9,490,657)	9,490,657	(10,355,265)	10,355,265
HKD	510,493	(510,493)	1,221,544	(1,221,544)
CNY	718,402	(718,402)	1,538,297	(1,538,297)
VND	—	—	304	(304)
GBP	—	—	8	(8)
SGD	24	(24)	—	—
	₩(64,942,527)	₩64,942,527	₩(17,227,187)	₩17,227,187

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

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:

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

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

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

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

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:

(in thousands of Korean won)	**2017**		**2016**	
	10% increase	**10% decrease**	**10% increase**	**10% decrease**
Other comprehensive income	₩27,071,162	₩(27,071,162)	₩28,051,959	₩(28,051,959)

42.2 Capital Management

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

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

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

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-oiff and merger, newly established and existing corporation are jointly liable for the liabilities that existed before the spin-off in accordance with paragraph 1 of Article 530 and severally 9 of the Commercial Code of Korea.

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

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

(in thousands of Korean won)	**2017**
Current assets	
Cash and cash equivalents	₩ 1,331,260,561
Trade and other receivables	416,563,572
Other financial assets	9,774,822,779
Inventories	105,649,696
Income tax refund receivable	194,378
Other non-financial assets	138,813,066
Non-current assets held for sale	1,733,777
	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

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.

Independent Auditors' Report

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

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

Other matters

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

KPMG Samjong Accounting Corp.

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

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

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

As of December 31, 2016 and 2015

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

See accompanying notes to the consolidated financial statements.

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

As of December 31, 2016 and 2015

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

See accompanying notes to the consolidated financial statements.

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

For the years ended December 31, 2016 and 2015

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

See accompanying notes to the consolidated financial statements.

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

For the years ended December 31, 2016 and 2015

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

See accompanying notes to the consolidated financial statements.

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

For the years ended December 31, 2016 and 2015

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

See accompanying notes to the consolidated financial statements.

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

For the years ended December 31, 2016 and 2015

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

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

For the years ended December 31, 2016 and 2015

		Korean won (millions)	
		2016	**2015**
Inventories		(47,093)	(86,365)
Other non-financial assets		1,139	(72,037)
Trade payables		38,872	(49,089)
Other payables		285,730	(153,320)
Other financial liabilities		43,165	(38,716)
Unearned revenues		(8,968)	(19,837)
Provisions		(8,474)	(9,602)
Other non-financial liabilities		248,065	91,248
Payment of post-employment benefits		(53,492)	(54,698)
Plan assets		(92,298)	(89,176)
Income tax paid		(251,973)	(346,210)
Interest received		699,178	697,143
Interest paid		(156,487)	(155,429)
Dividends received		45	83
Net cash provided by operating activities	₩	1,506,867	641,069

See accompanying notes to the consolidated financial statements.

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

For the years ended December 31, 2016 and 2015

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

See accompanying notes to the consolidated financial statements.

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

For the years ended December 31, 2016 and 2015

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

See accompanying notes to the consolidated financial statements.

December 31, 2016 and 2015

1. General Description of Reporting Entity

(a) Organization and Description of the Company

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

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

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

December 31, 2016 and 2015

1. General Description of Reporting Entity, Continued

(b) Description of Subsidiaries

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

	December 31, 2016			
Subsidiaries	Location	Products or services	Fiscal year	Percentage of ownership (%)
Lotte Card Co., Ltd.	Korea	Credit card, financing	Dec. 31	93.78
eB Card Co., Ltd.	Korea	Electronic banking business	Dec. 31	95.00
Gyeonggi Smartcard Co., Ltd.	Korea	Electronic banking business	Dec. 31	100.00
Inchon Smartcard Co., Ltd.	Korea	Electronic banking business	Dec. 31	100.00
The 6th Supreme (*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	Service company	Dec. 31	100.00
Lotte Suwon Station Shopping Town Co., Ltd.	Korea	Real estate development	Dec. 31	95.00
Lotte Songdo Shopping Town Co., Ltd.	Korea	Real estate development	Dec. 31	56.30
CS Mart Co., Ltd.	Korea	Distribution	Dec. 31	99.95
LOTTE Himart Co., Ltd. (*2)	Korea	Consumer electronics	Dec. 31	65.25
Lotte Department Store Masan Co., Ltd.	Korea	Distribution	Dec. 31	100.00
Lotte Members Co., Ltd	Korea	Business support service	Dec. 31	93.88
LOTTE.COM INC	Korea	E-commerce business	Dec. 31	50.01
LOTTE PS NET	Korea	Financial support service	Dec. 31	63.64
Lotte Ulsan Development Co., Ltd.	Korea	Real estate business, Real estate lease	Dec. 31	94.84
Lotte (China) Management Co., Ltd.	China	Business management	Dec. 31	70.00
Lotte Shopping Holdings (Hong Kong) Co., Limited	Hong Kong	Holding company	Dec. 31	100.00
Qingdao LOTTE Mart Commercial Co., Ltd.	China	Distribution	Dec. 31	100.00

December 31, 2016 and 2015

1. General Description of Reporting Entity, Continued

(b) Description of Subsidiaries, Continued

	December 31, 2016			
Subsidiaries	Location	Products or services	Fiscal year	Percentage of ownership (%)
LOTTE MART COMPANY LIMITED (*3)	China	Distribution	Dec. 31	100.00
Liaoning LOTTE Mart Co., Ltd. (*3)	China	Distribution	Dec. 31	100.00
Lotte Mart China Co., Ltd. (*4)	China	Distribution, Real estate development	Dec. 31	100.00
Swift Harvest Ltd. and its subsidiaries (*4)	Hong Kong	Distribution, Real estate development	Dec. 31	100.00
Hong Fung Ltd. and its subsidiaries (*4)	Hong Kong	Real estate development	Dec. 31	100.00
Nantong Meili Properties Limited (*4)	China	Real estate development	Dec. 31	100.00
Zhuji Decheng Properties Limited (*4)	China	Real estate development	Dec. 31	100.00
Nantong Yaodong Properties Limited (*4)	China	Real estate development	Dec. 31	100.00
Nantong Fuhua Properties Limited and its subsidiary (*4)	China	Real estate development	Dec. 31	100.00
Nantong Jinyou Properties Limited and its subsidiary (*4)	China	Real estate development	Dec. 31	100.00
Nantong Branda Properties Limited and its subsidiary (*4)	China	Real estate development	Dec. 31	100.00
Nantong Fortune Trade Properties Limited (*4)	China	Real estate development	Dec. 31	100.00
Nantong Fine Spring Properties Limited (*4)	China	Real estate development	Dec. 31	100.00
Nantong Fine Port Properties Limited and its subsidiary (*4)	China	Real estate development	Dec. 31	100.00
Huai An Full Faith Properties Limited (*4)	China	Real estate development	Dec. 31	100.00
Jilin LOTTE Mart Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Mart (Chongqing) Commercial Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte 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

December 31, 2016 and 2015

1. General Description of Reporting Entity, Continued

(b) Description of Subsidiaries, Continued

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

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

(*2) During 2013, the Company issued exchangeable bonds which are exchangeable to common stocks of LOTTE Himart Co., Ltd. Due to the bond holders' exercise of the put option, the Company redeemed ₩307,400 million of the issued bonds on January 25, 2016. Therefore, the total number of the exchangeable common stocks for the issued bond is changed from 3,538,224 shares to 152,016 shares. If all exchangeable

1. General Description of Reporting Entity, Continued

(b) Description of Subsidiaries, Continued

bonds are exchanged to the common stocks of LOTTE Himart Co., Ltd., the Company's percentage of ownership on LOTTE Himart Co., Ltd. will be decreased from 65.25% to 64.60%. In addition, the Company entered into securities lending agreements to lend shares of LOTTE Himart Co., Ltd. owned by the Company up to 50% of the total exchangeable common stocks. As of December 31, 2015, the total number of the common stocks of Lotte Himart Co., Ltd. under securities lending agreements is 1,180,384 shares. On January 25, 2016, the Company collected all of them.

(*3) For the year ended December 31, 2016, these were reclassified to subsidiaries of Lotte Shopping Holdings (Hong Kong) Co., Limited.

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

(*5) For the year ended December 31, 2016, these were reclassified to subsidiaries of LOTTE SHOPPING HOLDINGS (SINGAPORE) PTE. LTD.

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

December 31, 2016 and 2015

1. General Description of Reporting Entity, Continued

(b) Description of Subsidiaries, Continued

	December 31, 2015			
Subsidiaries	Location	Products or services	Fiscal year	Percentage of ownership (%)
LOTTE MART COMPANY LIMITED	China	Distribution	Dec. 31	100.00
Lotte (China) Management Co., Ltd.	China	Business management	Dec. 31	70.00
Lotte Shopping Holdings (Hong Kong) Co., Limited	Hong Kong	Holding company	Dec. 31	100.00
Qingdao LOTTE Mart Commercial Co., Ltd.	China	Distribution	Dec. 31	100.00
Liaoning LOTTE Mart Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Mart China Co., Ltd. and its subsidiaries	China	Distribution, Real estate development	Dec. 31	100.00
Swift Harvest Ltd. and its subsidiaries (*3)	Hong Kong	Distribution, Real estate development	Dec. 31	100.00
Hong Fung Ltd. and its subsidiaries (*3)	Hong Kong	Real estate development	Dec. 31	100.00
Nantong Meili Properties Limited (*3)	China	Real estate development	Dec. 31	100.00
Zhuji Decheng Properties Limited (*3)	China	Real estate development	Dec. 31	100.00
Nantong Yaodong Properties Limited (*3)	China	Real estate development	Dec. 31	100.00
Nantong Fuhua Properties Limited and its subsidiary (*3)	China	Real estate development	Dec. 31	100.00
Nantong Jinyou Properties Limited and its subsidiary (*3)	China	Real estate development	Dec. 31	100.00
Nantong Branda Properties Limited and its subsidiary (*3)	China	Real estate development	Dec. 31	100.00
Nantong Fortune Trade Properties Limited (*3)	China	Real estate development	Dec. 31	100.00
Nantong Fine Spring Properties Limited (*3)	China	Real estate development	Dec. 31	100.00
Nantong Fine Port Properties Limited and its subsidiary (*3)	China	Real estate development	Dec. 31	100.00
Huai An Full Faith Properties Limited (*3)	China	Real estate development	Dec. 31	100.00
Jilin LOTTE Mart Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Mart (Chongqing) Commercial Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Business Management (Tianjin) Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Department Store (Shenyang) Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte International Department Store (Weihai) Co., Ltd.	China	Distribution	Dec. 31	100.00
LOTTE DEPARTMENT STORE (TIANJIN) CO., LTD.	China	Distribution	Dec. 31	100.00
Lotte Department Store (Chengdu) Co., Ltd.	China	Distribution	Dec. 31	100.00
LOTTE MART (CHENGDU) COMMERCIAL COMPANY LIMITED	China	Distribution	Dec. 31	100.00
Lotte Shopping Business Management (Hong Kong) Limited	Hong Kong	SPC	Dec. 31	100.00
LHSC Limited	Cayman islands	Holding company	Dec. 31	91.14

December 31, 2016 and 2015

1. General Description of Reporting Entity, Continued

(b) Description of Subsidiaries, Continued

	December 31, 2015			
Subsidiaries	Location	Products or services	Fiscal year	Percentage of ownership (%)
Lucky Pai Ltd. and its subsidiaries	China	TV Home Shopping	Dec. 31	100.00
LOTTE PROPERTIES (CHENGDU) HK LIMITED	Hong Kong	Holding company	Dec. 31	73.46
Lotte Properties (Chengdu) Limited	China	Real estate lease	Dec. 31	100.00
LOTTE VIETNAM SHOPPING CO., LTD.	Vietnam	Distribution	Dec. 31	100.00
LOTTE SHOPPING HOLDINGS (SINGAPORE) PTE. LTD.	Singapore	Holding company	Dec. 31	100.00
PT. LOTTE SHOPPING INDONESIA	Indonesia	Distribution	Dec. 31	80.00
PT. LOTTE MART INDONESIA	Indonesia	Distribution	Dec. 31	100.00
PT. LOTTE Shopping Avenue Indonesia	Indonesia	Distribution	Dec. 31	100.00
Lotte Shopping India Private Limited	India	Distribution	Dec. 31	100.00
LOTTEMART C&C INDIA PRIVATE LIMITED	India	Distribution	Dec. 31	100.00
Lotte Shopping Plaza Vietnam Co., Ltd.	Vietnam	Distribution	Dec. 31	100.00
LOTTE HOTEL & RETAIL VIETNAM PTE. LTD.	Singapore	Holding company	Dec. 31	60.00
Kotobuki Holding (HK) Ltd.	Hong Kong	Holding company	Dec. 31	100.00
Hai Thanh - Kotobuki Joint Venture Company	Vietnam	Hotel	Dec. 31	70.00
LOTTE CINEMA VIETNAM CO., LTD.	Vietnam	Cinema	Dec. 31	90.00

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

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

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

1. General Description of Reporting Entity, Continued

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

	Korean won (millions)					
	December 31, 2016					
Subsidiaries	Assets	Liabilities	Equity	Sales	Net income (loss)	Total comprehensive income (loss)
Lotte Card Co., Ltd.	₩ 9,982,357	7,815,064	2,167,293	1,643,515	106,561	109,747
eB Card Co., Ltd.	186,951	127,124	59,827	84,929	13,895	13,908
Woori Home Shopping & Television Co., Ltd.	888,217	298,270	589,947	886,033	37,991	31,785
Korea Seven Co., Ltd.	1,106,098	790,130	315,968	3,522,760	38,403	37,573
Buy the way Inc.	117,455	31,571	85,884	181,433	(22,147)	(21,049)
Lotte Suwon Station Shopping Town Co., Ltd.	317,501	241,750	75,751	43,989	(8,644)	(8,643)
Lotte Songdo Shopping Town Co., Ltd.	241,376	152,124	89,252	40,365	(3,988)	(3,987)
CS Mart Co., Ltd.	165,638	55,849	109,789	420,600	8,729	8,733
LOTTE Himart Co., Ltd.	3,004,859	1,109,197	1,895,662	3,939,442	121,428	122,985
Lotte Members Co., Ltd	219,972	162,913	57,059	61,585	1,603	1,510
LOTTE.COM INC	155,325	155,045	280	204,186	(30,312)	(29,329)
LOTTE MART COMPANY LIMITED	167,016	221,214	(54,198)	306,080	(30,974)	(29,786)
Qingdao LOTTE Mart Commercial Co., Ltd.	24,458	76,584	(52,126)	—	(10,260)	(8,435)
Lotte Shopping Holdings (Hong Kong) Co., Limited	1,061,307	772,082	289,225	689	(268,922)	(254,553)
Swift Harvest Ltd. and its subsidiaries	567,494	905,169	(337,675)	696,047	(151,586)	(150,595)
LOTTE PROPERTIES (CHENGDU) HK LIMITED	442,194	229,786	212,408	—	(7,130)	(785)
Lotte Properties (Chengdu) Limited	623,386	250,409	372,977	—	(11,833)	(27,943)
LHSC Limited	31,309	—	31,309	—	(90)	854
LOTTE VIETNAM SHOPPING JOINT STOCK COMPANY (Formerly, LOTTE VIETNAM SHOPPING CO., LTD.)	469,971	444,816	25,155	263,151	(13,367)	(13,018)
LOTTE SHOPPING HOLDINGS (SINGAPORE) PTE. LTD.	591,379	8	591,371	—	(45,096)	(36,610)
PT. LOTTE SHOPPING INDONESIA	314,896	176,819	138,077	845,571	12,643	19,246
PT. LOTTE MART INDONESIA	184,712	199,027	(14,315)	268,901	(15,953)	(16,338)
Lotte Card Co., Ltd.	9,198,112	7,140,566	2,057,546	1,625,815	134,273	140,751
eB Card Co., Ltd.	186,395	140,477	45,918	69,718	(1,478)	(1,448)
Woori Home Shopping & Television Co., Ltd.	841,097	252,935	588,162	854,483	10,762	(27,591)

December 31, 2016 and 2015

1. General Description of Reporting Entity, Continued

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

	Korean won (millions)					
	December 31, 2016					
Subsidiaries	Assets	Liabilities	Equity	Sales	Net income (loss)	Total comprehensive income (loss)
Korea Seven Co., Ltd.	₩ 1,005,362	725,263	280,099	3,079,967	10,616	10,195
Buy the way Inc.	144,380	37,447	106,933	234,847	(54,769)	(54,557)
Lotte Suwon Station Shopping Town Co., Ltd.	355,624	271,231	84,393	46,138	(12,943)	(12,939)
Lotte Songdo Shopping Town Co., Ltd.	240,931	147,692	93,239	5,378	(1,911)	(1,910)
CS Mart Co., Ltd.	156,077	55,021	101,056	431,707	10,119	10,360
LOTTE Himart Co., Ltd.	2,905,213	1,122,386	1,782,827	3,896,137	106,595	105,484
Lotte Members Co., Ltd	179,446	150,085	29,361	56,916	153	119
LOTTE.COM INC	194,553	164,944	29,609	211,241	3,878	(1,187)
LOTTE MART COMPANY LIMITED	149,837	174,249	(24,412)	334,162	(26,008)	(26,048)
Qingdao LOTTE Mart Commercial Co., Ltd.	20,399	145,979	(125,580)	24,617	(72,610)	(74,729)
Lotte Shopping Holdings (Hong Kong) Co., Limited	1,195,329	733,439	461,890	—	(430,468)	(392,957)
Swift Harvest Ltd. and its subsidiaries	705,045	899,997	(194,952)	838,622	(99,837)	(100,109)
LOTTE PROPERTIES (CHENGDU) HK LIMITED	436,070	222,876	213,194	—	(6,998)	5,460
Lotte Properties (Chengdu) Limited	532,211	131,290	400,921	—	(3,816)	3,617
LHSC Limited	30,455	—	30,455	—	(164,324)	(157,743)
LOTTE VIETNAM SHOPPING CO., LTD.	435,575	397,402	38,173	216,131	(26,417)	(25,730)
LOTTE SHOPPING HOLDINGS (SINGAPORE) PTE. LTD.	318,693	16	318,677	—	(37,416)	(16,528)
PT. LOTTE SHOPPING INDONESIA	269,260	150,430	118,830	768,484	11,039	7,216
PT. LOTTE MART INDONESIA	175,309	173,286	2,023	245,874	(15,703)	(16,272)

December 31, 2016 and 2015

1. General Description of Reporting Entity, Continued

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

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

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

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

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

December 31, 2016 and 2015

1. General Description of Reporting Entity, Continued

(f) Non-controlling interests

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

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

December 31, 2016 and 2015

1. General Description of Reporting Entity, Continued

(f) Non-controlling interests, Continued

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

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

December 31, 2016 and 2015

1. General Description of Reporting Entity, Continued

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

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

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

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

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

December 31, 2016 and 2015

2. Basis of Accounting

(a) Statement of compliance

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

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

(b) Basis of measurement

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

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

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

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

(i) Information about assumptions and estimation uncertainties

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

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

2. Basis of Accounting, Continued

(d) Use of estimates and judgments, Continued

(ii) Measurement of fair value

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

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

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

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

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

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

Note 8 – Fair value of financial instruments

3. Changes in Accounting Policies

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

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

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

3. Changes in Accounting Policies, Continued

The nature of the changes are explained below.

(i) Presentation of Financial Statements

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

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

4. Significant Accounting Policies

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

(a) Operating segment

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

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

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

(b) Basis of consolidation

(i) Business combinations

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

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

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

4. Significant Accounting Policies, Continued

(b) Basis of consolidation, Continued

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 are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

(iv) Loss of control

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

(v) Interests in equity-accounted Investees

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

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

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

(vi) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated. Unrealized gains arising from transactions with equity-accounted investees are

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4. Significant Accounting Policies, Continued

(b) Basis of consolidation, Continued

eliminated against the investment to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

(vii) Acquisitions from entities under common control

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

(c) Cash and cash equivalents

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

(d) Inventories

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

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

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

(e) Non-derivative financial assets

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

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

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4. Significant Accounting Policies, Continued

(e) Non-derivative financial assets, Continued

(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 except for loans and receivables of which the effect of discounting is immaterial.

(iv) Available-for-sale financial assets

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

(v) De-recognition of financial assets

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

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

(vi) Offsetting between financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is presented in the consolidated statement of financial position only when the Group currently has a legally enforceable right to offset the

4. Significant Accounting Policies, Continued

(e) Non-derivative financial assets, Continued

recognized amounts, and there is the intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

(f) Derivative financial instruments, including hedge accounting

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

(i) Hedge accounting

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

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

Fair value hedge

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

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

Cash flow hedge

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

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

(f) Derivative financial instruments, including hedge accounting, Continued

(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.

(g) Impairment of financial assets

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

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

(i) Financial assets measured at amortized cost

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

(ii) Financial assets carried at cost

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

(iii) Available-for-sale financial assets

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

(f) Derivative financial instruments, including hedge accounting, Continued

(h) Property, plant and equipment

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

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

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

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

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

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

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

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

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

(i) Intangible assets

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

Amortization of intangible assets except for goodwill is calculated on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The residual value of intangible

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(f) Derivative financial instruments, including hedge accounting, Continued

(i) Intangible assets, Continued

assets is zero. However, as there are no foreseeable limits to the periods over which club memberships trademark and trade name are expected to be available for use, this intangible asset is determined as having indefinite useful lives and not amortized.

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

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

(j) Investment property

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

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

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

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

(k) Non-current assets held for sale

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

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

(f) Derivative financial instruments, including hedge accounting, Continued

(k) Non-current assets held for sale, Continued

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

(l) Impairment of non-financial assets

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

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

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

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

(m) Leases

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

(i) Finance leases

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

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant

(f) Derivative financial instruments, including hedge accounting, Continued

(m) Leases, Continued

periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred.

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

(ii) Operating leases

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

(n) Borrowing costs

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

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

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

(o) Non-derivative financial liabilities

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

(f) Derivative financial instruments, including hedge accounting, Continued

(o) Non-derivative financial liabilities, Continued

(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, canceled or expires).

(p) Employee benefits

(i) Short-term employee benefits

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

(ii) Other long-term employee benefits

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

(iii) Retirement benefits: defined contribution plans

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

(f) Derivative financial instruments, including hedge accounting, Continued

(p) Employee benefits, Continued

(iv) Retirement benefits: defined benefit plans

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

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

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

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

(q) Provisions

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

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

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

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

(r) Foreign currencies

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign

(f) Derivative financial instruments, including hedge accounting, Continued

(r) Foreign currencies, Continued

currencies are retranslated to the functional currency using the reporting date's exchange rate. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

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

(ii) Foreign operations

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

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

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

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

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

(s) Equity capital

(i) Share capital

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

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

(f) Derivative financial instruments, including hedge accounting, Continued

(s) Equity capital, Continued

(ii) Hybrid securities

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

(t) Revenue

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

(i) Sales of goods

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

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

(ii) Customer loyalty programs

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

(iii) Commissions

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

(iv) Rental income

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

(f) Derivative financial instruments, including hedge accounting, Continued

(t) Revenue, Continued

(v) Income of card business

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

(u) Finance income and finance costs

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

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

(v) Income taxes

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

(i) Current tax

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

(ii) Deferred tax

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

The Group recognizes a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, associates, and interests in joint ventures, except to the extent that the Group is

(f) Derivative financial instruments, including hedge accounting, Continued

(v) Income taxes, Continued

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

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

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

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

(w) Earnings per share

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

(x) Emission Rights

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

(i) Greenhouse Gasses Emission Right

Greenhouse Gasses 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.

(f) Derivative financial instruments, including hedge accounting, Continued

(x) Emission Rights, Continued

(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.

(y) New standards and interpretations not yet adopted

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

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

(i) K-IFRS 1109 'Financial Instruments'

K-IFRS 1109, published on September 25, 2015 which replaces existing guidance in K-IFRS 1039 Financial Instruments: Recognition and Measurement, is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Group currently plans to apply K-IFRS1109 for the year beginning on January 1, 2018.

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

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

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

To ensure smooth implementation of K-IFRS1109, the Group needs to assess the financial impact of adopting K-IFRS 1109, to formulate the accounting policy, and to design, implement and enhance the accounting system and related controls. The expected quantitative impact of adopting K-IFRS 1109 on the Group's financial statements cannot be reliably estimated because it will be dependent on the financial instruments that the Group holds and economic conditions at that time as well as accounting elections and judgments that it will make in the future.

(f) Derivative financial instruments, including hedge accounting, Continued

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

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

Classification and measurement of financial assets

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

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

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

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

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

As of December 31, 2016, the Group has financial assets at fair value through profit or loss amounting to ₩67,059 million, loans and receivables amounting to ₩12,415,872 million, available-for-sale financial assets amounting ₩627,288 million. Under K-IFRS 1109, a financial asset shall be measured at amortized cost if both of the following conditions are met: the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The Group has recognized the loans and receivables as amortized cost as of December 31, 2016 under K-IFRS 1039.

A financial asset is measured at FVOCI under K-IFRS 1109 if the objective of the business model is achieved both by collecting contractual cash flows and selling financial assets; and the asset's contractual cash flows represent solely payments of principal and interest. As of December 31, 2016, the Group has ₩14,485 million of debt instruments classified as available-for-sale financial assets under K-IFRS 1039.

(f) Derivative financial instruments, including hedge accounting, Continued

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

Under K-IFRS 1109, equity instruments that are not held for trading may be irrevocably designated as FVOCI on initial recognition with no recycling of amounts from OCI to profit and loss. As of December 31, 2016, the Group has ₩612,802 million of available-for-sale equity instruments under K-IFRS 1039.

Under K-IFRS 1109, a financial asset shall be measured at fair value through profit or loss unless it is measured at amortized cost or at fair value through other comprehensive income. As of December 31, 2016, the Group has debt instruments classified as financial assets at fair value through profit or loss amounting to ₩10,022 million under K-IFRS 1039 and has no equity instruments classified as financial assets at fair value through profit or losses.

Classification and measurement of financial liabilities

Under K-IFRS 1109, for the financial liabilities designated as FVTPL using the fair value option, the element of gains or losses attributable to changes in the own credit risk should normally be recognized in OCI, with the remainder recognized in profit or loss. These amounts recognized in OCI are not recycled to profit or loss even when the liability is derecognized. However, if presentation of the fair value change in respect of the liability's credit risk in OCI results in or enlarges an accounting mismatch in profit or loss, gains and losses are entirely presented in profit or loss. Adoption of K-IFRS 1109 may result in change in profit or loss, since the amount of fair value changes that is attributable to changes in the credit risk of the liability will be presented in OCI. As of December 31, 2016, under K-IFRS 1039 the Group has financial liability at fair value through profit or loss amounting to ₩26,281 million.

Impairment : financial assets and contract assets

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

(f) Derivative financial instruments, including hedge accounting, Continued

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

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

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

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

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

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

As of December 31, 2016, under K-IFRS 1039 the Group has debt instruments recognized as amortized cost amounting to ₩12,415,872 million won(loans and receivables), recognized as available-for-sale financial assets amounting to ₩14,485 million won and recognized a loss allowance amounting to ₩243,271 million.

Hedge accounting

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

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

(f) Derivative financial instruments, including hedge accounting, Continued

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

As of December 31, 2016, the Group recognized the total amount of ₩219,770 million as hedged assets and ₩5,190 million as hedged liabilities that applied hedge accounting and changes in fair value of cash flow hedge in the amount of ₩6,878 million (after deducting the tax effect) was recognized in OCI for the year ended December 31, 2016.

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

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

K-IFRS 1115, published on November 6, 2015, establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including K-IFRS 1018, Revenue, K-IFRS 1011, Construction Contracts, K-IFRS 2013, Revenue – Barter Transactions Involving Advertising Services, K-IFRS 2113, Customer Loyalty Programs, K-IFRS 2115, Revenue – Barter Transactions Involving Advertising Services, and K-IFRS 2118, Transfers of assets from customers. K-IFRS 1115 is effective for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted. The Group plans to adopt K-IFRS 1115 from the beginning of the financial year beginning on January 1, 2018 and recognize the cumulative effects of applying K-IFRS 1115 at the date of initial application without restatement of the comparative consolidated financial statsments.

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

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

The Group has not been able to undertake preparation related to the adoption of K-IFRS 1115, and it has not been analyzed the financial impact of the adoption of this standard on its consolidated financial statements.

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

K-IFRS 1007 requires disclosure of changes in liabilities arising from financial activities related to financing cash flows, changes due to business acquisition or disposal, exchange rate effect, fair value changes and others. The Group will adopt K-IFRS 1007 from the financial year beginning on or after January 1, 2017.

(f) Derivative financial instruments, including hedge accounting, Continued

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

(iv) K-IFRS 1012, 'Income Taxes

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

5. Business Combinations

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

(i) Acquisition of L.pay Service Business

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

(ii) Acquisition of LOTTE.COM INC

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

(iii) Acquisition of LOTTE PS NET

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

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

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

5. Business Combinations, Continued

The following summarizes major classes of considerations transferred.

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

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

5. Business Combinations, Continued

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

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

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

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

6. Trade and Other Receivables

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

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

7. Restricted Deposits

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

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

8. Fair Value of Financial Instruments

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

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

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

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

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

8. Fair Value of Financial Instruments, Continued

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

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

8. Fair Value of Financial Instruments, Continued

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

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

December 31, 2016 and 2015

8. Fair Value of Financial Instruments, Continued

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

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

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

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8. Fair Value of Financial Instruments, Continued

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

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

(f) The fair value hierarchy

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

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

8. Fair Value of Financial Instruments, Continued

(f) The fair value hierarchy, Continued

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

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

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

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

(g) Level 3 fair values

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

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

(h) Sensitivity analysis

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

8. Fair Value of Financial Instruments, Continued

(i) Equity securities

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

(ii) Stock options (liability-classified)

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

9. Inventories

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

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

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

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

December 31, 2016 and 2015

10. Other Non-financial Assets

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

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

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

11. Non-current assets held for sale

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

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

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

December 31, 2016 and 2015

12. Investments in Associates

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

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

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

12. Investments in Associates, Continued

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

Korean won (millions)

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

Korean won (millions)

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

12. Investments in Associates, Continued

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

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

(*1) Total comprehensive income stated above excludes attribution to non-controlling shareholder.
(*2) Since Lotte Capital Co., Ltd. is a financial institution, it does not present current and non-current assets or liabilities.

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

(*1) Total comprehensive income stated above excludes attribution to non-controlling shareholder.
(*2) Since Lotte Capital Co., Ltd. is a financial institution, it does not present current and non-current assets or liabilities.

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12. Investments in Associates, Continued

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

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

(*1) Net assets excluded non-controlling interests.
(*2) Others included unamortized amounts of difference of fair vlave, unrecognized amounts and foreign currency differences arising on retranslation.

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

(*1) Net assets excluded non-controlling interests.
(*2) Others included unamortized amounts of difference of fair vlave, unrecognized amounts and foreign currency differences arising on retranslation.

December 31, 2016 and 2015

12. Investments in Associates, Continued

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

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

13. Joint Ventures

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

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

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

13. Joint Ventures, Continued

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

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

		Korean won (millions)							
		2015							
			Changes						
Company		Beginning balance	Acquisition	Business combination	Dividends	Net income (loss)	Capital adjustment	Others	Balance at December 31, 2015
D-Cinema of Korea Co., Ltd.	₩	—	—	—	—	1,725	—	—	1,725
STL Co., Limited		1,335	—	—	—	(729)	—	—	606
LOTTE JTB Co., Ltd.		—	—	4,100	—	(4,100)	—	—	—
Shenyang SL Cinema Investment Management Co., Ltd.		925	—	—	—	20	17	—	962
Shandong Luckypai TV Shopping		9,906	—	—	—	—	—	186	10,092
Yunnan Maile TV Shopping Media Co., Ltd.		4,225	—	—	(309)	200	—	79	4,195
Chongqing Yujia Co., Ltd.		—	—	—	—	—	—	—	—
International Business Center Company Limited		—	59,058	—	(4,927)	3,155	319	3,911	61,516
Total	₩	16,391	59,058	4,100	(5,236)	271	336	4,176	79,096

13. Joint Ventures, Continued

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

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

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

December 31, 2016 and 2015

13. Joint Ventures, Continued

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

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

(*1) Net assets excluded non-controlling interests..
(*2) Others included unamortized amounts of difference of fair vlave, unrecognized amounts and foreign currency differences arising on retranslation.

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

(*1) Net assets excluded non-controlling interests.
(*2) Others included unamortized amounts of difference of fair vlave, unrecognized amounts and foreign currency differences arising on retranslation.

December 31, 2016 and 2015

14. Property, Plant and Equipment

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

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

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

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

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

14. Property, Plant and Equipment, Continued

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

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

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

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

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

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

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

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

December 31, 2016 and 2015

15. Investment Property

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

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

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

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

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

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

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

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

December 31, 2016 and 2015

15. Investment Property, Continued

(d) Income and expense from investment property

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

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

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

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

16. Goodwill and Intangible Assets

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

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

December 31, 2016 and 2015

16. Goodwill and Intangible Assets, Continued

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

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

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

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

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

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

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

16. Goodwill and Intangible Assets, Continued

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

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

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

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

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

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

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

16. Goodwill and Intangible Assets, Continued

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

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

		Korean won (millions)	
		2016	
		Goodwill impairment losses	Recoverable amounts
Discount stores	₩	83,311	539,790
Consumer electronics retail		39,723	1,458,959
Others		31,827	1,448
Total	₩	154,861	2,000,197

		Korean won (millions)	
		2015	
		Goodwill impairment losses	Recoverable amounts
Department stores	₩	44,776	500,885
Discount stores		433,461	724,673
Finance business		5,413	126,374
Others		133,284	16,271
Total	₩	616,934	1,368,203

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

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

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

As a result of the Group's impairment test on indefinite intangible assets, the Group recognized an impairment loss of ₩ 744 million and ₩ 1,087 million as of December 31, 2016 and 2015.

December 31, 2016 and 2015

17. Trade and Other Payables

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

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

18. Borrowings and Debentures

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

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

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

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

December 31, 2016 and 2015

18. Borrowings and Debentures, Continued

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

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

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

Description	Maturity	Interest rate (%)		Korean won (millions) December 31, 2016	December 31, 2015
59-2nd placed	Aug. 07, 2017	3.20	₩	230,000	230,000
59-3rd placed	Aug. 07, 2019	3.33		200,000	200,000
61th placed	Mar. 21, 2018	3.05		100,000	100,000
62th placed	Jun. 21, 2018	2.80		110,000	110,000
63-1st placed	Jul. 02, 2017	2.79		200,000	200,000
63-2nd placed	Jul. 02, 2019	3.08		200,000	200,000
64-1st placed (foreign currency)	May 25, 2018	3M USD Libor+0.50		181,275	175,800
64-2nd placed (foreign currency)	May 25, 2018	3M USD Libor		120,850	117,200
64-3rd placed (foreign currency)	May 25, 2018	3M USD Libor+0.02		120,850	117,200
65-1st placed	Mar. 03, 2020	2.26		160,000	160,000
65-2nd placed	Mar. 03, 2022	2.45		240,000	240,000
66-1st placed	Jun. 23, 2020	2.40		130,000	130,000
66-2nd placed	Jun. 23, 2022	2.64		50,000	50,000
66-3rd placed	Jun. 23, 2025	2.98		140,000	140,000
67-1st placed (foreign currency)	Aug. 17, 2018	3M USD Libor+0.60		181,275	175,800
67-2nd placed (foreign currency)	Aug. 17, 2018	3M USD Libor+0.02		120,850	117,200
67-3rd placed (foreign currency)	Aug. 06, 2018	3M USD Libor+0.60		120,850	117,200
68th placed	Jul. 31, 2020	2.40		110,000	110,000
69-1st placed (foreign currency)	Jan. 29, 2019	3M USD Libor+0.55		120,850	—
69-2nd placed (foreign currency)	Jan. 29, 2019	3M USD Libor+0.02		120,850	—
70-1st placed	Apr. 04, 2019	1.77		100,000	—
70-2nd placed	Apr. 04, 2021	2.02		170,000	—
70-3rd placed	Apr. 04, 2026	2.48		70,000	—
71th placed	Nov. 29, 2019	1M USD Libor		120,850	—
1st placed (Global bond)	Apr. 07, 2016	—		—	468,800
2nd placed (Global bond)	May 09, 2017	3.38		483,400	468,800

18. Borrowings and Debentures, Continued

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

				Korean won (millions)	
Description	Maturity	Interest rate (%)		**December 31, 2016**	**December 31, 2015**
USD convertible bonds	Jul. 05, 2016	—		—	22,340
JPY convertible bonds	Jul. 05, 2016	—		—	91,100
Exchangeable bonds (*)	Jan. 24, 2018	—		13,800	321,200
Korea Seven Co., Ltd. (foreign currency)	Apr. 18, 2016	—		—	35,160
Korea Seven Co., Ltd. (convertible bonds)	May 08, 2018	—		7,920	7,920
Lotte Card Co., Ltd.	Multiple	1.58~3.86		5,783,095	5,264,040
LOTTE Himart Co., Ltd.	Multiple	2.08~3.04		650,000	620,000
LOTTE Himart Co., Ltd. (Foreign currency)	Mar. 29, 2016	—		—	35,160
Subtotal			₩	10,356,715	10,024,920
Less: Discount on debentures				(20,717)	(36,467)
Convertible bond redemption premium				1,173	1,173
Less: Conversion rights adjustment				(352)	(604)
Less: Exchange rights adjustment				(438)	(19,443)
Total book value				10,336,381	9,969,579
Less: Current portion of debentures, net of discount				(2,618,126)	(2,009,679)
Total			₩	7,718,255	7,959,900

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

(a) Type of bonds: Registered overseas unsecured exchangeable bonds

(b) Total face value of bonds(KRW): 13,800,000,000

(c) Bond interest rate
Coupon rate (%): —
Yield to maturity (%): —

(d) Date of bond maturity: January 24, 2018

(e) Principal redemption method:

i. Redemption on maturity date: Redemption in lump sum on the maturity date for the principal amount of bonds for which a condition for early redemption has not occurred and the exchange right has not been exercised. Early redemption: The Company has a call option, whereas bond holders have a put option.

ii. Early redemption: Lotte Shopping Co., Ltd. ("Lotte Shopping") has a call option, whereas bond holders have a put option.

18. Borrowings and Debentures, Continued

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

(f) Put option by bondholders:

The put option can be exercised if any of the following conditions occurs:

On the third anniversary of the date of payment (January 24, 2016);

i. If any change of control occurs in the LOTTE Himart; or

ii. The issued stocks of the Company are delisted from the stock exchange or their transaction is suspended for 30 consecutive transaction days or longer.

(g) Call option by the Company:

The call option can be exercised if any of the following conditions occurs:

i. If the closing price of LOTTE Himart Co., Ltd for 20 transactional days in 30 consecutive transaction days reaches 130% or more of the exchange price between 3 years from the issuance date (January 24, 2013) and 30 business days to the maturity date;

ii. If the balance of bonds that has not been redeemed reaches less than 10% of the sum of the total issued amount (clean up call); or

iii. Any additional tax burden arises due to the amendments of the related laws and regulations.

(h) Matters relating to exchange:

i.	Exchange ratio (%):	100
ii.	Exchange price (KRW per share):	90,780
iii.	Type of shares to be issued following exchange:	Common shares of LOTTE Himart Co., Ltd.
iv.	Period to apply for exchange:	
	Start date:	March 5, 2013
	End date:	January 15, 2018

v. Matters for the adjustment of exchange price:

In case when a condition for re-adjustment of the exchange price has occurred, such as a stock dividend, the exchange price will be adjusted in accordance with the provisions in the relevant bonds purchase agreement.

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

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

December 31, 2016 and 2015

19. Unearned Revenues

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

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

20. Provisions

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

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

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

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

December 31, 2016 and 2015

20. Provisions, Continued

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

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

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

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

21. Other Non-financial Liabilities

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

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

December 31, 2016 and 2015

22. Employee Benefits

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

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

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

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

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

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

December 31, 2016 and 2015

22. Employee Benefits, Continued

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

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

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

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

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

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

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

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

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

22. Employee Benefits, Continued

(h) Sensitivity analysis

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

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

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

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

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

23. Derivative Instruments and Hedge Accounting

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

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

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

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

23. Derivative Instruments and Hedge Accounting, Continued

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

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

24. Capital Stock and Capital Surplus

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

(b) Capital surplus as of December 31, 2016 and 2015 consists of the following:

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

December 31, 2016 and 2015

25. Hybrid securities classified as equity

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

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

(*) Details of hybrid securities are as follows:

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

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

26. Capital Adjustments

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

December 31, 2016 and 2015

27. Retained Earnings

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

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

28. Accumulated Other Comprehensive Income

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

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

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

December 31, 2016 and 2015

29. Earnings (loss) per Share

(a) Basic earnings (loss) per share

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

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

(ii) Weighted average number of ordinary shares

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

(b) Diluted earnings (loss) per share

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

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

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

29. Earnings (loss) per Share, Continued

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

(ii) Diluted weighted average number of ordinary shares

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

30. Sales and Cost of Sales

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

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

(*) In 2016, sales of merchandise include the VAT refund for sales in the amount of mileage accruals, which is ₩136,784 million.

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

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

31. Selling, General and Administrative Expenses:

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

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

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

32. Other income and expenses

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

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

(*1) Others primarily relates to income from unused gift certificates after expiration date and penalty from suppliers on delayed delivery of merchandise.
(*2) Others primarily relates to non-deductible value added tax.

December 31, 2016 and 2015

33. Nature of Expenses

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

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

34. Finance Income and Finance Costs

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

		Korean won (millions)	
		2016	2015
Finance income:			
Interest income	₩	87,037	92,885
Dividend income		7,070	8,364
Gain on foreign currency transactions		12,670	808
Gain on foreign currency translation		38,986	21,406
Gain on valuation of financial assets and liabilities at fair value through profit or loss		22	—
Gain on disposal of available-for-sale financial assets		8	28,270
Gain on valuation of derivative instruments held for the purpose of hedging		46,200	97,027
Gain on valuation of derivative instruments held for the purpose of trading		15,754	1,169
Gain on transaction of derivative instruments held for the purpose of hedging		—	8,445
Gain on disposal of investments in subsidiaries, associates and joint ventures		5,519	12,595
Total	₩	213,266	270,969

34. Finance Income and Finance Costs, Continued

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

		Korean won (millions)	
		2016	**2015**
Finance costs:			
Interest expense	₩	237,072	254,350
Loss on foreign currency transactions		723	28,379
Loss on foreign currency translation		96,723	128,528
Loss on valuation of financial assets and liabilities at fair value through profit or loss		—	8,115
Loss on disposal of available-for-sale financial assets		420	803
Impairment loss on available-for-sale financial assets		1,971	6,905
Loss on valuation of derivative instruments held for the purpose of trading		1,673	12,279
Loss on transaction of derivative instruments held for the purpose of hedging		19,996	239
Loss on redemption of debentures		20,060	—
Financial guarantee costs		7,697	—
Loss on disposal of investments in associates, joint ventures and subsidiaries		59	16
Impairment loss on investments in subsidiaries, associates and joint ventures		5,233	—
Total	₩	391,627	439,614

December 31, 2016 and 2015

34. Finance Income and Finance Costs, Continued

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

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

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

December 31, 2016 and 2015

34. Finance Income and Finance Costs, Continued

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

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

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

December 31, 2016 and 2015

35. Income Taxes

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

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

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

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

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

December 31, 2016 and 2015

35. Income Taxes, Continued

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

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

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

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

December 31, 2016 and 2015

35. Income Taxes, Continued

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

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

December 31, 2016 and 2015

35. Income Taxes, Continued

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

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

December 31, 2016 and 2015

35. Income Taxes, Continued

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

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

36. Consolidated statements of cash flows

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

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

37. Operating Leases

(a) Lessee

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

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

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

December 31, 2016 and 2015

37. Operating Leases, Continued

(b) Lessor

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

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

38. Greenhouse Gasses Emission Rights

(a) Emission Right

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

	Emissions (tCO_2-eq)
2015	860,971
2016	842,554
2017	819,895
Total	2,523,420

There is no pledged emission and the Group has 1,716,733tCO_2-eq of emissions.

(b) Emission liability

The Group has estimated to emit 836,954tCO_2-eq of CO_2 in 2016.

December 31, 2016 and 2015

39. Operating Segments and Geographic Information

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

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

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

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

39. Operating Segments and Geographic Information, Continued

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

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

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

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

39. Operating Segments and Geographic Information, Continued

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

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

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

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

December 31, 2016 and 2015

39. Operating Segments and Geographic Information, Continued

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

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

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

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

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

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

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

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

39. Operating Segments and Geographic Information, Continued

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

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

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

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

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

December 31, 2016 and 2015

40. Contingent Liabilities and Financial Commitments

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

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

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

Company	Contractor	Description of contract
Lotte Shopping Co., Ltd.	Lotte Station Building Co., Ltd.	Providing management services
Lotte Card Co., Ltd.	American Express Company, Master Card International, Visa International, JCB International and UNIONPAY INTERNATIONAL	Commissions based on credit card transaction amount
Woori Home Shopping & Television Co., Ltd.	Lotte Capital Co., Ltd.	Contract of operating leases
	Shinhan card	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
Korea Seven Co., Ltd.	7-Eleven, Inc.	Using the registered trademark and operating know-how

40. Contingent Liabilities and Financial Commitments, Continued

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

Company	Contractor	Description of contract
NCF Co., Ltd.	Nice Claup Co., Ltd.	Royalty payments based on net revenue of selling and manufacturing amounts
Buy the way Inc.	7-Eleven, Inc.	Using the registered trademark and operating know-how
	KTOTO.CO.,LTD.	Renewal guarantees of payments for goods every year

(c) As of December 31, 2016, the Group is the plaintiff in various lawsuits with damage claims totaling ₩64,920 million and the Group is the defendant in various lawsuits with damage claims totaling ₩101,289 million, among which ₩20,953 million is related to a claim against Lotte Card Co., Ltd., a subsidiary of the Company, related to personal data leaks. Regarding 93 lawsuits out of various with damage claims where the Group is the defendant, the Group recorded ₩14,428 million as other provision as of December 31, 2016. The management believes that the ultimate resolutions of other legal actions, except 93 lawsuits above, will not have a material effect of the financial position or results of operations of the Group. Among ₩101,289 million, ₩19,277 million is related to victims of humidifier disinfectant. The Group recognized other liabilities of ₩17,575 million in regard to the claim on victims of humidifier disinfectant as of December 31, 2016. Also, the Group cannot reliably estimate the outcome and financial impacts from lawsuit for the case of the first trial of which is ongoing, related to personal data leaks. However, the Group recognized other provision of ₩3,122 million in regard to the ongoing court appeals for the case of the first trials of which are lost or similar cases regarding personal data leaks cases. As Woori Home Shopping & Television Co., Ltd., a subsidiary of the Company, received the penalty of six months of administrative suspension (6 hours per day), the administrative litigation for cancelation of business suspension is in progress. The Group cannot reliably estimate the impacts from lawsuit results on this business suspension case.

(d) Lotte Card Co., Ltd. has sold certain card assets to SPCs pursuant to the Assets-Backed Securitization Law of the Republic of Korea and assumed the liability to pay the outstanding card assets when the transferred card assets cannot meet the prescribed qualifications in the contract or fall into arrears in accordance with the terms of assets transfer agreement and other contracts. Accordingly, as prescribed in the assets transfer agreement and other contracts, the SPCs have obligations of early redemption of the asset-backed securities when average portfolio earnings ratio during three consecutive settlement periods is lower than the average primary cost ratio or when outstanding balance of adjusted securitized assets is less than the minimum principal balance as of closing date of each settlement period and others.

(e) The Company has the right to purchase 5.1% of the Lotte Global Logistics Co.,LTD.(formerly, Hyundai Logistics Co., Ltd.) shares held by IGIS I Corporation and during 2016, the call option was exercised due to the coming of the event period. In connection with IGIS I Corporation's borrowings, all IGIS I Corporation shares (₩5,353 million of book value) held by the Company have been in pledge in Mizuho Corporate Bank. As the option exercise period was coming, the Company exercised the call options. Also, as IGIS I Corporation repaid its borrowings, the pledge is canceled.

December 31, 2016 and 2015

40. Contingent Liabilities and Financial Commitments, Continued

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

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

(i) The Company disposed of land and buildings of 3 stores including Lotte mart Jeju store to KTB Confidence Private Real Estate Investment Trust for ₩220 billion in 2008 and the Company has been leasing the assets. The Company has the options to purchase the assets at a fair value at the end of the lease.

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

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

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

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

The Group does not consolidate these structured entities.

41. Inter-company Transactions and Balances with Consolidated Companies

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

			2016	
Consolidated company	Provided by	Guarantee recipient	Type of borrowings	Guaranteed amount (thousands)
Lotte Business Management (Tianjin) Co., Ltd.	Lotte Shopping Co., Ltd.	BNP Paribas	Working capital	CNY 150,000
LOTTE DEPARTMENT STORE (TIANJIN) CO., LTD.	Lotte Shopping Co., Ltd.	KEB Hana Bank	Working capital	CNY 170,000
Lotte Department Store (Shenyang) Co., Ltd.	Lotte Shopping Co., Ltd.	BNP Paribas	Working capital	CNY 50,000
PT. LOTTE Shopping Avenue Indonesia	Lotte Shopping Co., Ltd.	DBS	Working capital	USD 20,000
		JP Morgan		IDR 200,000,000
Jiangsu Times Supermarket Co., Ltd.(*)	Lotte Shopping Co., Ltd.	DBS	Working capital	CNY 330,000
		HSBC		CNY 750,000
		HSBC		CNY 125,000
LOTTE MART COMPANY LIMITED	Lotte Shopping Co., Ltd.	HSBC	Working capital	CNY 200,000
Liaoning LOTTE Mart Co., Ltd.	Lotte Shopping Co., Ltd.	HSBC	Working capital	CNY 150,000
LOTTE MART (CHENGDU) COMMERCIAL COMPANY LIMITED	Lotte Shopping Co., Ltd.	HSBC	Working capital	CNY 50,000
LOTTE CINEMA VIETNAM CO., LTD.	Lotte Shopping Co., Ltd.	ING	Working capital	USD 5,000
		ING		USD 5,000
		DBS		USD 8,000
		DBS		USD 8,000
		Standard Chartered		VND 112,000,000
Lotte Shopping Holdings (Hong Kong) Co., Limited	Lotte Shopping Co., Ltd.	Standard Chartered	Working capital	USD 38,136
		BNP Paribas		USD 38,135
		Citibank, N.A., Hong Kong Branch		USD 38,135
		SMBC		USD 38,135
		ING		USD 120,214
		Shinhan Bank		HKD 8,000
		HSBC		USD 95,298
		BNP Paribas		USD 104,818
LOTTE PROPERTIES (CHENGDU) HK LIMITED	Lotte Shopping Co., Ltd.	Shinhan Bank	Working capital	USD 50,000
		KEB Hana Bank		USD 140,000
Lucky Pai (Shanghai) Trading Co., Ltd.	Lotte Shopping Co., Ltd. and Woori Home Shopping & Television Co., Ltd.	KEB Hana Bank	Working capital	CNY 58,000
		KEB Hana Bank		CNY 39,900
		INDUSTRIAL BANK OF KOREA		CNY 46,000
		KEB Hana Bank		CNY 57,000
		Woori Bank		CNY 15,000
		Shinhan Bank		CNY 14,000
		KEB Hana Bank		CNY 20,100

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

(b) In 2015, the Company entered into an agreement to provide financial support for Suwon Landmark the Second Co., Ltd. in default of the principal and interest on the Asset Backed Commercial Paper ("ABCP", ₩250,000 million of par value in maturing in 36 months) issued by Suwon Landmark the Second Co., Ltd. on May 28, 2015, which was collateralized with the assets of LOTTE Suwon Station Shopping Town CO., LTD. In 2016, the Company entered into an agreement to provide financial support for KS the First Co.,

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

Ltd. in default of the principal and interest on the Asset Backed Commercial Paper (“ABCP”, ₩266,000 million of par value in maturing in 27 months) issued by KS the First Co., Ltd. on August 30, 2016, which was collateralized with the assets of Lotte Ulsan Development Co., Ltd.

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

(d) The Company have warranted the execution of the contract with respect to the Korea Seven and 7-Eleven, Inc. (US corporation) royalties (0.6% of net sales) contract.

42. Transactions and Balances with Related Companies

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

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

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

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

	Korean won (millions)				
	2016				
Related company	Sales	Purchase of inventories	Purchase of fixed asset	Other revenue	Other expenses
Shareholders:					
Hotel Lotte Co., Ltd.	₩ 91,919	44	392	529	120,626
Lotte Confectionery Co., Ltd.	16,132	164,823	18	—	18,775
Lotte Chilsung Beverage Co., Ltd.	17,232	110,741	—	146	731
Lotte Engineering & Construction Co., Ltd.	7,429	—	295,713	5	333
Hotel Lotte Pusan Co., Ltd.	9,736	—	—	10	20,760
LOTTE DATA COMMUNICATION COMPANY	3,211	1,331	83,921	228	209,590
Korea Fuji Film Co., Ltd.	1,377	842	—	—	45
Subtotal	147,036	277,781	380,044	918	370,860

42. Transactions and Balances with Related Companies, Continued

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

		Korean won (millions)				
		2016				
Related company		Sales	Purchase of inventories	Purchase of fixed asset	Other revenue	Other expenses
Associates:						
DAEHONG COMMUNICATIONS INC.		39,409	144	582	—	85,743
Lotte Station Building Co., Ltd.		24,788	—	217	2,213	4,733
Lotteria Co., Ltd.		20,335	6,247	133	91	1,443
Lotte Trading Co., Ltd.		6,012	196,634	—	—	225
Others		103,059	83,356	8,942	84	69,533
Subtotal		193,603	286,381	9,874	2,388	161,677
Others:						
LOTTE FOOD CO., LTD.		24,504	262,140	—	—	8,849
Lotte Aluminum Co., Ltd.		3,503	21,023	36,886	—	32,552
Lotte Logistics Co., Ltd.		52,175	2,335,490	2,138	—	266,183
Others		64,265	39,741	24,883	20,294	219,143
Subtotal		144,447	2,658,394	63,907	20,294	526,727
Total	₩	485,086	3,222,556	453,825	23,600	1,059,264

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

		Korean won (millions)				
		2015				
Related company		Sales	Purchase of inventories	Purchase of fixed asset	Other revenue	Other expenses
Shareholders:						
Hotel Lotte Co., Ltd.	₩	77,509	141	3,410	1,180	107,943
Lotte Confectionery Co., Ltd.		14,547	154,965	—	53	18,082
Lotte Chilsung Beverage Co., Ltd.		12,573	110,092	—	64	642
Lotte Engineering & Construction Co., Ltd.		6,837	—	292,022	—	128
Hotel Lotte Pusan Co., Ltd.		9,723	26	—	—	19,414
LOTTE DATA COMMUNICATION COMPANY		18,319	1,595	131,706	50	173,679
Korea Fuji Film Co., Ltd.		1,431	537	—	—	55
Subtotal		140,939	267,356	427,138	1,347	319,943

42. Transactions and Balances with Related Companies, Continued

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

		Korean won (millions)				
		2015				
Related company		Sales	Purchase of inventories	Purchase of fixed asset	Other revenue	Other expenses
Associates:						
DAEHONG COMMUNICATIONS INC.		32,881	—	1,025	46	89,528
Lotte Station Building Co., Ltd.		28,586	38	16	1,474	5,548
Lotteria Co., Ltd.		22,692	5,681	55	63	1,920
Lotte Trading Co., Ltd.		5,172	230,181	—	615	299
Others		102,137	71,976	7,071	1,340	87,763
Subtotal		191,468	307,876	8,167	3,538	185,058
Others:						
LOTTE FOOD CO., LTD.		19,115	203,575	—	12	7,785
Lotte Aluminum Co., Ltd.		3,044	17,107	38,184	1	34,785
Lotte Logistics Co., Ltd.		35,488	2,118,619	2,100	9,797	257,159
Others		64,763	34,478	22,613	1,032	198,025
Subtotal		122,410	2,373,779	62,897	10,842	497,754
Total	₩	454,817	2,949,011	498,202	15,727	1,002,755

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

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

		Korean won (millions)			
		2016			
Related company		Borrowings	Repayment	Capital increase	Capital decrease
Associates:					
LOTTE Accelerator Corporation	₩	—	—	5,000	—
BUSAN-LOTTE CREATIVE FILM FUND		—	—	6,000	—
Coralis S.A.		—	—	4,474	—
LOTTE Giants Co., Ltd.		—	—	9,000	—
Stonebridge Innovation Quarter Fund		—	—	3,000	—
Capital One Middle-Low Budget Cinema Fund		—	—	—	1,350
Lotte Capital Co., Ltd.		20,000	21,125	—	—
Others		—	—	4,134	4,946
Subtotal		20,000	21,125	31,608	6,296

December 31, 2016 and 2015

42. Transactions and Balances with Related Companies, Continued

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

		Korean won (millions)			
		2016			
Related company		Borrowings	Repayment	Capital increase	Capital decrease
Joint ventures:					
LOTTE JTB Co., Ltd.		—	—	10,000	—
PT. INDO LOTTE MAKMUR		—	—	14,433	—
Subtotal		—	—	24,433	—
Others:					
LOTTE rental Co., ltd.		3,806	350	27,055	—
Lotte Capital Lease & Finance (China) Co., Ltd. and others		21,588	5,065	—	—
Subtotal		25,394	5,415	27,055	—
Total	₩	45,394	26,540	83,096	6,296

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

42. Transactions and Balances with Related Companies, Continued

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

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

42. Transactions and Balances with Related Companies, Continued

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

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

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

Related company	Guarantee recipient	Type of borrowings	Guaranteed amount (thousands)
Associates:			
Lotte Shopping Rus Ltd.	Korea Exchange Bank	Working capital	USD 5,000
Shandong Longzhile Cinema Co., Ltd.	Shinhan Bank	Working capital	CNY 24,000

December 31, 2016 and 2015

42. Transactions and Balances with Related Companies, Continued

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

Related company	Guarantee recipient	Type of borrowings	Guaranteed amount (thousands)
Joint ventures:			
International Business Center Company Limited	The Export-Import Bank of Korea	Working capital	USD 15,000
	Standard Chartered Bank Korea Limited	Working capital	VND 110,000,000
Others:			
Lotte Properties(Shenyang) Limited	The Export-Import Bank of Korea	Working capital	USD 30,500
	Woori Bank	Working capital	USD 31,500
	INDUSTRIAL BANK OF KOREA	Working capital	USD 57,500

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

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

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

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

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

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

December 31, 2016 and 2015

43. Risk Management

(a) Management of financial risks

Objectives and Policies of the Group

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

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

Credit Risk

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

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

1) Exposure to credit risk

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

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

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

43. Risk Management, Continued

(a) Management of financial risks, Continued

2) Impairment loss

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

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

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

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

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

December 31, 2016 and 2015

43. Risk Management, Continued

(a) Management of financial risks, Continued

3) Allowance for doubtful trade and other receivables

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

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

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

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

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

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

December 31, 2016 and 2015

43. Risk Management, Continued

(a) Management of financial risks, Continued

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

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

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

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

5) Guarantees

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

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.

43. Risk Management, Continued

(a) Management of financial risks, Continued

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

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

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

Market Risks

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

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

1) Currency risk

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

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

December 31, 2016 and 2015

43. Risk Management, Continued

(a) Management of financial risks, Continued

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

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

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

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

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

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

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

43. Risk Management, Continued

(a) Management of financial risks, Continued

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

2) Interest rate risk

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

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

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

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

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

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

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

3) Price risk

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

December 31, 2016 and 2015

43. Risk Management, Continued

(a) Management of financial risks, Continued

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

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

(b) Capital Management

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

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

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

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

44. Subsequent Events

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

Independent Auditors' Report

The Board of Directors and Shareholders
LOTTE Himart Co., Ltd.:

We have audited the accompanying financial statements of LOTTE Himart Co., Ltd. (the "Company"), which comprise the statements of financial position as at December 31, 2017 and 2016, the statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the 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 financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016 and its financial performance and its cash flows for the years then ended in accordance with Korean International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 3 to the financial statements which states that the Company early adopted K-IFRS 1115 "Revenue from Contracts with Customers" from January 1, 2017. K-IFRS 1115 is mandatorily effective for annual periods beginning on or after January 1, 2018. with early adoption permitted.

Other Matter

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

KPMG Samjong Accounting Corp.

KPMG Samjong Accounting Corp.
Seoul, Korea
March 10, 2018

This report is effective as of March 10, 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 financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

LOTTE Himart Co., Ltd.
Statements of Financial Position

As of December 31, 2017 and 2016

			Korean won (thousands)	
	Notes		December 31, 2017	December 31, 2016
Assets				
Cash and cash equivalents	5,6,7	₩	329,405,560	157,985,838
Trade and other receivables	5,6,8,36		93,199,586	90,707,729
Other financial assets	5,6,9		20,975,960	15,589,172
Inventories	10		477,954,219	461,863,751
Other non-financial assets	11		8,465,414	3,866,530
Total current assets			930,000,739	730,013,020
Other financial assets	5,6,9		149,885,151	147,705,067
Property and equipment, net	12		402,793,544	413,010,693
Investment property, net	13		3,064,285	3,079,850
Goodwill	14		1,683,324,078	1,683,324,078
Intangible assets, net	14		24,666,607	20,548,401
Deferred tax assets	21		3,249,275	480,607
Other non-financial assets	11		7,644,461	6,697,131
Total non-current assets			2,274,627,401	2,274,845,827
Total assets		₩	3,204,628,140	3,004,858,847

See accompanying notes to the financial statements.

LOTTE Himart Co., Ltd.
Statements of Financial Position, Continued

As of December 31, 2017 and 2016

	Notes		Korean won (thousands) December 31, 2017	December 31, 2016
Liabilities				
Debentures, net of issuance costs	5,6,16	₩	329,850,357	—
Trade and other payables	5,6,15,36		396,959,869	369,301,715
Other financial liabilities	5,6,17		2,322,082	3,149,381
Income taxes payable	21		35,175,907	30,304,252
Provisions	19		1,545,307	614,732
Other non-financial liabilities	18		81,058,453	47,104,353
Total current liabilities			846,911,975	450,474,433
Debentures, net of issuance costs	5,6,16		319,598,702	648,999,835
Other financial liabilities	5,6,17		1,016,602	717,318
Employee benefit liabilities	20		8,111,543	8,836,110
Provisions	19		3,129,756	88,967
Other non-financial liabilities	18		81,100	80,816
Total non-current liabilities			331,937,703	658,723,046
Total liabilities			1,178,849,678	1,109,197,479
Equity				
Common stock of ₩5,000 par value Authorized - 100,000,000 shares Issued and outstanding - 23,607,712 shares	1,23		118,038,560	118,038,560
Capital surplus	23		1,045,215,227	1,045,215,227
Other components of equity	24		10,459,827	10,459,827
Accumulated other comprehensive income (loss)	25		(9,989,385)	160,573
Retained earnings	26		862,054,233	721,787,181
Total equity			2,025,778,462	1,895,661,368
Total liabilities and equity		₩	3,204,628,140	3,004,858,847

See accompanying notes to the financial statements.

LOTTE Himart Co., Ltd.
Statements of Comprehensive Income

For the years ended December 31, 2017 and 2016

	Notes		Korean won (thousands, except for earnings per share) 2017	2016
Sales	27,36	₩	4,099,341,306	3,939,442,418
Cost of sales	27,29,36		(3,038,178,084)	(2,926,068,535)
Gross profit			1,061,163,222	1,013,373,883
Selling, general and administrative expenses	28,29,36		(853,699,994)	(838,834,002)
Operating profit			207,463,228	174,539,881
Other income	30,36		7,231,358	7,246,042
Other expenses	30		(5,573,691)	(6,877,403)
Finance income	31		6,039,169	5,791,424
Finance costs	31		(16,189,147)	(18,163,794)
Profit before income tax			198,970,917	162,536,150
Income tax expense	32		(50,535,736)	(41,108,133)
Profit for the year			148,435,181	121,428,017
Other comprehensive income (loss)				
Items that will never be reclassified to profit or loss:				
Remeasurements of net defined benefit liabilities	26,32		3,635,727	2,547,368
Items that are or may be reclassified to profit or loss:				
Net change in unrealized fair value of available-for-sale financial assets	6,32		(10,149,958)	(1,058,004)
Net change in fair value of cash flow hedges reclassified to profit or loss	6,32		—	67,584
Other comprehensive income (loss), net of tax			(6,514,231)	1,556,948
Total comprehensive income for the year			141,920,950	122,984,965
Earnings per share				
- Basic earnings per share (in won)	33	₩	6,288	5,144

See accompanying notes to the financial statements.

LOTTE Himart Co., Ltd.
Statements of Changes in Equity

For the years ended December 31, 2017 and 2016

		Korean won (thousands)					
		Capital stock	**Capital surplus**	**Other components of equity**	**Accumulated other comprehensive income**	**Retained earnings**	**Total equity**
Balance at January 1, 2016	₩	118,038,560	1,045,215,227	10,459,827	1,150,993	607,963,112	1,782,827,719
Total comprehensive income for the year							
Profit for the year		—	—	—	—	121,428,017	121,428,017
Remeasurements of net defined benefit liabilities		—	—	—	—	2,547,368	2,547,368
Net change in unrealized fair value of available-for-sale financial assets		—	—	—	(1,058,004)	—	(1,058,004)
Net change in fair value of cash flow hedges reclassified to profit or loss		—	—	—	67,584	—	67,584
Total comprehensive income for the year		—	—	—	(990,420)	123,975,385	122,984,965
Transactions with owners of the Company, recognized directly in equity:							
Dividends		—	—	—	—	(10,151,316)	(10,151,316)
Balance at December 31, 2016	₩	118,038,560	1,045,215,227	10,459,827	160,573	721,787,181	1,895,661,368

See accompanying notes to the financial statements.

LOTTE Himart Co., Ltd.
Statements of Changes in Equity, Continued

For the years ended December 31, 2017 and 2016

	Korean won (thousands)						
		Capital stock	**Capital surplus**	**Other components of equity**	**Accumulated other comprehensive income**	**Retained earnings**	**Total equity**
Balance at January 1, 2017	₩	118,038,560	1,045,215,227	10,459,827	160,573	721,787,181	1,895,661,368
Total comprehensive income for the year							
Profit for the year		—	—	—	—	148,435,181	148,435,181
Remeasurements of net defined benefit liabilities		—	—	—	—	3,635,727	3,635,727
Net change in unrealized fair value of available-for-sale financial assets		—	—	—	(10,149,958)	—	(10,149,958)
Total comprehensive income for the year		—	—	—	(10,149,958)	152,070,908	141,920,950
Transactions with owners of the Company, recognized directly in equity:							
Dividends		—	—	—	—	(11,803,856)	(11,803,856)
Balance at December 31, 2017	₩	118,038,560	1,045,215,227	10,459,827	(9,989,385)	862,054,233	2,025,778,462

See accompanying notes to the financial statements.

LOTTE Himart Co., Ltd.
Statements of Cash Flows

For the years ended December 31, 2017 and 2016

	Notes		Korean won (thousands) 2017	2016
Cash flows from operating activities				
Cash generated from operations	36	₩	298,090,329	272,741,007
Income tax paid			(46,353,009)	(35,804,588)
Net cash generated from operating activities			251,737,320	236,936,419
Cash flows from investing activities				
Proceeds from sale of short-term financial assets			5,000,000	—
Proceeds from sale of long-term financial assets			500	—
Proceeds from disposal of property and equipment			1,396,727	87,954
Proceeds from disposal of intangible assets			190,000	—
Decrease of deposits			3,588,786	2,165,252
Interest received			3,051,571	2,450,640
Dividends received			507	507
Purchase of short-term financial assets			(10,000,000)	(15,000,000)
Acquisition of property and equipment			(29,378,446)	(40,247,486)
Acquisition of other intangible assets			(6,677,443)	(4,409,655)
Purchase of available-for-sale financial assets			(1,416,721)	(9,799,937)
Increase of deposits			(18,575,808)	(13,099,856)
Net cash used in investing activities			(52,820,327)	(77,852,581)
Cash flows from financing activities				
Proceeds from issuance of debentures			—	179,595,300
Return on debenture issue expenses			5,185	—
Proceeds from settlement of derivatives			—	1,215,000
Payment of current portion of long-term borrowings			—	(100,000,000)
Repayment of debentures			—	(184,785,000)
Interest paid			(15,698,600)	(16,762,626)
Dividend paid			(11,803,856)	(10,151,316)
Net cash used in financing activities			(27,497,271)	(130,888,642)
Net increase in cash and cash equivalents			171,419,722	28,195,196
Cash and cash equivalents at January 1			157,985,838	129,790,642
Cash and cash equivalents at December 31		₩	329,405,560	157,985,838

See accompanying notes to the financial statements.

December 31, 2017 and 2016

1. General Description of Reporting Entity

LOTTE Himart Co., Ltd. (the "Company") was established on June 1987, in the Republic of Korea to sell home appliances. The headquarters of the Company are located in Samsung-ro, Gangnam-gu, Seoul, and it operates numerous branches, including the Sadang branch. On June 29, 2011, the Company listed its stock on the Korea Exchange.

The Company is authorized to issue 100 million shares of capital stock at a par value of ₩5,000 per share. As of December 31, 2017, the number of outstanding shares issued and the amount of paid-in capital are 23,607,712 shares and ₩118,038,560 thousand, respectively. The controlling entity of the Company is LOTTE Shopping Co., Ltd. whose percentage of ownership is 65.25%.

2. Basis of Accounting

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

The financial statements were authorized for issuance by the Board of Directors February 9, 2018, which will be submitted for approval to the shareholders' meeting to be held on March 30, 2018.

(a) Basis of measurement

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

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

(b) Functional and presentation currency

These financial statements are presented in Korean won, which is the Company's functional currency and the currency of the primary economic environment in which the Company operates.

(c) Use of estimates and judgments

The preparation of the financial statements in conformity with K-IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period prospectively.

(i) Information about critical judgments

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is included in the following notes

- Note 34 – Operating leases

2. Basis of Accounting, Continued

(c) Use of estimates and judgments, Continued

(ii) 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 12 – Impairment of property and equipment in a CGU
- Note 14 – Impairment of goodwill
- Note 20 – Provisions
- Note 21 – Employee benefits
- Note 33 – Income taxes

(iii) Measurement of fair value

The Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. The Company has an established control framework with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the CFO.

The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of K-IFRS including the level in the fair value hierarchy in which such valuation techniques should be classified.

Significant valuation issues are reported to the Company's Audit Committee.

When measuring the fair value of an asset or a liability, the Company uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the assets or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the assets or liability that are not based on observable market data (unobservable inputs)

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Company recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

2. Basis of Accounting, Continued

(c) Use of estimates and judgments, Continued

(iii) Measurement of fair value, Continued

Further information about the assumptions made in measuring fair values is included in the following note:

Note 6 - Fair value of financial instruments

3. Changes in accounting policies

Except for the changes below, the Company has consistently applied the accounting policies set out in Note 4 to all periods presented in these financial statements.

The Company has adopted the following amendments to standards and new standard with a date of initial application of January 1, 2017.

- Amendments to K-IFRS 1007 'Statement of Cash Flows'

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 changes.

- Amendments to K-IFRS 1012 'Income Taxes'

As a result of K-IFRS 1012, the Company considers whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. And the estimate of probable future taxable profit may include the recovery of some of the Company's assets for more than their carrying amount if there is sufficient evidence that it is probable that the Company will achieve this.

- K-IFRS 1115 'Revenue from Contracts with Customers'

The Company early adopted K-IFRS 1115 "Revenue from Contracts with Customers" from the financial year beginning on January 1, 2017 and recognized the cumulative effects of applying K-IFRS 1115 at the date of initial application without restatement of the comparative financial statements. In doing so, the Company elected the practical expedient by applying the requirements retrospectively only to contracts that were not completed at the date of initial application.

K-IFRS is mandatorily effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. K-IFRS 1115 replaces existing revenue recognition guidance, including K-IFRS 1018, Revenue, K-IFRS 1011, Construction Contracts, K-IFRS 2013, Revenue—Barter Transactions Involving Advertising Services, K-IFRS 2113, Customer Loyalty Programmes, K-IFRS 2115, Revenue—Barter Transactions Involving Advertising Services, and K-IFRS 2118, Transfers of assets from customers. K-IFRS 1018 provides separate revenue recognition criteria by transaction type which include sale of goods, rendering of services, and use of entity assets by others yielding interest, royalties and dividends. However, K-IFRS 1115 introduces a five-step model for revenue recognition that focuses on the 'transfer of control' rather than the 'transfer of risks and rewards'. The steps in five-step model are as follows:

- identification of the contract with a customer;
- identification of the performance obligations in the contract;
- determination of the transaction price;
- allocation of the transaction price to the performance obligations in the contract; and
- recognition of revenue when (or as) the entity satisfies a performance obligation.

December 31, 2017 and 2016

3. Changes in accounting policies, Continued

The Company has preparation related to the adoption of K-IFRS 1115, and it has analyzed the profit structure and contracts. The Company's overall business process and financial reporting process will be influenced by adoption K-IFRS 1115. Based on periodic reporting on the adoption process, Company's management decided to early adopt K-IFRS 1115 in December 2017.

Based on the management's evaluation, the impact from adoption of K-IFRS 1115 as of January 1, 2017, the date of initial application, is immaterial. The financial impacts of the adoption on the Company's financial statements as of and for the year ended December 31, 2017 are as follows:

(i) Statement of financial position

		Korean won (millions)		
		Balances without adoption of K-IFRS 1115	As reported	Adjustments
Current assets	₩	928,869	930,001	1,132
Non-current assets		2,274,631	2,274,627	(4)
Total assets		3,203,500	3,204,628	1,128
Current liabilities		845,794	846,912	1,118
Non-current liabilities		331,938	331,938	—
Total liabilities		1,177,732	1,178,850	1,118
Share capital and premium		1,163,254	1,163,254	—
Other components of equity		10,459	10,459	—
Accumulated other comprehensive income		(9,989)	(9,989)	—
Retained earnings		862,044	862,054	10
Total equity		2,025,768	2,025,778	10

(ii) Statement of comprehensive income

		Korean won (millions)		
		Balances without adoption of K-IFRS 1115	As reported	Adjustments
Sales	₩	4,107,346	4,099,341	(8,005)
Cost of sales		3,008,071	3,038,178	30,107
Gross profit		1,099,275	1,061,163	(38,112)
Selling, general and administrative expenses		891,826	853,700	(38,126)
Operating profit		207,449	207,463	14
Other income, net		1,658	1,658	—
Finance loss, net		(10,150)	(10,150)	—
Profit before income tax		198,957	198,971	14
Income tax expense		50,532	50,536	4
Profit for the year		148,425	148,435	10

3. Changes in accounting policies, Continued

(iii) Statement of cash flow

There are no significant impact on statement of cash flow.

(iv) Sales

The Company's business is consumer electronics retail. In connection with a sale of the Company's merchandise, the Company provides customers gifts or gift cards redeemable to other companies' services or products. The costs of the gifts and gift cards were previously classified as selling, general and administrative expenses. Under K-IFRS 1115, they are classified as cost of goods sold as providing the Company's products and provision of gifts/gift cards are viewed as two separate performance obligations that are satisfied at the same time. As a result, the cost of sales increased by ₩39,551 million and selling, general and administrative expenses decreased by ₩39,551 million for the year ended December 31, 2017.

The Company previously recognized revenue from logistics service to deliver products from warehouses to stores as revenue. Such revenue was realized through purchase discount from the suppliers. However under K-IFRS 1115, such logistics revenue is not related to a performance obligation and therefore is recorded as deduction from purchase costs. In addition, the costs incurred for such delivery are classified as selling, general and administrative expenses. As a result of that, the sales decreased by ₩4,849 million, the cost of sales decreased by ₩9,444 million and selling, general and administrative expenses increased by ₩4,595 million for the year ended December 31, 2017.

(v) Price concessions

The Company offers price concessions to customers. Previously costs in connection with the price concessions are recognized as selling expenses when incurred. Under KIFRS 1115, the Company accounts for consideration payable to a customer as a reduction of the transaction price of revenue unless the payment to the customer is in exchange for a distinct goods or service that the customer transfers to the Company. Accordingly, revenue decreased by ₩3,170 million and related selling expenses decreased by ₩3,170 million in the statements of comprehensive income for the year ended December 31, 2017.

(vi) Returns and refunds

Amount of consideration can be variable because the return of goods is permitted for a certain period. For any amounts received (or receivable) for which the Company does not expect to be entitled, the Company does not recognize revenue when it transfers products to customers but recognizes those amounts received (or receivable) as a refund liability. In addition, the Company recognizes an asset (and corresponding adjustment to cost of sales) for its right to recover products from customers on settling the refund liability. The asset and the liability are separately recognized, and accordingly, the current assets increased by ₩1,132 million and the current liability increased by ₩1,132 million for the year ended December 31, 2017.

(vii) Customer loyalty programmes

The Company grants customers loyalty award credits ("points") corresponding to sales. The estimated selling price for points is able to be measured by the value of the points that is determined at the date when the points are given. Previously, the fair value of such points are deferred from the transaction price, with

3. Changes in accounting policies, Continued

(vii) Customer loyalty programmes, Continued

the remaining amounts recognized as revenue for the sale of merchants. Under KIFRS 1115, the consideration is allocated between the two performance obligations (sale of merchants and redemption of points) are allocated based on the relative stand-alone estimated selling price of each performance obligation. Accordingly, revenue increased by ₩14 million and tax expenses increased by ₩4 million in the statement of comprehensive income for the year ended December 31, 2017. Also, non-current assets decreased by ₩4 million and current liability decreased by ₩14 million in the statements of financial position as of December 31, 2017.

4. Significant Accounting Policies

The significant accounting policies applied by the Company in preparation of its financial statements are included below. The accounting policies set below have been applied consistently to all periods presented in these financial statements except for the changes in accounting policies as explained in Note 3.

(a) Operating segment

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses and whose operating results in the internal reporting are regularly reviewed by the Company's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the steering committee that makes strategic decisions. The Company has one operating segment.

(b) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less.

(c) Financial assets

(i) Classification and measurement

The Company recognizes and measures financial assets by the following four categories: financial assets at fair value through profit or loss, available-for-sale financial assets, loans and receivables and held-to-maturity investments. The classification depends on the purpose for which the financial assets were acquired

If embedded derivatives are not separated from the host contract, the entire hybrid instrument is classified at fair value through profit or loss.

Regular purchases and sales of financial assets are recognized on the trade date. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

4. Significant Accounting Policies, Continued

(c) Financial assets, Continued

(i) Classification and measurement, Continued

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are subsequently carried at amortized cost using the effective interest rate method.

Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the statement of comprehensive income. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the statement of comprehensive income as other operating income and expenses

(ii) Financial assets at fair value through profit or loss

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.

The Company recognizes impairment losses establish a provision to cover impairment losses or directly. When the Company considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off.

Objective evidence that financial assets are impaired includes:

- Significant financial difficulty of the issuer or obligor
- Fail to pay the principal and interest more than 3 months
- The disappearance of an active market for that financial asset because of financial difficulties. etc.

(iii) De-recognition of financial assets

If the Company retains substantially all the risks and rewards of ownership of the transferred financial assets, the Company continues to recognize the transferred financial assets and recognizes financial liabilities for the consideration received. The financial liabilities are classified as " borrowings" in the statement of financial status.

(d) Trade receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets. Trade receivables are recognized initially at fair value less allowance for doubtful accounts.

4. Significant Accounting Policies, Continued

(e) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. The cost of inventories is based on the moving average method except for goods-in-transit. The cost of goods-in-transit and unfinished apartment units is determined by the specific identification method.

When inventories are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value, is recognized as a reduction in the amount of inventories and recognized as an expense in the period in which the reversal occurs.

(f) Non-current assets held for sale

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

(g) Property and equipment

All property and equipment are stated at historical cost less depreciation and accumulated impairment loss. Historical cost includes expenditures which directly attribute to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Property and equipment, except for land, are depreciated on a straight-line basis over estimated useful lives. The estimated useful lives of the Company's property and equipment are as follows:

	Useful lives (years)
Buildings	5 ~ 40
Structures	40
Vehicles	5
Furniture and fixtures	5

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting date and adjusted, if appropriate. The change is accounted for as a change in an accounting estimate.

(h) Investment Property

Property held for the purpose of earning rentals or benefiting from capital appreciation is classified as investment property. Investment property is measured initially at its cost. Subsequently, investment property is carried at depreciated cost less any accumulated impairment losses. Investment properties, except for land, are depreciated on a straight-line basis over 40 years as estimated useful lives.

4. Significant Accounting Policies, Continued

(h) Investment Property, Continued

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.

(i) Intangible assets

Intangible assets are initially measured at its cost, and subsequently are stated at cost less accumulated depreciation and accumulated impairment losses. When intangible assets, consisting of goodwill, trademarks, memberships, right to use property and other intangible assets, are available for use, they are amortized using the straight-line method to allocate their cost to their zero residual values over their estimated useful lives, as stated below. However, because there is no foreseeable limit to the period over which the goodwill and memberships are expected to generate net cash inflows for the entity, the respective intangibles are regarded as having an indefinite useful life and therefore, are not amortized.

	Useful lives (years)
Goodwill	Indefinite
Trademarks	5
Memberships	Indefinite
Right to use property	Terms of contract
Other intangible assets	5

The method of depreciation and the useful life of an intangible asset with definite useful lives are reviewed at each financial year end. The useful life of an intangible asset with an indefinite useful life is reviewed each period to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset. If adjustment is deemed appropriate upon said reviews, it is accounted for as a change in accounting estimates.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segment. The Company allocates the goodwill to a single cash-generating unit.

(j) Impairment of non-financial assets

Goodwill or intangible assets with indefinite useful lives are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets, other than goodwill, that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

4. Significant Accounting Policies, Continued

(k) Financial liabilities

Financial liabilities at fair value through profit or loss are financial instruments held for trading. Financial liabilities are classified as financial liabilities at fair value through profit or loss when incurred principally for the purpose of repurchasing them in the near term. Derivatives or embedded derivatives are also categorized as this category unless they are designated as hedges.

The Company classifies non-derivative financial liabilities, except for financial liabilities at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition, as financial liabilities carried at amortized cost in the statement of financial position.

Preference shares, which are mandatorily redeemable on a specific date, are classified as liabilities. Dividends thereon are recognized as interest expense in profit or loss as accrued.

The Company derecognizes a financial liability from the statement of financial position when it is extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

(l) Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognized initially at fair value and subsequently measured at amortized cost.

(m) Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the statement of comprehensive income over the period of the borrowings using the effective interest method. The Company classifies the liability as current when it does not have an unconditional right to defer its settlement for at least 12 months after the reporting date.

(n) Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Where the effect of the time value of money is material, provisions are determined at the present value of the expected future cash flows.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

4. Significant Accounting Policies, Continued

(o) Employee benefits

(i) Retirement benefits

The Company has both defined contribution plans and defined benefit. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. The contributions are recognized as employee benefit expense when they are due.

A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognized in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognized past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Past-service costs are recognized immediately in income, while costs are amortized over the vesting period.

(ii) Other long-term employee benefits

Other long-term employee benefits include employee benefits that are settled beyond 12 months after the end of the period in which the employees render the related service, and are calculated at the present value of the amount of future benefit that employees have earned in return for their service in the current and prior periods, less the fair value of any related assets. The present value is determined by discounting the expected future cash flows using the interest rate of high-quality corporate bonds that have maturity dates approximating the terms of the Company's obligations and that are denominated in the same currency in which the benefits are expected to be paid. Any actuarial gains and losses are recognized in profit or loss in the period in which they arise.

(p) 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 items recognized directly in equity or in other comprehensive income.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax assets and liabilities are not recognized if they arise from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

4. Significant Accounting Policies, Continued

(p) Income taxes, Continued

Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

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.

(q) Dividend

Dividend distribution to the Company's shareholders is recognized as a liability in the financial statements in the period in which the dividends are approved by the shareholders.

(r) Foreign currencies

Transactions in foreign currencies are translated to the respective functional currencies of Company entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency using the reporting date's exchange rate. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges, which are recognized in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(s) Equity capital

Ordinary shares and preferred shares that are not mandatorily redeemable are classified as equity.

(t) Revenue

(i) Sales of goods and services

The Company's business is consumer electronics retail. When the goods are delivered to customers, the Company concludes that the control is transferred to customer and performance obligation is satisfied. The Company recognizes the amount of consideration to which the Company expects to be entitled in exchange. The Company recognizes revenue as K-IFRS 1115 a five-step model that focuses on the 'transfer of control' rather than the 'transfer of risks and rewards'. The steps in five-step model are as follows:

- identification of the contract with a customer;
- identification of the performance obligations in the contract;
- determination of the transaction price;

4. Significant Accounting Policies, Continued

(t) Revenue, Continued

(i) Sales of goods and services, Continued

- allocation of the transaction price to the performance obligations in the contract; and
- recognition of revenue when (or as) the entity satisfies a performance obligation.

(ii) Returns and refunds

According to the Company's policy, customers are able to return products with in a certain period. Amount of consideration can be variable because the return of goods is permitted for a certain period. For any amounts received (or receivable) for which the Company does not expect to be entitled, the Company does not recognize revenue when it transfers products to customers but recognizes those amounts received (or receivable) as a refund liability. In addition, the Company recognizes an asset (and corresponding adjustment to cost of sales) for its right to recover products from customers on settling the refund liability. The asset and the liability are separately recognized.

(iii) Customer loyalty programmes

The Company grants customers loyalty award credits ("points") corresponding to sales. The estimated selling price for points is able to be measured by the value of the points that is determined at the date when the points are given. Previously, the fair value of such points are deferred from the transaction price, with the remaining amounts recognized as revenue for the sale of merchants. Under KIFRS 1115, the consideration is allocated between the two performance obligations (sale of merchants and redemption of points) are allocated based on the relative stand-alone estimated selling price of each performance obligation.

(u) Leases

Leases where the lessor retains a significant portion of the risks and rewards of ownership are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are recognized in profit or loss on a straight-line basis over the period of the lease.

Leases where the Company assumes substantially all of the risks and rewards of ownership are classified as finance leases. At the commencement of the lease term, the Company recognizes as finance assets and finance liabilities in its 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.

(v) Derivative financial instruments

Derivatives are initially recognized at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes are expensed in the statement of comprehensive income

4. Significant Accounting Policies, Continued

(w) Earnings per share

Basic earnings per share is calculated by dividing net profit for the period available to common shareholders by the weighted-average number of common shares outstanding during the year.

Diluted earnings per share is calculated using the weighted-average number of common shares outstanding adjusted to include the potentially dilutive effect of common equivalent shares outstanding.

(x) New standards and interpretations not yet adopted

The following new standards, interpretations and amendments to existing standards have been published but are not mandatory for the Company for annual periods beginning on January 1, 2017, and the Company has not early adopted them.

(i) K-IFRS 1109 'Financial Instruments'

K-IFRS 1109, published on September 25, 2015 which replaces existing guidance in the K-IFRS 1039 Financial Instruments: Recognition and Measurement, is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company currently plans to apply K-IFRS 1109 for the year beginning on January 1, 2018.

K-IFRS 1109 will generally be applied retrospectively, except for the following:

- exemption allowing the Company not to restate comparative information for prior periods with respect to classification and measurement including impairment changes; and
- Prospective application of new hedge accounting except for those specified in K-IFRS 1109 for retrospective application such as accounting for the time value of options and the forward element of forward contracts.

Key features of the new standard K-IFRS 1109 includes new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics, impairment methology reflects 'expected credit losses' (ECL) model for financial assets, and expanded scope of hedged items and hedging instrument which qualify for hedge accounting and changes in assessment method for effect of hedging relationships.

To ensure smooth implementation of K-IFRS 1109, the Company needs to assess the financial impact of adopting K-IFRS 1109, to formulate the accounting policy, and to design, implement and enhance the accounting system and related controls. The expected quantitative impact of adopting K-IFRS 1109 on the Company's financial statements cannot be reliably estimated because it will be dependent on the financial instruments that the Company holds and economic conditions at that time as well as accounting elections and judgments that it will make in the future.

The Company plans to change the accounting process and internal control and to assess the financial impact on its financial statements resulting from the adoption of K-IFRS 1109 by December 31, 2017. Expected impacts on financial statements upon adoption of K-IFRS 1109 are generally categorized as follows:

Classification and measurement of financial assets

Classification of financial assets under K-IFRS 1109 is driven by the entity's business model for managing financial assets and their cash flow characteristic. This contains three principal classification categories: financial assets measured at amortized cost, fair value through other comprehensive income (FVOCI) and

4. Significant Accounting Policies, Continued

(x) New standards and interpretations not yet adopted, Continued

(i) K-IFRS 1109 'Financial Instruments', Continued

fair value through profit or loss (FVTPL). Derivatives embedded in contracts where the host is a financial asset are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification. Details of the classification based on business models cash flow characteristic are as follows:

	Contractual cash flow characteristics	
Business model assessment	Solely payments of principal and interest	Others
Hold to collect contractual cash flows	Amortized cost(*1)	FVTPL-measured at fair value (*2)
Hold to collect contractual cash flows and sell financial assets	FVOCI- measured at fair value (*1)	
Hold to sell financial assets and others	FVTPL-measured at fair value	

(*1) To eliminate or significantly reduce the accounting mismatch, the Company may irrevocably designate a financial asset as measured at FVTPL using the fair value option at initial recognition.
(*2) Equity instruments that are not held for trading may be irrevocably designated as FVOCI using the fair value option.

As of December 31, 2017, the Company has loans and receivables amounting to ₩545,090 million, available-for-sale financial assets amounting ₩48,376 million. Under K-IFRS 1109, a financial asset shall be measured at amortised cost if both of the following conditions are met: the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The Company has recognized the loans and receivables amounting to ₩545,090 million, as amortized cost As of December 31, 2017 under K-IFRS 1039.

Under K-IFRS 1109, equity instruments that are not held for trading may be irrevocably designated as FVOCI on initial recognition with no recycling of amounts from OCI to profit and loss. As of December 31, 2017, the Company has ₩48,376 million of available-for-sale equity instruments under K-IFRS 1039.

Classification and measurement of financial liabilities

Under K-IFRS 1109, for the financial liabilities designated as FVTPL using the fair value option, the element of gains or losses attributable to changes in the own credit risk should normally be recognized in OCI, with the remainder recognized in profit or loss. These amounts recognized in OCI are not recycled to profit or loss even when the liability is derecognized. However, if presentation of the fair value change in respect of the liability's credit risk in OCI results in or enlarges an accounting mismatch in profit or loss, gains and losses are entirely presented in profit or loss. Adoption of K-IFRS 1109 may result in change in profit or loss, since the amount of fair value changes that is attributable to changes in the credit risk of the liability will be presented in OCI. As of December 31, 2017, under K-IFRS 1039 the Company has no financial liability at fair value through profit or loss.

Impairment : financial assets and contract assets

The current impairment requirements under K-IFRS 1039 are based on an 'incurred loss model', where the impairment exists if there is objective evidence as a result of one or more events that occurred after the initial recognition of an asset. However, K-IFRS 1109 replaces the incurred loss model in K-IFRS 1039 with an 'expected credit loss model' which applies to debt instruments measured at amortized cost or at fair value through other comprehensive income.

4. Significant Accounting Policies, Continued

(x) New standards and interpretations not yet adopted, Continued

(i) K-IFRS 1109 ‘Financial Instruments’, Continued

Under K-IFRS 1109, the Company should recognize a loss allowance or provision at an amount equal to 12-month expected credit losses or lifetime expected credit losses for financial assets determined by the extent of probable credit deterioration since initial recognition as explained below. Therefore, the new impairment requirements are expected to result in earlier recognition of credit losses compared to the incurred loss model of K-IFRS 1039.

Stages		Loss allowance
Stage 1	No significant increase in credit risk since initial recognition	Loss allowances are determined for the amount of the expected credit losses that result from default events that are possible within 12 months after the reporting date.
Stage 2	Significant increase in credit risk since initial recognition	Loss allowances are determined for the amount of the expected credit losses that result from all possible default events over the expected life of the financial instrument.
Stage 3	Objective evidence of credit risk impairment	

K-IFRS 1109 allows the Company to only recognize the cumulative changes in lifetime expected credit losses since initial recognition as a loss allowance for purchased or originated credit-impaired financial assets at the reporting date.

As of December 31, 2017, under K-IFRS 1039 the Company has debt instruments recognized as amortized cost amounting to ₩545,090 million won (loans and receivables) and recognized a loss allowance amounting to ₩3,540 million.

(ii) K-IFRS 1116 “Leases”

K-IFRS 1116, published on November 6, 2015, is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted for a Company. It will replace K-IFRS 1017 “Leases”, K-IFRS 2104 “Determining whether an Arrangement contains a Lease”, K-IFRS 2015 “Operating leases-Incentives” and K-IFRS 2027 “Determining whether an Arrangement contains a Lease”.

The Company shall assess whether the contract is, or contains, a lease at inception of a contract and the date of initial application. As a practical expedient, the Company could elect to reassess only the contracts entered into on or after the date of initial application, which is January 1, 2019.

A lessor and lessee should separate lease components and non-lease components of a contract.

Under K-IFRS 1116, a lessee to initially recognizes and measures right-of-use assets and lease liabilities at the commencement date. But a lessee may elect not to apply K-IFRS 1116, about short-term leases (i.e. a lease term of 12 months or less) or leases for which the underlying asset is of low value. (i.e. less than USD5,000)

As a practical expedient, a lessee can apply 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. However, it is expected that there will be no significant impact on finance lease.

4. Significant Accounting Policies, Continued

(x) New standards and interpretations not yet adopted, Continued

(ii) K-IFRS 1116 "Leases", Continued

Lessees

A lessee should apply this standard to its leases either retrospectively to each prior reporting period presented applying K-IFRS 1008 "Accounting Policies, Changes in Accounting Estimates and Errors" or retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application.

As an adoption K-IFRS1116, the Company expect to increase a right-of-use assets and the lease liabilities. As of December 31, 2017, under K-IFRS 1116 the Company recognized as the total of minimum lease amounting to ₩206,416 million.

The Company has not yet initiated to prepare for the application of K-IFRS 1116 and the Company has not performed an assessment of the impact resulting from the application of K-IFRS 1116.

Lessors

The Company is expected that there will be no significant impact on finance lease.

5. Financial Risk Management

(a) Financial Risk Factors

The Company's activities expose it to a variety of financial risks: credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

(i) Credit risk management

Credit risk arises during the normal course of transactions and investing activities, where clients or business partners fail to discharge an obligation.

Trade receivables

Most of the revenues of the Company arise from an individual customer and the related credit risk has not greatly occurred. Financial assets on which the collection is being delayed, the Company reviews collection status and measures for collections on a quarterly basis and adequate actions for collection is taken.

Financial deposits

On the other hand, the Company has deposited cash and cash equivalents, and other bank deposits in financial institutions, including KYOBO SECURITIES CO.,LTD. To mitigate or eliminate certain credit risks exposures relating to these deposits, the Company transacts only with highly accredited financial institutions.

5. Financial Risk Management, Continued

(a) Financial Risk Factors, Continued

(i) Credit risk management, Continued

Guarantees

As of December 31, 2017, the Company has not provided guarantees for others.

Exposure to credit risk

The book value of a financial asset represents its maximum exposure to credit risk. The maximum exposures to credit risk as of December 31, 2017 and 2016 are as follows:

		Korean won (thousands)	
Account		December 31, 2017	December 31, 2016
Cash equivalents (*1)	₩	327,602,846	156,553,786
Trade and other receivables		93,199,586	90,707,729
Other financial assets (current)		20,975,959	15,589,172
Other financial assets (non-current) (*2)		101,509,311	87,361,873
Total	₩	543,287,702	350,212,560

(*1) Cash held by the Company are excluded as there is no exposure to credit risk.
(*2) Equity securities within available-for-sale financial assets are excluded as there is no exposure to credit risk.

(ii) Liquidity risk management

In order to manage liquidity risks, the Company establishes short-term and medium/long-term financing plans and regularly analyzes/reviews the cash outflow budgets and the actual cash outflows in order to match maturities of financial liabilities and financial assets. The management of the Company believes that financial liabilities can be repaid with the cash inflows arising from operating activities and financial assets.

Aggregate maturities of financial liabilities, as of December 31, 2017 and 2016 are as follows:

		Korean won (thousands)				
		December 31, 2017				
Description		3 months or less	3 ~ 12 months	1 ~ 2 years	2 ~ 5 years	More than 5 year
Trade and other payable	₩	396,959,869	—	—	—	—
Debentures		153,924,650	188,353,950	135,344,175	197,133,875	—
Other financial liabilities		—	—	650,000	250,000	200,000
Total	₩	550,884,519	188,353,950	135,994,175	197,383,875	200,000

5. Financial Risk Management, Continued

(a) Financial Risk Factors, Continued

(ii) Liquidity risk management, Continued

		Korean won (thousands)				
		December 31, 2016				
Description		3 months or less	3 ~ 12 months	1 ~ 2 years	2 ~ 5 years	More than 5 year
Trade and other payable	₩	369,301,715	—	—	—	—
Debentures		3,924,650	11,773,950	342,278,600	291,398,050	41,080,000
Other financial liabilities		—	850,000	—	600,000	200,000
Total	₩	373,226,365	12,623,950	342,278,600	291,998,050	41,280,000

The above schedule is prepared based on the undiscounted nominal amounts (including interest expense) of the cash flows of financial liabilities by maturity time band and the earliest date on which the payment of the respective liabilities can be demanded.

(iii) Interest risk management

The risk mainly arises from borrowings and financial deposits with variable interest rates linked to market interest rate changes in the future. The objective of interest rate risk management lies in maximizing corporate value by minimizing uncertainty caused by fluctuations in interest rates and minimizing net interest expense.

To mitigate interest rate risk, the Company manages interest rate risk proactively by minimizing external borrowings by maximizing internal cash sharing, reducing borrowings with high interest rates, maintaining an adequate mix between short-term and long-term liabilities and between fixed and variable interest rates and monitoring weekly and monthly interest rate trends in domestic and international markets.

As of December 31, 2017 and 2016, the Company has no interest-bearing financial instruments.

(iv) Interest risk management

The Company is exposed to currency risk on financial liabilities that are denominated in a currency other than the respective functional currencies of the Company. Currencies that generate exchange positions include USD. 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.

Assets and liabilities denominated in foreign currencies other than the Company's functional currencies as of December 31, 2017 and 2016 are as follows:

		Korean won (thousands)			
		December 31, 2017		December 31, 2016	
		Assets	Liabilities	Assets	Liabilities
USD	₩	—	54,163	—	224,805

5. Financial Risk Management, Continued

(a) Financial Risk Factors, Continued

(iv) Interest risk management, Continued

The closing rates as of December 31, 2017 and 2016 and the average rates for the years ended December 31, 2017 and 2016 are as follows:

	Average rate		Closing rate	
	2017	**2016**	**December 31, 2017**	**December 31, 2016**
USD	₩ 1,130.96	1,160.50	1,068.50	1,208.50

(v) Price risk management

The Company's available-for-sale securities are exposed to price risk. The Company's management regularly measures the risk on market price fluctuation. And significant investments are decided through management's approval.

(b) Financial Risk Factors

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders by maintaining an optimal capital structure based on the gearing ratio. The ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the statement of financial position plus net debt.

The gearing ratios as of December 31 2017 and 2016, are as follows:

	Korean won (thousands)	
	December 31, 2017	**December 31, 2016**
Total borrowings		
Debentures	₩ 649,449,059	648,999,835
Less		
Cash and cash equivalents	(329,405,560)	(157,985,838)
Financial Deposit	(20,500,000)	(15,500,000)
Net debt (A)	299,543,499	475,513,997
Total equity	2,025,778,462	1,895,661,368
Total capital (B)	2,325,321,961	2,371,175,365
Gearing ratio (A/B)	13%	20%

6. Financial Instruments

(a) Accounting classifications and fair value

The carrying amount and the fair value of financial instruments as of December 31, 2017 and 2016 are summarized as follows. It does not include fair value information for financial instruments not measured at fair value if the carrying amount is a reasonable approximation of fair value.

6. Financial Instruments, Continued

(a) Accounting classifications and fair value, Continued

	Korean won (thousands)			
	December 31, 2017			
	Loans and receivables	Available for sale financial assets	Financial liabilities based on amortized cost	Total
Financial assets measured at fair value				
Available for sale	₩	48,025,130	—	48,025,130
Financial assets not measured at fair value				
Cash equivalents	329,405,560	—	—	329,405,560
Trade and other receivables	93,199,586	—	—	93,199,586
Other financial assets	122,485,270	350,710	—	122,835,980
Total	545,090,416	48,375,840	—	593,466,256
Financial liabilities not measured at fair value				
Trade and other payables	—	—	396,959,869	396,959,869
Debentures	—	—	649,449,059	649,449,059
Other financial liability	—	—	3,338,685	3,338,685
Total	₩ —	—	1,049,747,613	1,049,747,613

	Korean won (thousands)			
	December 31, 2016			
	Loans and receivables	Available for sale financial assets	Financial liabilities based on amortized cost	Total
Financial assets measured at fair value				
Available for sale	₩ —	59,992,484	—	59,992,484
Financial assets not measured at fair value				
Cash equivalents	157,985,838	—	—	157,985,838
Trade and other receivables	90,707,729	—	—	90,707,729
Other financial assets	102,951,044	350,710	—	103,301,754
Total	351,644,611	60,343,194	—	411,987,805
Financial liabilities not measured at fair value				
Trade and other payables	—	—	369,301,715	369,301,715
Debentures	—	—	648,999,835	648,999,835
Other financial liability	—	—	3,866,700	3,866,700
Total	₩ —	—	1,022,168,250	1,022,168,250

6. Financial Instruments, Continued

(b) The fair value hierarchy

The fair value measurements classified by fair value hierarchy as of December 31, 2017 and 2016 are as follows:

		Korean won (thousands)			
		December 31, 2017			
Description		Level I	Level II	Level III	Total
Financial Assets					
Available-for-sale financial assets	₩	—	—	48,025,130	48,025,130

		Korean won (thousands)			
		December 31, 2016			
Description		Level I	Level II	Level III	Total
Financial Assets					
Available-for-sale financial assets	₩	—	—	59,992,484	59,992,484

The following tables show the valuation techniques used in measuring Level 2 and Level 3 fair values, as well as the significant unobservable inputs used.

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Available-for-sale financial assets	Discounted cash flows	- Forecast annual revenue growth rate : 2.1%~8.9% - Cost of equity capital : 10.64% - Terminal growth rate: 1.0%	The estimated fair value would increase (decrease) if: - Forecast annual revenue growth rate were higher (lower) - Cost of equity capital were lower (higher)

(c) Level 3 fair values

Changes in Level 3 fair values for the years ended December 31, 2017 and 2016 are as follows:

		Korean won (thousands)	
Description		**2017**	**2016**
Beginning of the year	₩	59,992,484	51,588,332
Acquisition (*)		1,423,092	9,799,936
Changes included in OCI		(13,390,446)	(1,395,784)
End of the year	₩	48,025,130	59,992,484

(*) In 2016, the Company acquired shares of LOTTE rental Co., ltd. for ₩9,800 million through capital increase.

6. Financial Instruments, Continued

(d) The fair value hierarchy

For the fair values of available-for-sale financial assets, reasonably possible changes As of December 31, 2017 to one of the significant unobservable inputs, holding other inputs constant, would have the following effects on fair values.

	Korean won (thousands)			
	Discount rate		Terminal growth rate	
Description	1% Decrease	1% Increase	0.5% Increase	1% Increase
Available-for-sale financial assets	₩ 3,770,384	(3,058,729)	(1,678,272)	2,066,761

(e) Details of finance income and finance costs by financial instruments category for the years ended December 31, 2017 and 2016 are as follows:

	Korean won (thousands)	
Description	**December 31, 2017**	**December 31, 2016**
Loans and receivables		
Interest income (Leasehold deposits paid)	₩ 2,600,810	2,942,015
Interest income	3,438,359	2,473,980
Reversal of bad debts expenses	15,591	14,754
Other bad debts expenses	(447,919)	(987,037)
Available for sale financial assets		
Unrealized net changes in fair values of available-for-sale financial assets – OCI (*)	(13,390,446)	(1,395,784)
Gain on disposal of available-for-sale securities	(3,813)	—
Fair value hedging instruments		
Loss on transactions of derivative instruments held for the purpose of hedging	—	(374,139)
Net change in fair value of cash flow hedges reclassified to profit or loss – OCI (*)	—	89,161
Financial liabilities based on amortized cost		
Interest expense (Deposits received)	(42,695)	(82,189)
Interest expenses	(16,142,639)	(17,707,466)
Gain (loss) on foreign currency transaction	11,528	283,396
Gain on foreign currency translation	665	(1,306)

(*) The gain/loss on valuation of available-for-sale finance assets and of derivative assets and liabilities held for the purpose of hedging (other comprehensive income/loss) are amounts before offsetting effects of income taxes.

December 31, 2017 and 2016

7. Cash and Cash Equivalents

Cash and Cash Equivalents as of December 31, 2017 and 2016 are summarized as follows:

		Korean won (thousands)	
		December 31, 2017	December 31, 2016
Cash on hand	₩	1,802,714	1,432,052
Bank savings		327,602,846	156,553,786
Total	₩	329,405,560	157,985,838

8. Trade and Other Receivables

(a) Trade and other receivables as of December 31, 2017 and 2016 are summarized as follows:

		Korean won (thousands)	
		December 31, 2017	December 31, 2016
Trade receivables	₩	90,599,231	79,054,868
Less: bad debts allowance		(163,780)	(179,371)
Trade receivables, net		90,435,451	78,875,497
Trade receivables		5,523,014	14,143,192
Less: bad debts allowance		(2,758,879)	(2,310,960)
Non-trade receivables, net		2,764,135	11,832,232
Total	₩	93,199,586	90,707,729

(b) Movements in bad debts allowance on trade and other receivables for the years ended December 31, 2017 and 2016 are summarized as follows:

		Korean won (thousands)			
		2017		2016	
		Trade receivables	Other receivables	Trade receivables	Other receivables
Balance as of January 1	₩	179,371	2,310,960	194,125	1,891,225
Impairment loss		—	447,919	—	419,735
Reversal of impairment loss		(15,591)	—	(14,754)	—
Balance as of December 31	₩	163,780	2,758,879	179,371	2,310,960

December 31, 2017 and 2016

8. Trade and Other Receivables, Continued

(c) The aging analyses of trade receivables as of December 31, 2017 and 2016, are as follows:

	Korean won (thousands)			
	2017		2016	
	Trade Receivables	Other receivables	Trade receivables	Other receivables
Receivables not past due	₩ 90,256,209	2,631,519	78,731,700	11,024,662
Past due but not impaired				
- 3 months or less	144,233	3,657	125,589	139,797
- 3 ~ 6 months	27,569	1,750	10,381	69,497
- More than 6 months	7,440	127,209	7,827	173,236
Sub Total	179,242	132,616	143,797	382,530
Impaired				
- 3 months or less	—	—	—	419,735
- More than 6 months	163,780	2,758,879	179,371	2,316,265
Sub Total	163,780	2,758,879	179,371	2,736,000
Total	₩ 90,599,231	5,523,014	79,054,868	14,143,192

There are no significant concentrations of credit risk on trade receivables, which are dispersed among many customers.

9. Other financial Assets

(a) Trade and other receivables as of December 31, 2017 and 2016 are summarized as follows:

	Korean won (thousands)			
	December 31, 2017		December 31, 2016	
	Current	Non-current	Current	Non-current
Financial deposits (*)	₩ 20,500,000	—	15,500,000	—
Available-for-sale securities	—	48,375,840	—	60,343,194
Accrued income	475,959	—	89,172	—
Special deposits (*)	—	7,500	—	8,000
Lease guaranty deposits	—	101,501,811	—	87,353,873
Total	₩ 20,975,959	149,885,151	15,589,172	147,705,067

(*) Restricted deposits included in current and non-current other financial assets as of December 31, 2017 and 2016 are summarized as follows:

9. Other financial Assets, Continued

(a) Trade and other receivables as of December 31, 2017 and 2016 are summarized as follows, Continued:

Description	Depositary		Korean won (thousands) December 31, 2017	Korean won (thousands) December 31, 2016
Current:				
Financial deposits	Woori Bank	₩	500,000	500,000
Financial deposits	Industrial Bank of Korea		20,000,000	10,000,000
Non-current:				
Special deposits	KB Bank and others		7,500	8,000
Total		₩	20,507,500	10,508,000

(b) Available-for-sale financial assets as of December 31, 2017 and 2016 are summarized as follows:

	Korean won (thousands)					
	December 31, 2017					December 31, 2016
Description	Number of shares	Percentage of ownership		Acquisition Cost	Carrying amount	Carrying amount
LOTTE rental co., ltd.	576,690	4.90%	₩	61,203,739	48,025,130	59,992,484
Ohmynews	10,000	2.90%		300,000	300,000	300,000
The Korea Economic Daily	10,142	0.05%		50,710	50,710	50,710
Total			₩	61,554,449	48,375,840	60,343,194

(c) The gross deposits balance and related bad debts allowance as of December 31, 2017 and 2016 are as follows:

		Korean won (thousands) December 31, 2017	Korean won (thousands) December 31, 2016
Deposits	₩	102,119,113	87,971,175
Less: bad debts allowance		(617,302)	(617,302)
Deposits, net	₩	101,501,811	87,353,873

December 31, 2017 and 2016

10. Inventories

Inventories as of December 31, 2017 and 2016 are summarized as follows:

		Korean won (thousands)	
		December 31, 2017	December 31, 2016
Merchandise	₩	479,731,095	463,528,907
Allowance for inventory valuation		(3,373,741)	(2,700,879)
Materials-in-transit		464,833	1,035,723
Refund goods		1,132,032	—
Total	₩	477,954,219	461,863,751

The Company recognized loss on inventory valuation of ₩673 million for the year ended December 31, 2017 (2016: reversal of loss on inventory valuation of ₩210 million).

11. Other Non-financial Assets

Other non-financial assets as of December 31, 2017 and 2016 are summarized as follows:

		Korean won (thousands)			
		December 31, 2017		December 31, 2016	
		Current	Non-current	Current	Non-current
Advance payments	₩	7,590,564	—	2,557,218	—
Prepaid expenses (*)		874,849	7,644,461	1,309,313	6,697,131
Total	₩	8,465,413	7,644,461	3,866,531	6,697,131

(*) Includes lease prepayments in lease guaranty deposit calculated using effective interest method.

12. Property and Equipment

(a) Changes in property and equipment for the year ended December 31, 2017 and 2016 are as follows:

		Korean won (thousands)						
		2017						
		Land	Buildings	Structures	Vehicles	Tools and equipment	Construction-in-progress	Total
Acquisition cost								
Balance as of January 1	₩	216,863,366	262,407,088	50,000	104,545	269,086,318	1,384,289	749,895,606
Acquisitions		—	6,628,232	—	—	22,146,066	1,463,678	30,237,976
Disposals		—	(15,100,782)	—	—	(6,410,575)	—	(21,511,357)
Others (*)		—	1,114,857	—	—	3,382,532	(1,384,289)	3,113,100
Balance as of December 31		216,863,366	255,049,395	50,000	104,545	288,204,341	1,463,678	761,735,325

12. Property and Equipment, Continued

(a) Changes in property and equipment for the year ended December 31, 2017 and 2016 are as follows, Continued:

	Korean won (thousands)						
	2017						
	Land	Buildings	Structures	Vehicles	Tools and equipment	Construction-in-progress	Total
Accumulated depreciation and impairment losses							
Balance as of January 1 ₩	—	(140,831,145)	(15,362)	(104,544)	(195,933,862)	—	(336,884,913)
Depreciation	—	(11,929,388)	(1,250)	—	(31,162,962)	—	(43,093,600)
Impairment	—	(124,958)	—	—	(12,750)	—	(137,708)
Disposals	—	15,100,569	—	—	6,073,871	—	21,174,440
Balance as of December 31	—	(137,784,922)	(16,612)	(104,544)	(221,035,703)	—	(358,941,781)
Book value							
Balance as of January 1	216,863,366	121,575,943	34,638	1	73,152,456	1,384,289	413,010,693
Balance as of December 31 ₩	216,863,366	117,264,473	33,388	1	67,168,638	1,463,678	402,793,544

(*) Others include reclassifications of construction-in-progress and recognization of provision for restructuring, change in acquisition cost recognized in 2017 and so on.

	Korean won (thousands)						
	2016						
	Land	Buildings	Structures	Vehicles	Tools and equipment	Construction-in-progress	Total
Acquisition cost							
Balance as of January 1 ₩	210,587,309	257,373,249	50,000	104,545	248,838,374	2,280,386	719,233,863
Acquisitions	6,276,057	7,861,115	—	—	24,002,689	1,384,289	39,524,150
Disposals	—	(3,886,595)	—	—	(3,951,580)	—	(7,838,175)
Others	—	1,059,319	—	—	196,835	(2,280,386)	(1,024,232)
Balance as of December 31	216,863,366	262,407,088	50,000	104,545	269,086,318	1,384,289	749,895,606
Accumulated depreciation and impairment losses							
Balance as of January 1	—	(130,708,094)	(14,112)	(104,544)	(166,682,359)	—	(297,509,109)
Depreciation	—	(13,926,476)	(1,250)	—	(32,841,250)	—	(46,768,976)
Impairment	—	(62,433)	—	—	(54,120)	—	(116,553)
Disposals	—	3,886,550	—	—	3,623,175	—	7,509,725
Others	—	(20,692)	—	—	20,692	—	—
Balance as of December 31	—	(140,831,145)	(15,362)	(104,544)	(195,933,862)	—	(336,884,913)
Book value							
Balance as of January 1	210,587,309	126,665,155	35,888	1	82,156,015	2,280,386	421,724,754
Balance as of December 31 ₩	216,863,366	121,575,943	34,638	1	73,152,456	1,384,289	413,010,693

December 31, 2017 and 2016

12. Property and Equipment, Continued

(b) Pledged property and equipment were pledged as collateral for the Company's as of December 31, 2017 and 2016 are as follows:

	Korean won (thousands)			
	Book value	Guaranteed amount	Account	Amount
December 31, 2017				
Buildings	₩ 2,357,080	400,000	Deposit	400,000
December 31, 2016				
Buildings	1,386,067	720,000	Deposit	600,000

(c) Property and equipment pledged as collateral on behalf of third parties as of December 31, 2017 and 2016 are summarized as follows;

	Korean won (thousands)			
	Book value	Guaranteed amount	Guarantee recipient	Lender
December 31, 2017				
Buildings	₩ 1,431,598	33,690,100	Lessor of land	NH Bank and others
December 31, 2016				
Buildings	2,240,412	44,515,750	Lessor of land	NH Bank and others

(d) The insured property and equipment ended December 31, 2017 and 2016 are as follows:

			Korean won (thousands)	
	Insured assets	Insurance company	**December 31, 2017**	**December 31, 2016**
Package and fire Insurance	Buildings and equipment	Lotte Non - Life Insurance Co., Ltd.	₩ 844,885,362	800,354,996

(e) As of December 31, 2017, the Company reviewed whether there is any indication of impairment and conducted impairment testing for branches where impairment indicator exists. As a result, recoverable amounts of certain CGUs were less than respective carrying amounts, so the Company recognized impairment loss of ₩138 million (2016 : ₩117 million).

December 31, 2017 and 2016

13. Investment Properties

(a) Changes in Investment Properties for the year ended December 31, 2017 and 2016 are as follows:

	Korean won (thousands)					
	2017			2016		
	Land	Buildings	Total	Land	Buildings	Total
Acquisition cost						
Balance as of January 1	₩ 2,602,661	622,596	3,225,257	2,602,661	622,596	3,225,257
Disposals	—	—	—	—	—	—
Balance as of December 31	2,602,661	622,596	3,225,257	2,602,661	622,596	3,225,257
Accumulated depreciation and impairment losses						
Balance as of January 1	—	(145,407)	(145,407)	—	(129,842)	(129,842)
Depreciation	—	(15,565)	(15,565)	—	(15,565)	(15,565)
Disposals	—	—	—	—	—	—
Balance as of December 31	—	(160,972)	(160,972)	—	(145,407)	(145,407)
Book value						
Balance as of January 1	2,602,661	477,189	3,079,850	2,602,661	492,754	3,095,415
Balance as of December 31	₩ 2,602,661	461,624	3,064,285	2,602,661	477,189	3,079,850

(b) Details of gain and losses recognized in relation to the Company's investment properties for the years ended December 31, 2017 and 2016, are as follows:

	Korean won (thousands)	
	2017	2016
Operating expenses (depreciation)	₩ 15,565	15,565

(c) As of December 31, 2017 there are no significant differences between the carrying amounts and the fair value of investment properties.

14. Goodwill and Intangible Assets

(a) Changes in Goodwill and Intangible Assets for the year ended December 31, 2017 and 2016 are as follows:

	Korean won (thousands)					
	2017					
	Goodwill	Trademarks	Member ships	Right to use property	Others	Total
Acquisition cost						
Balance as of January 1	₩ 1,683,324,078	180,442	4,966,234	345,000	30,808,242	1,719,623,996
Acquisitions	—	40,650	186,351	—	9,961,872	10,188,873
Disposals	—	—	(858,586)	(50,000)	—	(908,586)
Others	—	618	—	—	75,900	76,518
Balance as of December 31	1,683,324,078	221,710	4,293,999	295,000	40,846,014	1,728,980,801

December 31, 2017 and 2016

14. Goodwill and Intangible Assets, Continued

(a) Changes in Goodwill and Intangible Assets for the year ended December 31, 2017 and 2016 are as follows, Continued:

		Korean won (thousands)					
		2017					
		Goodwill	Trademarks	Member ships	Right to use property	Others	Total
Accumulated depreciation and impairment losses							
Balance as of January 1	₩	—	(58,161)	(2,168,295)	(185,704)	(13,339,357)	(15,751,517)
Depreciation		—	(35,496)	—	(46,065)	(6,002,606)	(6,084,167)
Reversal of impairment loss		—	—	108,194	—	—	108,194
Disposals		—	—	704,041	33,333	—	737,374
Balance as of December 31		—	(93,657)	(1,356,060)	(198,436)	(19,341,963)	(20,990,116)
Book value							
Balance as of January 1		1,683,324,078	122,281	2,797,939	159,296	17,468,885	1,703,872,479
Balance as of December 31	₩	1,683,324,078	128,053	2,937,939	96,564	21,504,051	1,707,990,685

		Korean won (thousands)					
		2016					
		Goodwill	Trademarks	Member ships	Right to use property	Others	Total
Acquisition cost							
Balance as of January 1	₩	1,683,324,078	74,372	4,674,964	345,000	26,012,954	1,714,431,368
Acquisitions		—	101,238	291,270	—	3,775,888	4,168,396
Others		—	4,832	—	—	1,019,400	1,024,232
Balance as of December 31		1,683,324,078	180,442	4,966,234	345,000	30,808,242	1,719,623,996
Accumulated depreciation and impairment losses							
Balance as of January 1		—	(28,498)	(1,902,937)	(136,167)	(7,790,591)	(9,858,193)
Depreciation		—	(29,663)	—	(49,537)	(5,548,766)	(5,627,966)
Impairment		—	—	(265,358)	—	—	(265,358)
Balance as of December 31		—	(58,161)	(2,168,295)	(185,704)	(13,339,357)	(15,751,517)
Book value							
Balance as of January 1		1,683,324,078	45,874	2,772,027	208,833	18,222,363	1,704,573,175
Balance as of December 31	₩	1,683,324,078	122,281	2,797,939	159,296	17,468,885	1,703,872,479

14. Goodwill and Intangible Assets, Continued

(b) Impairment testing for goodwill

(i) Goodwill is tested for impairment annually by the Company. The recoverable amount is estimated for all CGUs as one group.

(ii) The recorverable amount of CGU group is its value in use. The value in use is projected by the estimated future cash flows based on the Company's five-year business plan. The cash flows after the five-year period are assumed to grow constantly at 1.7%.

(iii) Key assumptions applied in estimating the value in use as of December 31, 2017 and 2016 are as follows:

	2017	2016
Discount rate	7.8%	7.0%
Terminal growth rate	1.7%	1.8%
Gross margin ratio	26.2% ~ 26.3%	24.9% ~ 25.2%
Sales growth ratio	3.2% ~ 3.6%	2.1% ~ 4.0%

Management determined budgeted gross margin and growth rate based on past performance and its expectations of market development. The discount rates used are pretax and reflect specific risks relating to the relevant operating segment.

The value in use is affected by the key assumptions such as discount rate or terminal growth rate used in discounted cash flow model. When the discount rate increases by 0.5%, the value in use would be decreased by 9.0%. And if the terminal growth rate decreases by 0.5%, the value in use would be decreased by 6.5%.

(iv) Value in use is based on the above assumptions and represents management's estimation of future cash flows, and is calculated using external and internal sources. As a result of impairment testing, value in use is higher than the CGU group's carrying amount as of December 31, 2017 and 2016.

15. Trade and Other Payables

Trade and other payables as of December 31, 2017 and 2016 are summarized as follows:

		Korean won (thousands)	
		December 31, 2017	December 31, 2016
Trade payables	₩	285,969,398	281,453,893
Other payables		110,990,471	87,847,822
Total	₩	396,959,869	369,301,715

December 31, 2017 and 2016

16. Debentures

(a) Debentures as of December 31, 2017 and 2016 are summarized as follows:

Description	Maturity	Annual interest rate (%)		Korean won (thousands) December 31, 2017	Korean won (thousands) December 31, 2016
3-2nd non-guaranteed debenture	Mar. 4. 2018	3	₩	150,000,000	150,000,000
4-1st non-guaranteed debenture	Oct. 28. 2018	2.1		180,000,000	180,000,000
4-2nd non-guaranteed debenture	Oct. 28. 2020	2.4		100,000,000	100,000,000
4-3rd non-guaranteed debenture	Oct. 28. 2022	2.7		40,000,000	40,000,000
5-1st non-guaranteed debenture	Jan. 28, 2019	2.1		130,000,000	130,000,000
5-2nd non-guaranteed debenture	Jan. 28, 2021	2.4		50,000,000	50,000,000
Subtotal				650,000,000	650,000,000
Less: Discount on debentures				(550,941)	(1,000,165)
Total book value				649,449,059	648,999,835
Current portion of debentures				330,000,000	—
Less: Discount on Current portion of debentures				(149,643)	—
Total			₩	319,598,702	648,999,835

(b) The Company's debentures contain some covenants which the Company is required to maintain. Covenants are as follows:

Debenture	Debt ratio	Guarantee and establishment of security right	Limitation on disposal of assets
3-2nd	Less than 200%	Less than 250% of equity	₩1,000,000 millions
4-1st, , 4-2nd, 4-3rd	Less than 500%	Less than 300% of equity	Less than 50% of total assets
5-1st, , 5-2nd	Less than 300%	Less than 300% of equity	Less than 50% of total assets

17. Other financial Liabilities

Other financial Liabilities as of December 31, 2017 and 2016 are summarized as follows:

		Korean won (thousands)			
		December 31, 2017		December 31, 2016	
		Current	Non-current	Current	Non-current
Accrued expenses	₩	2,322,082	—	2,322,082	—
Deposits		—	1,016,602	827,299	717,318
Total	₩	2,322,082	1,016,602	3,149,381	717,318

18. Other Non-financial Liabilities

(a) Other Non-financial Liabilities as of December 31, 2017 and 2016 are summarized as follows:

	Korean won (thousands)			
	December 31, 2017		December 31, 2016	
	Current	Non-current	Current	Non-current
Advances received(*1)	₩ 64,622,191	—	34,648,354	—
Unearned revenues (*1,2)	2,305,205	81,100	3,689,883	80,816
Withholdings	2,360,847	—	2,333,070	—
Withholdings of value added tax	11,770,210	—	6,433,046	—
Total	₩ 81,058,453	81,100	47,104,353	80,816

(*1) As of December 31, 2017, advances received and unearned revenues include contract liability. (Note 27)
(*2) Includes advanced rental deposits calculated using effective interest method.

(b) In order to promote sales, the Company grants award credits to its customers upon sale, which are effective for three years. Movements in unearned revenues relating to the Company's obligations on award credits for the years ended December 31, 2017 and 2016 are as follows:

	Korean won (thousands)	
	2017	2016
Balance as of January 1	₩ 3,671,950	7,802,794
Unearned revenue relating to award credits earned	5,558,090	6,152,115
Utilization of award credits	(6,910,676)	(10,282,959)
Implementation effect of K-IFRS 1115	(14,159)	—
Balance as of December 31	2,305,205	3,671,950
Statement of financial position		
- Current	2,305,205	3,671,950
- Non-current	—	—
Total	₩ 2,305,205	3,671,950

19. Provisions

Changes in provisions for the years ended December 31, 2017 and 2016 are as follows:

	Korean won (thousands)			
	2017			
	Book value as of January 1, 2016	Increase	Utilization	Book value as of December 31, 2017
Current:				
Provision for sales return(*)	₩ 614,732	921,320	—	1,536,052
Other	—	1,971,868	(1,962,613)	9,255
Non-current:				
Provision for restructuring	88,967	3,189,618	(148,829)	3,129,756

December 31, 2017 and 2016

19. Provisions, Continued

	Korean won (thousands)			
	2016			
	Book value as of January 1, 2016	Increase	Utilization	Book value as of December 31, 2017
Current:				
Provision for sales return ₩	294,010	320,722	—	614,732
Non-current:				
Provision for restructuring	123,191	10,776	(45,000)	88,967

(*) As of December 31, 2017, provision for sales return is classified the refund liability as contract liability. (Note 27)

20. Retirement Benefit Obligations

(a) Retirement benefit obligations recognized in the statements of financial position as of December 31, 2017 and 2016 are summarized as follows:

	Korean won (thousands)	
	December 31, 2017	December 31, 2016
Present value of funded obligations ₩	81,777,073	79,425,366
Present value of unfunded obligations	2,170,082	527,865
Subtotal	83,947,155	79,953,231
Fair value of plan assets	(77,694,060)	(72,946,512)
Total ₩	6,253,095	7,006,719

(b) Details of present value of other long-term employee benefits as of December 31, 2017 and 2016 are summarized as follows:

	Korean won (thousands)	
	December 31, 2017	December 31, 2016
Present value of other long-term employee benefits ₩	1,858,448	1,829,391

December 31, 2017 and 2016

20. Retirement Benefit Obligations, Continued

(c) Changes in the present value of defined benefit obligations for the years ended December 31, 2017 and 2016 are as follows:

	Korean won (thousands)	
	2017	2016
Beginning of the year	₩ 79,953,231	74,019,285
Current service costs	13,544,002	13,910,211
Interest costs	2,745,322	2,601,847
Remeasurements:		
- Gain from change in demographic assumptions	(685,052)	(1,096,662)
- Gain from change in financial assumptions	(3,077,609)	(247,707)
- Gain from experience adjustments	(2,358,618)	(2,306,605)
Payments	(6,306,156)	(6,927,138)
Others	132,035	—
End of the year	₩ 83,947,155	79,953,231

(d) During 2017 and 2016, changes on plan assets of an employee benefit plan are as follows:

	Korean won (thousands)	
	2017	2016
Beginning of the year	₩ 72,946,512	63,908,056
Expected return on plan assets	2,136,921	1,878,002
Actuarial loss	(1,324,806)	(290,330)
Employer contributions	10,000,000	14,000,000
Payments	(6,196,602)	(6,549,216)
Others	132,035	—
End of the year	₩ 77,694,060	72,946,512

In 2017 the actual return on the plan assets are ₩1,193 million (2016 : ₩1,588 million). The estimated contributions to the plan for the next annual reporting period are ₩13,002 million.

(e) Expenses recognized for the years ended December 31, 2017 and 2016 are as follows:

	Korean won (thousands)	
	2017	2016
Pension expenses_defined benefit plans		
Current service costs	₩ 13,544,002	13,910,211
Interest costs, net	608,401	723,845
Subtotal	14,152,403	14,634,056
Pension expenses_defined contribution plans	1,698,601	1,897,132
Long-term employee benefits	258,957	34,681
Total	₩ 16,109,961	16,565,869

20. Retirement Benefit Obligations, Continued

(f) The components of plan assets as of December 31, 2017 and 2016 are summarized as follows:

		Korean won (thousands)	
		December 31, 2017	December 31, 2016
Principal-guaranteed insurance policies	₩	77,572,241	72,821,367
Others		121,819	125,145
Total	₩	77,694,060	72,946,512

(g) The principal actuarial assumptions used as of December 31, 2017 and 2016 are summarized as follows:

	December 31, 2017	December 31, 2016
Discount rate	3.34%	3.06%
Expected rate of increase in salaries	3.00%	3.00%

At December 31, 2017, the weighted-average duration of the defined benefit obligation was 16.3 years.

(h) The sensitivity of the overall pension liability to changes in the weighted principal assumptions is as follows:

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions would have affected the defined benefit obligation by the amounts are as follows:

	Korean won (thousands)	
	Increase	Decrease
Discount rate (1% movement)	(7,706,834)	9,186,887
Expected rate of increase in salaries (1% movement)	9,131,324	(7,805,500)

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 maturity profile of the defined benefit obligation

Information about the maturity profile of the defined benefit obligation as of December 31, 2017 is as follows:

Korean won (thousands)				
1 year or less	1 ~ 2 years	2 ~ 5 years	5 ~ 10 years	More than 10 years
7,061,782	7,490,680	23,392,771	43,558,432	287,404,036

21. Deferred Income Tax

(a) The analysis of deferred tax assets and deferred tax liabilities as of December 31, 2017 and 2016 are as follows:

		Korean won (thousands)	
		2017	2016
Deferred tax assets			
Deferred tax asset to be recovered after more than 12 months	₩	50,949,333	48,226,858
Deferred tax asset to be recovered within 12 months		994,695	1,327,663
Deferred tax liabilities			
Deferred tax liability to be recovered after more than 12 months		(48,344,048)	(46,326,420)
Deferred tax liability to be recovered within 12 months		(350,704)	(2,747,494)
Deferred tax assets (liabilities), net	₩	3,249,276	480,607

(b) Changes in deferred tax assets (liabilities) for the years ended December 31, 2017 and 2016 are as follows:

		Korean won (thousands)			
		2017			
		Beginning balance	Profit or loss	Other comprehensive income	Balance as of December 31, 2016
Deferred tax liabilities					
Land	₩	(27,006,175)	—	—	(27,006,175)
Long-term prepaid expenses		(1,620,707)	(229,254)	—	(1,849,961)
Severance benefit insurance		(17,622,770)	(1,470,315)	320,603	(18,772,482)
Others		(2,772,997)	1,706,863	—	(1,066,134)
Total		(49,022,649)	7,294	320,603	(48,694,752)
Deferred tax assets					
Buildings		27,734,101	(2,187,149)	—	25,546,952
Deposits		1,746,432	203,058	—	1,949,490
Unearned revenues		888,612	(330,752)	—	557,860
Long-term unearned revenues		23,898	(4,271)	—	19,627
Retirement benefit obligations		17,758,275	2,432,958	(1,481,350)	18,709,883
Available-for-sale financial asset		(51,265)	—	3,240,488	3,189,223
Others		1,403,203	567,790	—	1,970,993
Total	₩	49,503,256	681,634	1,759,138	51,944,028

December 31, 2017 and 2016

21. Deferred Income Tax, Continued

(b) Changes in deferred tax assets (liabilities) for the years ended December 31, 2017 and 2016 are as follows, Continued:

		Korean won (thousands)			
		2016			
		Beginning balance	Profit or loss	Other comprehensive income	Balance as of December 31, 2015
Deferred tax liabilities					
Land	₩	(27,006,175)	—	—	(27,006,175)
Long-term prepaid expenses		(1,850,115)	229,408	—	(1,620,707)
Sales rebate		(2,780,217)	2,780,217	—	—
Severance benefit insurance		(15,433,483)	(2,259,547)	70,260	(17,622,770)
Available-for-sale financial asset		(389,045)	—	337,780	(51,265)
Others		(474,433)	(2,276,987)	(21,577)	(2,772,997)
Total		(47,933,468)	(1,526,909)	386,463	(49,073,914)
Deferred tax assets					
Buildings		24,807,650	2,926,451	—	27,734,101
Deposits		2,021,310	(274,878)	—	1,746,432
Unearned revenues		1,888,276	(999,664)	—	888,612
Long-term unearned revenues		40,020	(16,122)	—	23,898
Retirement benefit obligations		16,228,823	2,412,988	(883,536)	17,758,275
Others		1,665,041	(261,838)	—	1,403,203
Total	₩	46,651,120	3,786,937	(883,536)	49,554,521

Realization of the future tax benefits related to the deferred tax assets is dependent on many factors, including the Company’s ability to generate taxable income within the period during which the temporary differences reverse, the outlook of the Korean economic environment, and the overall future industry outlook. The Company’s management periodically considers these factors in reaching its conclusion, and recognized deferred income tax asset, since, except for those determined not to be probable to be reversed in the foreseeable future, the temporary differences are determined to be realizable as of December 31, 2017. The Company did not recognize deferred income tax assets in respect of the temporary differences related to goodwill arising from the business combination.

(c) The aggregate amount of current tax liabilities and tax assets are as follows:

		Korean won (thousands)	
		December 31, 2017	December 31, 2016
Current tax assets	₩	18,043,519	12,859,333
Current tax liabilities		(53,219,426)	(43,163,586)
Current tax assets (liabilities), net	₩	(35,175,907)	(30,304,253)

December 31, 2017 and 2016

22. Commitments and Contingencies

(a) As of December 31, 2017, the Company provide assets (Financial deposits : ₩500 million and properties ₩2,357 million) pledged as collateral on behalf of leaseholders. (Note 9,12)

(b) As of December 31, 2017, the Company has a bank overdraft agreement of up to ₩10,000 million with KB Bank. And the Company has general loan agreement of up to ₩100,000 million with Woori Bank and others.

(c) As of December 31, 2017, the Company is able to issue of the short-term bonds up to ₩200,000 million.

(d) As of December 31, 2017, the Company has a discount of bill commitment of up to ₩450,000 million with Hana Bank and others, and up to half of previous year's sales with INDUSTRIAL BANK OF KOREA. As of December 31, 2017 used amount is ₩147,854 million, which was recognized as trade payables.

(e) As of December 31, 2017, the Company has letter of credit agreement of up to USD10 million and amount used to USD452 thousand.

(f) The Company is provided guarantees to damages from Seoul Guarantee Insurance Company amounting ₩1,875 million.

(g) As of December 31, 2017, the Company has operating lease agreements with Sam Do Housing Co., Ltd. and others for its branch offices. In relation to the said agreements, the Company has provided lease guaranty deposits amounting to ₩109,108 million and incurred rental expenses of ₩103,808 million for the year ended December 31, 2017 (2016: ₩94,120 million and ₩101,837 million, respectively).

(h) As of December 31, 2017, the Company is the defendant in various lawsuits with damage claims totaling ₩3,185 million and the Company is the plaintiff in various lawsuits claiming damages totaling ₩19,413 million. The management believes that the ultimate resolutions of other legal actions will not have a material effect on the financial position or results of operations of the Company.

23. Share Capital and Premium

Share capital and premium of the Company as of December 31, 2017 and 2016, are as follows:

		Korean won (thousands)	
		December 31, 2017	**December 31, 2016**
Authorized number of shares		100,000,000 shares	100,000,000 shares
Par value		5,000 won	5,000 won
Number of shares issued		23,607,712 shares	23,607,712 shares
Common shares	₩	118,038,560	118,038,560
Share premium		1,045,215,227	1,045,215,227
Total	₩	1,163,253,787	1,163,253,787

24. Other components of equity

As of December 31, 2017 and 2016, all other components of equity are considerations for conversion options.

December 31, 2017 and 2016

25. Accumulated Other Comprehensive Income

Accumulated Other Comprehensive Income of the Company as of December 31, 2017 and 2016, are as follows:

		Korean won (thousands)	
		December 31, 2017	**December 31, 2016**
Net change in unrealized fair value of available for-sale financial assets	₩	(9,989,386)	160,573

26. Retained Earnings

(a) Retained Earnings of the Company as of December 31, 2017 and 2016, are as follows:

		Korean won (thousands)	
		December 31, 2017	**December 31, 2016**
Legal reserve (*)	₩	7,277,432	6,097,046
Unappropriated retained earnings		854,776,801	715,690,135
Total	₩	862,054,233	721,787,181

(*) The Korean Commercial Code requires the Company to appropriate a legal reserve in an amount equal to at least 10% of cash dividends for each accounting period until the reserve equals 50% of stated capital. The legal reserve may be used to reduce a deficit or may be transferred to common stock in connection with a free issue of shares.

(b) Details of appropriation of retained earnings for the years ended December 31, 2017 and 2016 are as follows:

		Korean won	
		2017	**2016**
I. Unappropriated retained earnings:	₩	854,776,801,360	715,690,134,695
Balance at beginning of the year		702,705,893,095	591,714,748,934
Actuarial gains (losses) on defined benefit pension plans		3,635,726,850	2,547,368,336
Profit for the year		148,435,181,415	121,428,017,425
II. Appropriation of retained earnings:		48,041,693,920	12,984,241,600
Regal reserve		4,367,426,720	1,180,385,600
Cash dividends		43,674,267,200	11,803,856,000
III. Unappropriated retained earnings to be carried over to subsequent year	₩	806,735,107,440	702,705,893,095

27. Sales and Cost of Sales

(a) Details of sales for the years ended December 31, 2017 and 2016 are as follows:

	Korean won (thousands)	
	2017	2016
Revenue recognized from contracts	₩ 4,098,242,925	3,938,289,336
Other sources of revenue : lease etc.	1,060,021	1,080,765
Other sources of revenue	38,360	72,317
Total	₩ 4,099,341,306	3,939,442,418

(b) Details of cost of sales for the years ended December 31, 2017 and 2016 are as follows:

	Korean won (thousands)	
	2017	2016
Cost of merchandise sold	₩ 3,025,098,761	2,911,968,184
Cost of other operating revenue	13,079,323	14,100,351
Total	₩ 3,038,178,084	2,926,068,535

(c) As of December 31, 2017 and 2016, all other components of equity are considerations for conversion options.

	Korean won (thousands)	
	2017	2016
Contract asset		
Refund asset	₩ 1,132,033	—
Sub total	1,132,033	—
Contract liability		
Refund liability	1,536,052	614,732
Customer loyalty points	2,305,205	3,671,950
Advances received	64,476,309	34,583,582
Sub total	₩ 68,317,566	38,870,264

(*) The performance obligations related to the contract liabilities at the beginning of 2017 were satisfied and recognized as revenue in 2017. The performance obligations related to the contract liabilities at the end of 2017 are expected to satisfied within 1 year.

28. Selling, General and Administrative Expenses

Details of selling, general and administrative expenses for the years ended December 31, 2017 and 2016 are as follows:

	Korean won (thousands)	
	2017	**2016**
Salaries	₩ 184,510,488	181,289,914
Retirement and termination benefits	15,851,004	16,531,187
Long-term employee benefits	258,957	34,681
Employee welfare	45,189,065	46,170,661
Advertising	61,675,410	63,409,262
Sales promotion expenses	7,205,479	34,701,445
Commissions and fees	162,964,018	144,178,192
Transportation	99,135,139	89,399,138
Installation	55,789,833	43,657,821
Bad debt expenses	(15,591)	(14,754)
Rental expenses	125,348,684	123,220,097
Depreciation	43,109,165	46,784,541
Amortization of intangible assets	6,084,167	5,627,966
Utilities	16,407,294	17,046,203
Taxes and dues	4,023,281	4,236,470
Travel	4,465,427	4,137,982
Communications	1,938,539	1,881,077
Repairs	4,786,792	3,363,740
Supplies	7,047,231	5,691,138
Printing	658,586	690,013
Education and training	3,071,184	2,985,670
Insurance	2,914,435	2,568,236
Vehicle maintenance	542,777	434,219
Entertainment	699,444	748,019
Other miscellaneous expenses	39,187	61,084
Total	₩ 853,699,995	838,834,002

29. Selling, General and Administrative Expenses

(a) Details of nature of expenses for the years ended December 31, 2017 and 2016 are as follows:

	Korean won (thousands)	
	2017	**2016**
Purchase of inventories	₩ 3,001,638,184	2,957,609,373
Changes in inventories	(16,090,469)	(45,641,189)
Employee benefits expense	219,796,423	216,842,813
Depreciation	43,109,165	46,784,541
Amortization	6,084,167	5,627,966
Transportation	99,135,139	89,399,138

29. Selling, General and Administrative Expenses, Continued

(a) Details of nature of expenses for the years ended December 31, 2017 and 2016 are as follows, Continued:

	Korean won (thousands)	
	2017	**2016**
Installation	₩ 55,789,833	43,657,821
Advertising	108,431,935	98,110,707
Rental expenses	125,348,684	123,220,097
Commissions and fees	176,043,341	158,278,543
Utilities	16,407,294	17,046,203
Others	56,184,382	53,966,524
Total	₩ 3,891,878,078	3,764,902,537

(b) Employee salaries and benefit expenses for the years ended December 31, 2017 and 2016, are as follows:

	Korean won (thousands)	
	2017	**2016**
Wages and salaries	₩ 148,326,837	146,950,011
Bonuses	36,183,652	34,339,903
Pension expenses	15,851,004	16,531,187
Long-term employee benefits	258,957	34,681
Employee benefits	19,175,973	18,987,031
Total	₩ 219,796,423	216,842,813

30. Other incomes and expenses

Details of other income and expenses for the years ended December 31, 2017 and 2016 are as follows:

	Korean won (thousands)	
	2017	**2016**
Other income:		
Commission income	₩ 2,952,705	2,699,686
Gain on disposal of property and equipment	1,381,220	78,285
Gain on disposal of Investment property	35,455	—
Reversal of impairment loss on intangible assets	108,194	—
Gain on foreign currency transactions	50,716	63,994
Gain on foreign currency translations	665	—
Dividend income	507	507
Gain on insurance settlements	41,908	81,031
Miscellaneous income	2,659,989	4,322,539
Total	₩ 7,231,359	7,246,042

December 31, 2017 and 2016

30. Other incomes and expenses, Continued

	Korean won (thousands)	
	2017	**2016**
Other expenses:		
Loss on disposal of property and equipment	₩ 321,411	318,780
Loss on disposal of intangible assets	16,667	—
Impairment of property and equipment	137,708	116,553
Impairment of intangible assets	—	265,358
Loss on foreign currency transactions	39,188	156,027
Loss on foreign currency translations	—	1,306
Other bad debt expenses	447,919	987,037
Donation	2,826,330	2,348,162
Loss on insurance settlements	28,314	—
Others	1,756,154	2,684,180
Total	₩ 5,573,691	6,877,403

31. Finance Income and Finance Costs

Details of finance income and finance costs for the years ended December 31, 2017 and 2016 are as follows:

	Korean won (thousands)	
	2017	**2016**
Finance costs:		
Interest expense	₩ 16,185,334	17,789,655
Impairment of long-term instruments	3,813	—
Loss on transactions of derivative instruments held for the purpose of hedging	—	374,139
Total	16,189,147	18,163,794
Finance income:		
Interest income	6,039,169	5,415,995
Gain on foreign currency transactions	—	375,429
Total	6,039,169	5,791,424
Net finance income (costs)	₩ 10,149,978	12,372,370

December 31, 2017 and 2016

32. Income Tax Expense

(a) Income tax expense for the years ended December 31, 2017 and 2016, consists of the following:

	Korean won (thousands)	
	2017	**2016**
Current tax		
Current income tax expense	₩ 48,504,380	39,018,462
Income tax expense of the past period	187,965	32,280
Tax investigation (*1)	—	2,297,751
Cash Reserve Taxation (*2)	2,532,319	2,019,668
Sub total	51,224,664	43,368,161
Deferred tax	(2,768,669)	(1,762,955)
Income tax directly credited (charged) to equity	2,079,741	(497,073)
Total	₩ 50,535,736	41,108,133

(*1) As a result of regular tax investigation from 2011 to 2013, the Company paid taxes of ₩2,298 million and recognized in profit or loss.

(*2) In accordance with Cash Reserve Taxation which is effective for the three years from January 1, 2015 to December 31, 2017, if utilization of current taxable income for facility investment, increase in employee's salary, or dividend distribution does not reach the required level, Cash Reserve Tax is additionally imposed. Estimation of the income tax expense at year-end involves estimation of taxable income, as well as facility investments, salary increases and dividend distributions for the future periods subject to Cash Reserve Taxation, hence uncertainty on estimation of income tax expense exists as the actual amounts may differ from these estimates

The Company's undistributed profits for the year ended December 31, 2017 amounted to ₩2,532 thousand and that was carried forward to the following year. If the qualifying expenditures which can offset the undistributed profits carried forward are not sufficient in the following year, the entire or part of the amount carried forward shall be subject to Cash Reserve Tax.

(b) During 2017 and 2016, effective tax rates are reconciled as follows:

	Korean won (thousands)	
	2017	**2016**
Profit before income tax	₩ 198,970,917	162,536,150
Income tax using statutory tax rates	47,688,962	38,871,748
Adjustment:		
Tax effects on non-taxable income	(8,855)	(2,372,653)
Tax effects on non-deductible expense	172,883	262,491
Tax credit	(14,221)	(12,100)
Cash Reserve Taxation	2,532,319	2,019,668
Tax investigation	—	2,297,751
Others	164,648	41,228
Income tax expenses	₩ 50,535,736	41,108,133
Effective tax rate	25.4%	25.3%

December 31, 2017 and 2016

32. Income Tax Expense, Continued

(c) During 2017 and 2016, the details of income tax expense recognized directly to equity are as follows:

		Korean won (thousands)					
		2017			2016		
		Before tax	Tax credit (charge)	After tax	Before tax	Tax credit (charge)	After tax
Defined benefit plan actuarial loss (gain)	₩	4,796,473	(1,160,747)	3,635,726	3,360,644	(813,276)	2,547,368
Effective portion of changes in fair value of cash flow hedges		—	—	—	89,161	(21,577)	67,584
Change in fair value of available-for-sale financial assets		(13,390,446)	3,240,488	(10,149,958)	(1,395,784)	337,780	(1,058,004)
Total	₩	(8,593,973)	2,079,741	(6,514,232)	2,054,021	(497,073)	1,556,948

33. Earnings per Share

(a) Basic earnings per share for the years ended December 31, 2017 and 2016 are as follows:

		Korean won (thousands, except per share amount)	
		2017	2016
Profit for the year	₩	148,435,181	121,428,017
Profit attributable to common stock holders		148,435,181	121,428,017
Weighted average number of common shares outstanding (*)		23,607,712	23,607,712
Basic earnings per share (in won)		6,288	5,144

(*) Weighted-average numbers of outstanding common shares for the years ended December 31, 2017 and 2016, are calculated as follows:

	Period	Number of shares	Number of Days outstanding	Weighted number of shares
2017	2017.01.01 ~ 2017.12.31	23,607,712	365	8,616,814,880
2016	2016.01.01 ~ 2016.12.31	23,607,712	366	8,640,422,592

Weighted-average number of common shares outstanding:

- for the year ended December 31, 2017: 8,616,814,880 shares ÷ 365 days = 23,607,712 shares
- for the year ended December 31, 2016: 8,640,422,592 shares ÷ 366 days = 23,607,712 shares

(b) The Company have no dilutive potential ordinary shares for the years ended December 31, 2017 and 2016 . So there are no difference between basic and diluted earnings per share

34. Operating Leases

(a) Lessee

The Company has entered into the operating leases for buildings, furniture and fixtures and vehicles. Future minimum lease payments under operating leases as of December 31, 2017 and 2016 are as follows:

	Korean won (thousands)	
	2017	**2016**
Within 1 year	₩ 92,976,183	93,707,307
1 ~ 5 years	101,931,063	135,403,032
Thereafter	11,508,522	10,265,887
Total	₩ 206,415,768	239,376,226

Lease payments for rental recognized as expenses for the year ended December 31, 2017 and 2016 were ₩122,606 million and ₩120,224 million, respectively.

(b) Lessor

The Company has entered into the operating leases of its certain of properties and equipment. Future minimum lease payments receivable under operating leases as of December 31, 2017 and 2016 are as follows:

	Korean won (thousands)	
	2017	**2016**
Within 1 year	₩ 772,363	606,451
1 ~ 5 years	695,432	1,026,517
Thereafter	45	75
Total	₩ 1,467,840	1,633,043

Lease payments for rental recognized as expenses for the year ended December 31, 2017 and 2016 were ₩1,042 million and ₩1,070 million, respectively.

35. Cash Generated from Operations

(a) Cash generated from operations for the years ended December 31, 2017 and 2016, are as follows:

	Korean won (thousands)	
	2017	**2016**
Profit for the year	₩ 148,435,181	121,428,017
Addition of expenses without cash outflows		
Income tax	50,535,736	41,108,133
Depreciation	43,109,165	46,784,541
Severance benefits	14,152,403	14,634,055
Long-term employee benefits	258,957	34,681
Amortization	6,084,167	5,627,966
Interest expenses	16,185,334	17,789,655
Losses on disposition of property and equipments	321,411	318,780

35. Cash Generated from Operations, Continued

(a) Cash generated from operations for the years ended December 31, 2017 and 2016, are as follows, Continued:

		Korean won (thousands)	
		2017	2016
Losses on disposition of intangible assets	₩	16,667	—
Rental		2,492,565	2,754,123
Impairment loss for property and equipment		137,708	116,553
Impairment loss for intangible assets		—	265,358
Loss on foreign currency translation		—	1,306
Loss on transactions of derivative instruments held for the purpose of hedging		—	374,139
Impairment loss for available for sale		3,813	—
Other bad debt expenses		447,919	987,037
Deduction of incomes without cash inflows			
Gains on disposition of property and equipment		(1,381,220)	(78,285)
Gains on disposition of intangible assets		(35,455)	—
Reversal of impairment loss for intangible assets		(108,194)	—
Reversal of bad debt expenses		(15,591)	(14,754)
Interest income		(6,039,169)	(5,415,995)
Rental income		(38,360)	(72,317)
Gain on foreign currency transactions		—	(375,429)
Gain on foreign currency translation		(665)	—
Dividend income		(507)	(507)
Changes in operating assets and liabilities			
Decrease (Increase) in trade and other receivables		(2,927,998)	(21,814,132)
Decrease (Increase) in other assets		(4,598,884)	19,132,966
Increase in inventories		(16,090,469)	(45,641,189)
Increase in trade and other payables		23,287,860	90,744,929
Increase (Decrease) in other liabilities		33,972,033	(1,816,599)
Increase in provision		775,376	286,497
Payment of severance benefits		(6,306,156)	(6,927,138)
Increase in plan assets		(3,803,398)	(7,450,784)
Payment of Long-term employee benefits		(229,900)	(140,600)
Increase (Decrease) in other financial liabilities		(550,000)	100,000
Cash generated from operations	₩	298,090,329	272,741,007

December 31, 2017 and 2016

35. Cash Generated from Operations, Continued

(b) The significant transactions not affecting cash inflows for the years ended December 31, 2017 and 2016 are as follows:

	Korean won (thousands)	
	2017	2016
Reclassification of construction-in-progress ₩	1,384,289	2,280,386
Non-cash acquisition of property and intangible assets	8,408,724	4,037,765
Acquisition of available for sale	10,184	—
Reclassification of current portion of long-term debentures	329,744,333	—
Recognization of provision for restructuring	3,189,618	—

(c) Change in liability and equity arising from investing activities in 2017 is as follows;

	Korean won (thousands)	
	Debentures	Retained Earnings
Balance at January 1, 2017 ₩	648,999,835	721,787,181
Cash flows from financing activities		
Return on debenture issue expenses	5,185	—
Interest paid	(15,698,600)	—
Dividend paid	—	(11,803,856)
Other change related to liability		
Interest expense	16,142,639	
Other change related to equity	—	152,070,908
Balance at December 31, 2017 ₩	649,449,059	862,054,233

36. Related Party Transactions

(a) Details of related parties with the Company as of December 31, 2017 and 2016 are as follows:

	Related Company
Parent Company	LOTTE SHOPPING CO., LTD.
Affiliate of Lotte Group (*1)	Lotte Card Co., Ltd.
	Daehong Communications Co., Ltd.
	LOTTE IT TECH CO., LTD.
	(Formerly, LOTTE DATA COMMUNICATION COMPANY) (*2)
	LOTTE DATA COMMUNICATION COMPANY (*2)
	Lotte Aluminum Co., Ltd.
	LOTTE LOGISTICS CORP.
	LOTTE.COM INC.
	Lotte Members Co., Ltd.
	Woori Home Shopping & Television Co., Ltd.
	LOTTE rental co., ltd.
	Hotel Lotte Co., Ltd.
	GREEN CAR
	KOREA SEVEN CO., LTD.
	Others (Lotte Non - Life Insurance Co., Ltd., etc.)

December 31, 2017 and 2016

36. Related Party Transactions, Continued

(a) Details of related parties with the Company as of December 31, 2017 and 2016 are as follows, Continued:

(*1) Lotte Group represents a group of entities as defined and restricted by the Monopoly Regulation and Fair Trade Act in Korea.

(*2) LOTTE IT TECH CO., LTD. (Formerly, LOTTE DATA COMMUNICATION COMPANY) was spun off on November 1, 2017 and its name was changed to LOTTE IT TECH CO., LTD from LOTTE DATA COMMUNICATION COMPANY.

(b) Significant transactions which occurred in the normal course of business with related companies for the years ended December 31, 2017 and 2016 are summarized as follows:

	Korean won (thousands)				
	2017				
Related Company	Sales	Purchases of inventories	Purchases of fixed assets	Other revenue	Other expenses
Shareholders:					
LOTTE SHOPPING CO., LTD.	₩ 242,532	15,420	—	—	50,994,162
Others:					
Lotte Card Co., Ltd.	186,680	—	—	95,455	22,684,263
Daehong Communications Co., Ltd.	522	—	564,905	—	13,954,528
LOTTE IT TECH CO., LTD. (Formerly, LOTTE DATA COMMUNICATION COMPANY)	—	—	9,326,819	—	10,713,160
LOTTE DATA COMMUNICATION COMPANY	—	—	7,233,797	—	3,669,017
Lotte Aluminum Co., Ltd.	122,836	2,505,053	2,089,374	—	4,298,765
LOTTE LOGISTICS CORP.	3,840	279,920	—	—	5,446,095
LOTTE.COM INC.	13,084	—	—	—	5,216,012
Lotte Members Co., Ltd.	1,218	—	—	249,418	6,099,358
Woori Home Shopping & Television Co., Ltd.	680	—	—	—	1,328,730
LOTTE rental co., ltd.	—	—	—	—	3,665,947
Hotel Lotte Co., Ltd.	569,426	—	—	—	
GREEN CAR	131,860	—	—	—	
KOREA SEVEN CO., LTD.	125,825	—	—	—	
Others	401,685	610,346	178,541	12,411	16,893,280
Total	₩ 1,800,188	3,410,739	19,393,436	357,284	144,963,317

36. Related Party Transactions, Continued

(b) Significant transactions which occurred in the normal course of business with related companies for the years ended December 31, 2017 and 2016 are summarized as follows, Continued:

		Korean won (thousands)				
		2016				
Related Company		Sales	Purchases of inventories	Purchases of fixed assets	Other revenue	Other expenses
Shareholders:						
LOTTE SHOPPING CO., LTD.	₩	4,896,149	499,656	—	—	49,303,210
Others:						
Lotte Card Co., Ltd.		92,591	—	—	—	23,032,813
Daehong Communications Co., Ltd.		—	—	90,200	—	12,179,668
LOTTE DATA COMMUNICATION COMPANY		16,909	—	7,872,899	—	7,641,941
Lotte Aluminum Co., Ltd.		197,034	8,099,591	2,608,503	—	4,948,860
LOTTE LOGISTICS CORP.		—	—	—	—	5,385,659
LOTTE.COM INC.		69,544	—	621,500	—	1,265,136
Lotte Members Co., Ltd.		1,239	—	—	368,216	5,826,683
Woori Home Shopping & Television Co., Ltd.		9,934	—	—	—	968,524
LOTTE rental co., ltd.		9,815	—	—	—	3,763,597
Hotel Lotte Co., Ltd.		12,896	—	—	—	165,880
GREEN CAR		107,729	—	—	—	—
KOREA SEVEN CO., LTD.		135,123	—	—	—	224,829
Others		1,278,696	640,198	844,493	—	7,915,883
Total	₩	6,827,659	9,239,445	12,037,595	368,216	122,622,683

(c) Account balances with related companies as of December 31, 2017 and 2016 are summarized as follows:

		Korean won (thousands)			
		December 31, 2017			
		Receivables		Payables	
Related company		Trade receivables	Other receivables	Trade payables	Other payables
Shareholders:					
LOTTE SHOPPING CO., LTD. (*)	₩	6,012,030	467,863	9,341	8,717,632
Others:					
Lotte Card Co., Ltd. (*)		1,987,355	—	—	7,172,561
Daehong Communications Co., Ltd.		—	—	—	12,863,761
LOTTE DATA COMMUNICATION COMPANY		—	—	—	9,423,374
Lotte Aluminum Co., Ltd.		12,525	—	1,264,947	1,162,058
LOTTE LOGISTICS CORP.		4,224	—	264,903	532,287
LOTTE.COM INC. (*)		3,174,316	—	—	1,833,579

December 31, 2017 and 2016

36. Related Party Transactions, Continued

(c) Account balances with related companies as of December 31, 2017 and 2016 are summarized as follows, Continued:

		Korean won (thousands)			
		December 31, 2017			
		Receivables		Payables	
Related company		Trade receivables	Other receivables	Trade payables	Other payables
Lotte Members Co., Ltd.	₩	—	6,238	—	1,173,099
Woori Home Shopping & Television Co., Ltd. (*)		1,955,474	—	—	—
LOTTE rental co., ltd.		—	—	—	972,502
Hotel Lotte Co., Ltd.		201,354	308,700	—	2,876
GREEN CAR		—	—	—	—
KOREA SEVEN CO., LTD.		—	—	—	3,948
Others		54,205	424,282	118,881	2,670,544
Total	₩	13,401,483	1,207,083	1,658,072	46,528,221

(*) The related parties' trade receivables contain that the customers paid for it with credit cards, etc.

		Korean won (thousands)			
		December 31, 2016			
		Receivables		Payables	
Related company		Trade receivables	Other receivables	Trade payables	Other payables
Shareholders:					
LOTTE SHOPPING CO., LTD. (*)	₩	3,836,933	631,855	221,059	9,247,364
Others:					
Lotte Card Co., Ltd. (*)		3,342,087	—	—	5,771,690
Daehong Communications Co., Ltd.		—	—	—	12,335,730
LOTTE DATA COMMUNICATION COMPANY		—	—	—	3,227,567
Lotte Aluminum Co., Ltd.		—	—	2,028,766	1,371,489
LOTTE LOGISTICS CORP.		—	—	—	461,988
LOTTE.COM INC. (*)		1,665,589	186	—	196,051
Lotte Members Co., Ltd.		—	34,051	—	2,041,879
Woori Home Shopping & Television Co., Ltd. (*)		1,684,002	—	—	25,715
LOTTE rental co., ltd.		—	—	—	1,020,002
Hotel Lotte Co., Ltd.		—	308,700	—	145,722
GREEN CAR		—	—	—	—
KOREA SEVEN CO., LTD.		48,193	—	—	—
Others		16,655	200,000	165,249	3,955,836
Total	₩	10,593,459	1,174,792	2,415,074	39,801,033

(*) Trade receivables due from related parties mainly represent amount due from customers that were collected by the related parties (e.g. through credit card payments etc.) on the Company's behalf.

December 31, 2017 and 2016

36. Related Party Transactions, Continued

(d) Key management personnel compensation for the years ended December 31, 2017 and 2016 are as follows:

	Korean won (thousands)	
	2017	**2016**
Short-term benefits and Other long-term benefits	₩ 1,678,628	999,977
Retirement benefits	258,586	185,966
Total	₩ 1,937,214	1,185,943

(e) The Company has no provided guarantees for related companies as of December 31, 2017 and 2016 as follows:

(f) The Company has purchased the gift card from LOTTE SHOPPING CO., LTD. During 2017 and 2016 the purchase amounts are ₩28,262 million and ₩18,444 million respectively.

(g) In 2016 the Company acquired shares of LOTTE rental Co., ltd. for ₩9,800 million through the capital increase.

37. Dividends per Share

Dividends per share and total dividends are ₩1,850 and ₩43,674 million for the year ended December 31, 2017, respectively. A dividend in respect of the year ended December 31, 2017, is to be proposed at the annual general meeting on March 30, 2018. These financial statements do not reflect this dividend payable.

38. Subsequent Events

The Company repaid of 3-2nd debentures on March 4, 2018 and borrowed ₩130,000 million March 5, 2018 from Mizuho bank for general operational purpose.

Independent Auditors' Report

The Board of Directors and Shareholders
LOTTE Himart Co., Ltd.:

We have audited the accompanying financial statements of LOTTE Himart Co., Ltd. (the "Company"), which comprise the Statements of financial position as at December 31, 2016 and 2015, the statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Korean International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Korean Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the 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 financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2016 and 2015 and its financial performance and its cash flows for the years then ended in accordance with Korean International Financial Reporting Standards.

Other Matter

The procedures and practices utilized in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries.

KPMG Samjong Accounting Corp.

KPMG Samjong Accounting Corp.
Seoul, Korea
March 9, 2017

This report is effective as of March 9, 2017, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

LOTTE Himart Co., Ltd.
Statements of Financial Position

As of December 31, 2016 and 2015

			Korean won (thousands)	
	Notes		**December 31, 2016**	**December 31, 2015**
Assets				
Cash and cash equivalents	5,6,7	₩	157,985,838	129,790,642
Trade and other receivables	6,8,37		90,707,729	69,298,579
Other financial assets	6,9		15,589,172	2,065,809
Inventories	10		461,863,751	416,222,561
Other non-financial assets	11		3,866,530	22,999,497
Total current assets			730,013,020	640,377,088
Other financial assets	6,9		147,705,067	127,797,754
Property and equipment, net	12		413,010,693	421,724,754
Investment property, net	13		3,079,850	3,095,415
Goodwill	14		1,683,324,078	1,683,324,078
Intangible assets, net	14		20,548,401	21,249,097
Deferred tax assets	22		480,607	—
Other non-financial assets	11		6,697,131	7,645,099
Total non-current assets			2,274,845,827	2,264,836,197
Total assets		₩	3,004,858,847	2,905,213,285

See accompanying notes to the financial statements.

LOTTE Himart Co., Ltd.
Statements of Financial Position, Continued

As of December 31, 2016 and 2015

			Korean won (thousands)	
	Notes		**December 31, 2016**	**December 31, 2015**
Liabilities				
Borrowings	5,6,16	₩	—	99,876,383
Debentures, net of issuance costs	5,6,17		—	185,121,667
Trade and other payables	5,6,15,37		369,301,715	279,520,506
Other financial liabilities	5,6,18		3,149,381	1,988,256
Income taxes payable	22		30,304,252	22,740,681
Provisions	20		614,732	294,010
Other non-financial liabilities	19		47,104,353	48,903,019
Total current liabilities			450,474,433	638,444,522
Debentures, net of issuance costs	5,6,17		648,999,835	468,955,471
Other financial liabilities	5,6,18		717,318	1,368,123
Employee benefit liabilities	21		8,836,110	12,046,540
Deferred tax liabilities	22		—	1,282,348
Provisions	20		88,967	123,191
Other non-financial liabilities	19		80,816	165,371
Total non-current liabilities			658,723,046	483,941,044
Total liabilities			1,109,197,479	1,122,385,566
Equity				
Common stock of ₩5,000 par value				
Authorized – 100,000,000 shares				
Issued and outstanding – 23,607,712 shares	1,24		118,038,560	118,038,560
Capital surplus	24		1,045,215,227	1,045,215,227
Other components of equity	25		10,459,827	10,459,827
Accumulated other comprehensive income	26		160,573	1,150,993
Retained earnings	27		721,787,181	607,963,112
Total equity			1,895,661,368	1,782,827,719
Total liabilities and equity		₩	3,004,858,847	2,905,213,285

See accompanying notes to the financial statements.

LOTTE Himart Co., Ltd.
Statements of Comprehensive Income

For the years ended December 31, 2016 and 2015

			Korean won (thousands, except for earnings per share)	
	Notes		**2016**	**2015**
Sales	28,37	₩	3,939,442,418	3,896,136,546
Cost of sales	28,30,37		(2,926,068,535)	(2,932,665,232)
Gross profit			1,013,373,883	963,471,314
Selling, general and administrative expenses	29,30		(838,834,002)	(803,291,343)
Operating profit			174,539,881	160,179,971
Other income	31,37		7,246,042	6,202,207
Other expenses	31,37		(6,877,403)	(4,945,187)
Finance income	32		5,791,424	8,048,947
Finance costs	32		(18,163,794)	(26,259,756)
Profit before income tax			162,536,150	143,226,182
Income tax expense	33		(41,108,133)	(36,631,465)
Profit for the year			121,428,017	106,594,717
Other comprehensive income (loss)				
Items that will never be reclassified to profit or loss:				
Remeasurements of net defined benefit liabilities	27,33		2,547,368	(2,556,807)
Items that are or may be reclassified to profit or loss:				
Net change in unrealized fair value of available-for-sale financial assets	6,33		(1,058,004)	1,218,577
Effective portion of unrealized changes in fair values of cash flow hedges			—	227,054
Net change in fair value of cash flow hedges reclassified to profit or loss	6,33		67,584	—
Other comprehensive income (loss), net of tax			1,556,948	(1,111,176)
Total comprehensive income for the year			122,984,965	105,483,541
Earnings per share				
– Basic earnings per share (in won)	34	₩	5,144	4,515

See accompanying notes to the financial statements.

LOTTE Himart Co., Ltd.
Statements of Changes in Equity

For the years ended December 31, 2016 and 2015

		Korean won (thousands)					
		Capital stock	**Capital surplus**	**Other components of equity**	**Accumulated other comprehensive income**	**Retained earnings**	**Total equity**
Balance at January 1, 2015	₩	118,038,560	1,045,215,227	10,459,827	(294,638)	511,715,747	1,685,134,723
Total comprehensive income for the year							
Profit for the year		—	—	—	—	106,594,717	106,594,717
Remeasurements of net defined benefit liabilities		—	—	—	—	(2,556,807)	(2,556,807)
Net change in unrealized fair value of available-for-sale financial assets		—	—	—	1,218,577	—	1,218,577
Effective portion of unrealized changes in fair values of cash flow hedges		—	—	—	227,054	—	227,054
Total comprehensive income for the year		—	—	—	1,445,631	104,037,910	105,483,541
Transactions with owners of the Company, recognized directly in equity:							
Dividends		—	—	—	—	(7,790,545)	(7,790,545)
Balance at December 31, 2015	₩	118,038,560	1,045,215,227	10,459,827	1,150,993	607,963,112	1,782,827,719

See accompanying notes to the financial statement

LOTTE Himart Co., Ltd.
Statements of Changes in Equity, Continued

For the years ended December 31, 2016 and 2015

		Korean won (thousands)					
		Capital stock	**Capital surplus**	**Other components of equity**	**Accumulated other comprehensive income**	**Retained earnings**	**Total equity**
Balance at January 1, 2016	₩	118,038,560	1,045,215,227	10,459,827	1,150,993	607,963,112	1,782,827,719
Total comprehensive income for the year							
Profit for the year		—	—	—	—	121,428,017	121,428,017
Remeasurements of net defined benefit liabilities		—	—	—	—	2,547,368	2,547,368
Net change in unrealized fair value of available-for-sale financial assets		—	—	—	(1,058,004)	—	(1,058,004)
Net change in fair value of cash flow hedges reclassified to profit or loss		—	—	—	67,584	—	67,584
Total comprehensive income for the year		—	—	—	(990,420)	123,975,385	122,984,965
Transactions with owners of the Company, recognized directly in equity:							
Dividends		—	—	—	—	(10,151,316)	(10,151,316)
Balance at December 31, 2016	₩	118,038,560	1,045,215,227	10,459,827	160,573	721,787,181	1,895,661,368

See accompanying notes to the financial statement

LOTTE Himart Co., Ltd.
Statements of Cash Flows

For the years ended December 31, 2016 and 2015

	Notes		Korean won (thousands) 2016	2015
Cash flows from operating activities				
Cash generated from operations	36	₩	272,741,007	145,574,796
Income tax paid			(35,804,588)	(25,270,930)
Net cash generated from operating activities			236,936,419	120,303,866
Cash flows from investing activities				
Proceeds from sale of short-term financial assets			—	500,000
Proceeds from sale of available-for-sale financial assets			—	1,706
Proceeds from disposal of property and equipment			87,954	285,229
Proceeds from disposal of Investment property			—	3,400,000
Decrease of deposits			2,165,252	2,218,949
Interest received			2,450,640	2,502,815
Dividends received			507	507
Purchase of short-term financial assets			(15,000,000)	—
Acquisition of property and equipment			(40,247,486)	(31,188,714)
Acquisition of other intangible assets			(4,409,655)	(10,953,022)
Purchase of available-for-sale financial assets			(9,799,937)	(49,980,710)
Increase of deposits			(13,099,856)	(1,550,000)
Net cash used in investing activities			(77,852,581)	(84,763,240)
Cash flows from financing activities				
Proceeds from issuance of debentures			179,595,300	319,144,000
Proceeds from settlement of derivatives			1,215,000	—
Payment of current portion of long-term borrowings			(100,000,000)	—
Repayment of debentures			(184,785,000)	(300,000,000)
Interest paid			(16,762,626)	(21,965,153)
Dividend paid			(10,151,316)	(7,790,545)
Net cash used in financing activities			(130,888,642)	(10,611,698)
Net increase in cash and cash equivalents			28,195,196	24,928,928
Cash and cash equivalents at January 1			129,790,642	104,861,714
Cash and cash equivalents at December 31		₩	157,985,838	129,790,642

See accompanying notes to the financial statements.

December 31, 2016 and 2015

1. General Description of Reporting Entity

LOTTE Himart Co., Ltd. (the "Company") was established on June 1987, in the Republic of Korea to sell home appliances. The headquarters of the Company are located in Samsung-ro, Gangnam-gu, Seoul, and it operates numerous branches, including the Sadang branch. On June 29, 2011, the Company listed its stock on the Korea Exchange.

The Company is authorized to issue 100 million shares of capital stock at a par value of ₩5,000 per share. As of December 31, 2016, the number of outstanding shares issued and the amount of paid-in capital are 23,607,712 shares and ₩118,038,560 thousand, respectively. The controlling entity of the Company is LOTTE Shopping Co., Ltd. whose percentage of ownership is 65.25%.

2. Basis of Accounting

The financial statements have been prepared in accordance with Korean International Financial Reporting Standards ("K-IFRS"), as prescribed in *the Act on External Audits of Stock Corporation in the Republic of Korea.*

The financial statements were authorized for issuance by the Board of Directors February 9, 2017, which will be submitted for approval to the shareholders' meeting to be held on March 24, 2017.

(a) Basis of measurement

The 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
- available-for-sale financial assets are measured at fair value
- liabilities for defined benefit plans are recognized at the net of the total present value of defined benefit obligations less the fair value of plan assets and unrecognized past service costs

(b) Functional and presentation currency

These financial statements are presented in Korean won, which is the Company's functional currency and the currency of the primary economic environment in which the Company operates.

(c) Use of estimates and judgments

The preparation of the financial statements in conformity with K-IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period prospectively.

(i) Information about assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

- Note 12 – Impairment of property and equipment in a CGU

2. Basis of Accounting, Continued

(c) Use of estimates and judgments, Continued

- Note 14 – Impairment of goodwill
- Note 20 – Provisions
- Note 21 – Employee benefits
- Note 33 – Income taxes

(ii) Measurement of fair value

The Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. The Company has an established control framework with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the CFO.

The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of K-IFRS including the level in the fair value hierarchy in which such valuation techniques should be classified.

Significant valuation issues are reported to the Company's Audit Committee.

When measuring the fair value of an asset or a liability, the Company uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the assets or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the assets or liability that are not based on observable market data (unobservable inputs)

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Company recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in the following note:

Note 6 – Fair value of financial instruments

3. Changes in accounting policies

Except for the changes below, the Company has consistently applied the accounting policies set out in Note 4 to all periods presented in these financial statements.

3. Changes in accounting policies, Continued

The Company has adopted the following amendments to standards and new standard with a date of initial application of January 1, 2016.

- Amendments to K-IFRS 1001 'Presentation of Financial Statements'

These amendments clarify the materiality and aggregation, so that they specify the considerations in the case of additional presentation of the subtotal and clarify the order of the notes.

4. Significant Accounting Policies

The significant accounting policies applied by the Company in preparation of its financial statements are included below. The accounting policies set below have been applied consistently to all periods presented in these financial statements except for the changes in accounting policies as explained in Note 3.

(a) Operating segment

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses and whose operating results in the internal reporting are regularly reviewed by the Company's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the steering committee that makes strategic decisions. The Company has one operating segment.

(b) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less.

(c) Financial assets

(i) Classification and measurement

The Company recognizes and measures financial assets by the following four categories: financial assets at fair value through profit or loss, available-for-sale financial assets, loans and receivables and held-to-maturity investments. The classification depends on the purpose for which the financial assets were acquired

If embedded derivatives are not separated from the host contract, the entire hybrid instrument is classified at fair value through profit or loss.

Regular purchases and sales of financial assets are recognized on the trade date. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are subsequently carried at amortized cost using the effective interest rate method.

Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the statement of comprehensive income. When securities classified as

4. Significant Accounting Policies, Continued

(c) Financial assets, Continued

available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the statement of comprehensive income as other operating income and expenses

(ii) Financial assets at fair value through profit or loss

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.

The Company recognizes impairment losses establish a provision to cover impairment losses or directly. When the Company considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off.

Objective evidence that financial assets are impaired includes:

- Significant financial difficulty of the issuer or obligor
- Fail to pay the principal and interest more than 3 months
- The disappearance of an active market for that financial asset because of financial difficulties. etc.

(iii) De-recognition of financial assets

If the Company retains substantially all the risks and rewards of ownership of the transferred financial assets, the Company continues to recognize the transferred financial assets and recognizes financial liabilities for the consideration received. The financial liabilities are classified as “borrowings” in the statement of financial status.

(d) Trade receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets. Trade receivables are recognized initially at fair value less allowance for doubtful accounts.

(e) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. The cost of inventories is based on the moving average method except for goods-in-transit. The cost of goods-in-transit and unfinished apartment units is determined by the specific identification method.

When inventories are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized. The amount of any write-down of inventories to net

December 31, 2016 and 2015

4. Significant Accounting Policies, Continued

(e) Inventories, Continued

realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value, is recognized as a reduction in the amount of inventories and recognized as an expense in the period in which the reversal occurs.

(f) Non-current assets held for sale

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

(g) Property and equipment

All property and equipment are stated at historical cost less depreciation and accumulated impairment loss. Historical cost includes expenditures which directly attribute to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Property and equipment, except for land, are depreciated on a straight-line basis over estimated useful lives. The estimated useful lives of the Company's property and equipment are as follows:

	Useful lives (years)
Buildings	5 ~ 40
Structures	40
Vehicles	5
Furniture and fixtures	5

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting date and adjusted, if appropriate. The change is accounted for as a change in an accounting estimate.

(h) Investment Property

Property held for the purpose of earning rentals or benefiting from capital appreciation is classified as investment property. Investment property is measured initially at its cost. Subsequently, investment property is carried at depreciated cost less any accumulated impairment losses. Investment properties, except for land, are depreciated on a straight-line basis over 40 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. Significant Accounting Policies, Continued

(i) Intangible assets

Intangible assets are initially measured at its cost, and subsequently are stated at cost less accumulated depreciation and accumulated impairment losses. When intangible assets, consisting of goodwill, trademarks, memberships, right to use property and other intangible assets, are available for use, they are amortized using the straight-line method to allocate their cost to their zero residual values over their estimated useful lives, as stated below. However, because there is no foreseeable limit to the period over which the goodwill and memberships are expected to generate net cash inflows for the entity, the respective intangibles are regarded as having an indefinite useful life and therefore, are not amortized.

	Useful lives (years)
Goodwill	Indefinite
Trademarks	5
Memberships	Indefinite
Right to use property	Terms of contract
Other intangible assets	5

The method of depreciation and the useful life of an intangible asset with definite useful lives are reviewed at each financial year end. The useful life of an intangible asset with an indefinite useful life is reviewed each period to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset. If adjustment is deemed appropriate upon said reviews, it is accounted for as a change in accounting estimates.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segment. The Company allocates the goodwill to a single cash-generating unit.

(j) Impairment of non-financial assets

Goodwill or intangible assets with indefinite useful lives are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets, other than goodwill, that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(k) Financial liabilities

Financial liabilities at fair value through profit or loss are financial instruments held for trading. Financial liabilities are classified as financial liabilities at fair value through profit or loss when incurred principally

4. Significant Accounting Policies, Continued

(k) Financial liabilities, Continued

for the purpose of repurchasing them in the near term. Derivatives or embedded derivatives are also categorized as this category unless they are designated as hedges.

The Company classifies non-derivative financial liabilities, except for financial liabilities at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition, as financial liabilities carried at amortized cost in the statement of financial position.

Preference shares, which are mandatorily redeemable on a specific date, are classified as liabilities. Dividends thereon are recognized as interest expense in profit or loss as accrued.

The Company derecognizes a financial liability from the separate statement of financial position when it is extinguished (i.e. when the obligation specified in the contract is discharged, canceled or expires).

(l) Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognized initially at fair value and subsequently measured at amortized cost.

(m) Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the statement of comprehensive income over the period of the borrowings using the effective interest method. The Company classifies the liability as current when it does not have an unconditional right to defer its settlement for at least 12 months after the reporting date.

(n) Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Where the effect of the time value of money is material, provisions are determined at the present value of the expected future cash flows.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

4. Significant Accounting Policies, Continued

(o) Employee benefits

(i) Retirement benefits

The Company has both defined contribution plans and defined benefit. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. The contributions are recognized as employee benefit expense when they are due.

A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognized in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognized past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Past-service costs are recognized immediately in income, while costs are amortized over the vesting period.

(ii) Other long-term employee benefits

Other long-term employee benefits include employee benefits that are settled beyond 12 months after the end of the period in which the employees render the related service, and are calculated at the present value of the amount of future benefit that employees have earned in return for their service in the current and prior periods, less the fair value of any related assets. The present value is determined by discounting the expected future cash flows using the interest rate of high-quality corporate bonds that have maturity dates approximating the terms of the Company's obligations and that are denominated in the same currency in which the benefits are expected to be paid. Any actuarial gains and losses are recognized in profit or loss in the period in which they arise.

(p) 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 items recognized directly in equity or in other comprehensive income.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax assets and liabilities are not recognized if they arise from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

4. Significant Accounting Policies, Continued

(p) Income taxes, Continued

Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

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.

(q) Dividend

Dividend distribution to the Company's shareholders is recognized as a liability in the financial statements in the period in which the dividends are approved by the shareholders.

(r) Foreign currencies

Transactions in foreign currencies are translated to the respective functional currencies of Company entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency using the reporting date's exchange rate. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges, which are recognized in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(s) Equity capital

Ordinary shares and preferred shares that are not mandatorily redeemable are classified as equity.

(t) Revenue

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities.

The Company is engaged in home appliance wholesale and retail business. Revenue is measured at the fair value of the consideration received or receivable at the time of sales to the Company's customers. Revenue from the sale of goods is recognized when the Company has transferred to the customer the significant risks and rewards of ownership of the goods and retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, the amount of revenue and the costs incurred or to be incurred in respect of the transaction can be measured reliably, and it is probable that the economic benefits associated with the transaction will flow to the entity. It is the Company's policy to sell its products to the customer with a right to return. Accumulated past experience is used to estimate and provide for such returns at the time of sale.

4. Significant Accounting Policies, Continued

(t) Revenue, Continued

Interest, rent and dividend revenues arising from the use by others of Company's assets are recognized as revenue when it is probable that future economic benefits will flow to the Company and these benefits can be measured reliably. Interest revenue is recognized using the effective interest method according to the time passed. Rental income is recognized on an accrual basis in accordance with the economic substance of the relevant contract. Dividend income is recognized when the right to receive payment is established.

(u) Customer loyalty programs

In order to strengthen the revenue stream by securing regular customers and rewarding loyal customers, the Company operates a customer loyalty program by granting customer award credits to its customers, which can be redeemed as free or discounted goods. The Company estimates the fair value of award credits by reference to the fair value of the goods that are to be supplied upon redemption, the estimated redemption rates and the estimated timing of redemption.

The fair value of the consideration received or receivable in respect of the initial sale of goods on which award credits are granted are recognized as 'deferred revenue' in the consolidated statements of financial position. Revenue is recognized when award credits are redeemed and therefore, the Company fulfills its obligation to supply awards.

(v) Leases

Leases where the lessor retains a significant portion of the risks and rewards of ownership are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are recognized in profit or loss on a straight-line basis over the period of the lease.

Leases where the Company assumes substantially all of the risks and rewards of ownership are classified as finance leases. At the commencement of the lease term, the Company recognizes as finance assets and finance liabilities in its 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.

(w) Derivative financial instruments

Derivatives are initially recognized at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes are expensed in the statement of comprehensive income

(x) Earnings per share

Basic earnings per share is calculated by dividing net profit for the period available to common shareholders by the weighted-average number of common shares outstanding during the year.

Diluted earnings per share is calculated using the weighted-average number of common shares outstanding adjusted to include the potentially dilutive effect of common equivalent shares outstanding.

4. Significant Accounting Policies, Continued

(y) New standards and interpretations not yet adopted

The following new standards, interpretations and amendments to existing standards have been published but are not mandatory for the Company for annual periods beginning on January 1, 2016, and the Company has not early adopted them.

(i) K-IFRS 1109 'Financial Instruments'

K-IFRS 1109, published on September 25, 2015 which replaces existing guidance in the K-IFRS 1039 Financial Instruments: Recognition and Measurement, is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company currently plans to apply K-IFRS 1109 for the year beginning on January 1, 2018.

K-IFRS 1109 will generally be applied retrospectively, except for the following:

- exemption allowing the Company not to restate comparative information for prior periods with respect to classification and measurement including impairment changes; and
- Prospective application of new hedge accounting except for those specified in K-IFRS 1109 for retrospective application such as accounting for the time value of options and the forward element of forward contracts.

Key features of the new standard K-IFRS 1109 includes new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics, impairment methology reflects 'expected credit losses' (ECL) model for financial assets, and expanded scope of hedged items and hedging instrument which qualify for hedge accounting and changes in assessment method for effect of hedging relationships.

To ensure smooth implementation of K-IFRS 1109, the Company needs to assess the financial impact of adopting K-IFRS 1109, to formulate the accounting policy, and to design, implement and enhance the accounting system and related controls. The expected quantitative impact of adopting K-IFRS 1109 on the Company's financial statements cannot be reliably estimated because it will be dependent on the financial instruments that the Company holds and economic conditions at that time as well as accounting elections and judgments that it will make in the future.

December 31, 2016 and 2015

4. Significant Accounting Policies, Continued

(y) New standards and interpretations not yet adopted, Continued

The Company plans to change the accounting process and internal control and to assess the financial impact on its financial statements resulting from the adoption of K-IFRS 1109 by December 31, 2017. Expected impacts on financial statements upon adoption of K-IFRS 1109 are generally categorized as follows:

Classification and measurement of financial assets

Classification of financial assets under K-IFRS 1109 is driven by the entity's business model for managing financial assets and their cash flow characteristic. This contains three principal classification categories: financial assets measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). Derivatives embedded in contracts where the host is a financial asset are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification. Details of the classification based on business models cash flow characteristic are as follows:

	Contractual cash flow characteristics	
Business model assessment	Solely payments of principal and interest	Others
Hold to collect contractual cash flows	Amortized cost (*1)	FVTPL-measured at fair value (*2)
Hold to collect contractual cash flows and sell financial assets	FVOCI- measured at fair value (*1)	
Hold to sell financial assets and others	FVTPL-measured at fair value	

(*1) To eliminate or significantly reduce the accounting mismatch, the Company may irrevocably designate a financial asset as measured at FVTPL using the fair value option at initial recognition.
(*2) Equity instruments that are not held for trading may be irrevocably designated as FVOCI using the fair value option.

As of December 31, 2016, the Company has loans and receivables amounting to ₩351,645 million, available-for-sale financial assets amounting ₩60,343 million. Under K-IFRS 1109, a financial asset shall be measured at amortized cost if both of the following conditions are met: the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The Company has recognized the loans and receivables amounting to ₩351,645 million, as amortized cost as of December 31, 2016 under K-IFRS 1039.

Under K-IFRS 1109, equity instruments that are not held for trading may be irrevocably designated as FVOCI on initial recognition with no recycling of amounts from OCI to profit and loss. As of December 31, 2016, the Company has ₩60,343 million of available-for-sale equity instruments under K-IFRS 1039.

Classification and measurement of financial liabilities

Under K-IFRS 1109, for the financial liabilities designated as FVTPL using the fair value option, the element of gains or losses attributable to changes in the own credit risk should normally be recognized in

4. Significant Accounting Policies, Continued

(y) New standards and interpretations not yet adopted, Continued

OCI, with the remainder recognized in profit or loss. These amounts recognized in OCI are not recycled to profit or loss even when the liability is derecognized. However, if presentation of the fair value change in respect of the liability's credit risk in OCI results in or enlarges an accounting mismatch in profit or loss, gains and losses are entirely presented in profit or loss. Adoption of K-IFRS 1109 may result in change in profit or loss, since the amount of fair value changes that is attributable to changes in the credit risk of the liability will be presented in OCI. As of December 31, 2016, under K-IFRS 1039 the Company has no financial liability at fair value through profit or loss.

Impairment : financial assets and contract assets

The current impairment requirements under K-IFRS 1039 are based on an 'incurred loss model', where the impairment exists if there is objective evidence as a result of one or more events that occurred after the initial recognition of an asset. However, K-IFRS 1109 replaces the incurred loss model in K-IFRS 1039 with an 'expected credit loss model' which applies to debt instruments measured at amortized cost or at fair value through other comprehensive income.

Under K-IFRS 1109, the Company should recognize a loss allowance or provision at an amount equal to 12-month expected credit losses or lifetime expected credit losses for financial assets determined by the extent of probable credit deterioration since initial recognition as explained below. Therefore, the new impairment requirements are expected to result in earlier recognition of credit losses compared to the incurred loss model of K-IFRS 1039.

Stages		Loss allowance
Stage 1	No significant increase in credit risk since initial recognition	Loss allowances are determined for the amount of the expected credit losses that result from default events that are possible within 12 months after the reporting date.
Stage 2	Significant increase in credit risk since initial recognition	Loss allowances are determined for the amount of the expected credit losses that result from all possible default events over the expected life of the financial instrument.
Stage 3	Objective evidence of credit risk impairment	

K-IFRS 1109 allows the Company to only recognize the cumulative changes in lifetime expected credit losses since initial recognition as a loss allowance for purchased or originated credit-impaired financial assets at the reporting date.

As of December 31, 2016, under K-IFRS 1039 the Company has debt instruments recognized as amortized cost amounting to ₩351,645 million won (loans and receivables) and recognized a loss allowance amounting to ₩2,490 million.

(ii) K-IFRS 1115 'Revenue from Contracts with Customers'

K-IFRS 1115, published on November 6, 2015, establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance,

4. Significant Accounting Policies, Continued

(y) New standards and interpretations not yet adopted, Continued

including K-IFRS 1018, Revenue, K-IFRS 1011, Construction Contracts, K-IFRS 2013, Revenue – Barter Transactions Involving Advertising Services, K-IFRS 2113, Customer Loyalty Programs, K-IFRS 2115, Revenue – Barter Transactions Involving Advertising Services, and K-IFRS 2118, Transfers of assets from customers. K-IFRS 1115 is effective for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted. The Company plans to adopt K-IFRS 1115 from the beginning of the financial year beginning on January 1, 2018 and recognize the cumulative effects of applying K-IFRS 1115 at the date of initial application without restatement of the comparative financial statements.

K-IFRS 1018 provides separate revenue recognition criteria by transaction type which include sale of goods, rendering of services, and use of entity assets by others yielding interest, royalties and dividends. However, K-IFRS 1115 introduces a five-step model for revenue recognition that focuses on the ‘transfer of control’ rather than the ‘transfer of risks and rewards’. The steps in five-step model are as follows:

- identification of the contract with a customer;
- identification of the performance obligations in the contract;
- determination of the transaction price;
- allocation of the transaction price to the performance obligations in the contract; and
- recognition of revenue when (or as) the entity satisfies a performance obligation.

The Company has not been able to undertake preparation related to the adoption of K-IFRS 1115, and it has not been analyzed the financial impact of the adoption of this standard on its financial statements.

As of December 31, 2016, the Company has ₩60,343 million of available-for-sale equity instruments.

5. Financial Risk Management

(a) Financial Risk Factors

The Company’s activities expose it to a variety of financial risks: credit risk and liquidity risk. The Company’s overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company’s financial performance.

(i) Credit risk management

Credit risk arises during the normal course of transactions and investing activities, where clients or business partners fail to discharge an obligation.

Trade receivables

Most of the revenues of the Company arise from an individual customer and the related credit risk has not greatly occurred. Financial assets on which the collection is being delayed, the Company reviews collection status and measures for collections on a quarterly basis and adequate actions for collection is taken.

5. Financial Risk Management, Continued

(a) Financial Risk Factors, Continued

Financial deposits

On the other hand, the Company has deposited cash and cash equivalents, and other bank deposits in financial institutions, including KYOBO SECURITIES CO.,LTD. To mitigate or eliminate certain credit risks exposures relating to these deposits, the Company transacts only with highly accredited financial institutions.

Guarantees

As of December 31, 2016, the Company has not provided guarantees for others.

Exposure to credit risk

The book value of a financial asset represents its maximum exposure to credit risk. The maximum exposures to credit risk as of December 31, 2016 and 2015 are as follows:

		Korean won (thousands)	
Account		December 31, 2016	December 31, 2015
Cash equivalents (*1)	₩	156,553,786	128,641,925
Trade and other receivables		90,707,729	69,298,579
Other financial assets (current)		15,589,172	2,065,809
Other financial assets (non-current) (*2)		87,361,873	75,858,711
Total	₩	350,212,560	275,865,024

(*1) Cash held by the Company are excluded as there is no exposure to credit risk.
(*2) Equity securities within available-for-sale financial assets are excluded as there is no exposure to credit risk.

(ii) Liquidity risk management

In order to manage liquidity risks, the Company establishes short-term and medium/long-term financing plans and regularly analyzes/reviews the cash outflow budgets and the actual cash outflows in order to match maturities of financial liabilities and financial assets. The management of the Company believes that financial liabilities can be repaid with the cash inflows arising from operating activities and financial assets.

5. Financial Risk Management, Continued

(a) Financial Risk Factors, Continued

Aggregate maturities of financial liabilities, as of December 31, 2016 and 2015 are as follows:

	Korean won (thousands)					
	December 31, 2016					
Description		3 months or less	3 ~ 12 months	1 ~ 2 years	2 ~ 5 years	More than 5 year
Trade and other payable	₩	369,301,715	—	—	—	—
Borrowings		—	—	—	—	—
Debentures		3,924,650	11,773,950	342,278,600	291,398,050	41,080,000
Other financial liabilities		—	850,000	—	600,000	200,000
Total	₩	373,226,365	12,623,950	342,278,600	291,998,050	41,280,000

	Korean won (thousands)					
	December 31, 2015					
Description		3 months or less	3 ~ 12 months	1 ~ 2 years	2 ~ 5 years	More than 5 year
Trade and other payable	₩	279,520,506	—	—	—	—
Borrowings		100,576,900	—	—	—	—
Debentures		187,810,614	8,830,800	11,774,400	445,248,400	42,160,000
Other financial liabilities		—	—	850,000	500,000	200,000
Total	₩	567,908,020	8,830,800	12,624,400	445,748,400	42,360,000

The above schedule is prepared based on the undiscounted nominal amounts (including interest expense) of the cash flows of financial liabilities by maturity time band and the earliest date on which the payment of the respective liabilities can be demanded.

(iii) Interest risk management

The risk mainly arises from borrowings and financial deposits with variable interest rates linked to market interest rate changes in the future. The objective of interest rate risk management lies in maximizing corporate value by minimizing uncertainty caused by fluctuations in interest rates and minimizing net interest expense.

To mitigate interest rate risk, the Company manages interest rate risk proactively by minimizing external borrowings by maximizing internal cash sharing, reducing borrowings with high interest rates, maintaining an adequate mix between short-term and long-term liabilities and between fixed and variable interest rates and monitoring weekly and monthly interest rate trends in domestic and international markets.

The interest rate profile of the Company’s variable interest-bearing financial instruments, as of December 31, 2016 and 2015 are as follows:

		Korean won (thousands)	
		December 31, 2016	December 31, 2015
Financial liabilities	₩	—	35,151,010

December 31, 2016 and 2015

5. Financial Risk Management, Continued

(a) Financial Risk Factors, Continued

(iv) Interest risk management

The Company is exposed to currency risk on financial liabilities that are denominated in a currency other than the respective functional currencies of the Company. Currencies that generate exchange positions include USD. 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.

Assets and liabilities denominated in foreign currencies other than the Company's functional currencies as of December 31, 2016 and 2015 are as follows:

		Korean won (thousands)			
		December 31, 2016		**December 31, 2015**	
		Assets	Liabilities	Assets	Liabilities
USD	₩	—	224,805	—	35,151,010

The closing rates as of December 31, 2016 and 2015 and the average rates for the years ended December 31, 2016 and 2015 are as follows:

		Average rate		Closing rate	
		2016	**2015**	**December 31, 2016**	**December 31, 2015**
USD	₩	1,160.50	1,131.49	1,208.50	1,172.00

(v) Price risk management

The Company's available-for-sale securities are exposed to price risk. The Company's management regularly measures the risk on market price fluctuation. And significant investments are decided through management's approval.

(b) Financial Risk Factors

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders by maintaining an optimal capital structure based on the gearing ratio. The ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the statement of financial position plus net debt.

5. Financial Risk Management, Continued

(b) Financial Risk Factors, Continued

The gearing ratios as of December 31, 2016 and 2015, are as follows:

		Korean won (thousands)	
		December 31, 2016	**December 31, 2015**
Total borrowings			
Borrowings	₩	—	99,876,383
Debentures		648,999,835	654,077,137
Less			
Cash and cash equivalents		(157,985,838)	(129,790,642)
Financial Deposit		(15,500,000)	(500,000)
Net debt (A)		475,513,997	623,662,878
Total equity		1,895,661,368	1,782,827,719
Total capital (B)		2,371,175,365	2,406,490,597
Gearing ratio (A/B)		20%	26%

6. Financial Instruments

(a) Accounting classifications and fair value

The carrying amount and the fair value of financial instruments as of December 31, 2016 and 2015 are summarized as follows. It does not include fair value information for financial instruments not measured at fair value if the carrying amount is a reasonable approximation of fair value.

		Korean won (thousands)				
		December 31, 2016				
		Loans and receivables	Available for sale financial assets	Fair value hedging instruments	Financial liabilities based on amortized cost	Total
Financial assets measured at fair value						
Available for sale	₩	—	59,992,484	—	—	59,992,484
Financial assets not measured at fair value						
Cash equivalents		157,985,838	—	—	—	157,985,838
Trade and other receivables		90,707,729	—	—	—	90,707,729
Other financial assets		102,951,044	350,710	—	—	103,301,754
Total		351,644,611	60,343,194	—	—	411,987,805
Financial liabilities not measured at fair value						
Trade and other payables		—	—	—	369,301,715	369,301,715
Debentures		—	—	—	648,999,835	648,999,835
Other financial liability		—	—	—	3,866,700	3,866,700
Total	₩	—	—	—	1,022,168,250	1,022,168,250

December 31, 2016 and 2015

6. Financial Instruments, Continued

(a) Accounting classifications and fair value, Continued

		Korean won (thousands)				
		December 31, 2015				
		Loans and receivables	Available for sale financial assets	Fair value hedging instruments	Financial liabilities based on amortized cost	Total
Financial assets measured at fair value						
Available for sale	₩	—	51,588,332	—	—	51,588,332
Forward exchange contracts used for hedging		—	—	1,499,978	—	1,499,978
Financial assets not measured at fair value						
Cash equivalents		129,790,642	—	—	—	129,790,642
Trade and other receivables		69,298,579	—	—	—	69,298,579
Other financial assets		76,424,542	350,710	—	—	76,775,252
Total		275,513,763	51,939,042	1,499,978	—	328,952,783
Financial liabilities not measured at fair value						
Trade and other payables		—	—	—	279,520,506	279,520,506
Borrowings		—	—	—	99,876,383	99,876,383
Debentures		—	—	—	654,077,137	654,077,137
Other financial liability		—	—	—	3,356,380	3,356,380
Total	₩	—	—	—	1,036,830,406	1,036,830,406

(b) The fair value hierarchy

The fair value measurements classified by fair value hierarchy as of December 31, 2016 and 2015 are as follows:

		Korean won (thousands)			
		December 31, 2016			
Description		Level I	Level II	Level III	Total
Financial Assets					
Available-for-sale financial assets	₩	—	—	59,992,484	59,992,484

		Korean won (thousands)			
		December 31, 2015			
Description		Level I	Level II	Level III	Total
Financial Assets					
Available-for-sale financial assets	₩	—	—	51,588,332	51,588,332
Forward exchange contracts used for hedging		—	1,499,978	—	1,499,978

6. Financial Instruments, Continued

(b) The fair value hierarchy, Continued

The following tables show the valuation techniques used in measuring Level 2 and Level 3 fair values, as well as the significant unobservable inputs used.

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Available-for-sale financial assets	Discounted cash flows	• Forecast annual revenue growth rate : 1.0%~15.9% • Forecast EBITDA margin : 1.1%~10.6% • Risk-adjusted discount rate : 6.64%	The estimated fair value would increase (decrease) if: • Forecast annual revenue growth rate were higher (lower) • Forecast EBITDA margin were higher (lower) • Risk-adjusted discount rate were lower (higher)

(c) Level 3 fair values

Changes in Level 3 fair values for the years ended December 31, 2016 and 2015 are as follows:

		Korean won (thousands)	
Description		2016	2015
Beginning of the year	₩	51,588,332	—
Purchases (*)		9,799,936	49,980,710
Changes included in OCI		(1,395,784)	1,607,622
End of the year	₩	59,992,484	51,588,332

(*) In 2016, the Company acquired shares of LOTTE rental Co., ltd. for ₩9,800 million through capital increase.

(d) The fair value hierarchy

For the fair values of available-for-sale financial assets, reasonably possible changes as of December 31, 2016 to one of the significant unobservable inputs, holding other inputs constant, would have the following effects on fair values.

		Korean won (thousands)			
		Discount rate		Terminal growth rate	
Description		1% Decrease	1% Increase	0.5% Increase	1% Increase
Available-for-sale financial assets	₩	17,416,615	(12,842,310)	6,413,369	13,963,972

6. Financial Instruments, Continued

(e) Details of finance income and finance costs by financial instruments category for the years ended December 31, 2016 and 2015 are as follows:

		Korean won (thousands)	
Description		December 31, 2016	December 31, 2015
Loans and receivables			
Interest income (Leasehold deposits paid)	₩	2,942,015	3,329,651
Interest income		2,473,980	2,535,285
Reversal of bad debts expenses		14,754	33,444
Other bad debts expenses		(987,037)	(1,891,225)
Available for sale financial assets			
Unrealized net changes in fair values of available-for-sale financial assets – OCI (*)		(1,395,784)	1,607,622
Gain on disposal of available-for-sale securities		—	11
Fair value hedging instruments			
Gain on valuation of derivative instruments held for the purpose of hedging		—	2,184,000
Loss on transactions of derivative instruments held for the purpose of hedging		(374,139)	—
Effective portion of unrealized changes in fair values of cash flow hedges – OCI (*)		—	299,544
Net change in fair value of cash flow hedges reclassified to profit or loss – OCI (*)		89,161	—
Financial liabilities based on amortized cost			
Interest expense (Deposits received)		(82,189)	(118,310)
Interest expenses		(17,707,466)	(23,958,764)
Gain(loss) on foreign currency transaction		283,396	(6,959)
Gain on foreign currency translation		(1,306)	(2,204,463)

(*) The gain/loss on valuation of available-for-sale finance assets and of derivative assets and liabilities held for the purpose of hedging (other comprehensive income/loss) are amounts before offsetting effects of income taxes.

7. Cash and Cash Equivalents

Cash and Cash Equivalents as of December 31, 2016 and 2015 are summarized as follows:

		Korean won (thousands)	
		December 31, 2016	December 31, 2015
Cash on hand	₩	1,432,052	1,148,717
Bank savings		156,553,786	128,641,925
Total	₩	157,985,838	129,790,642

8. Trade and Other Receivables

(a) Trade and other receivables as of December 31, 2016 and 2015 are summarized as follows:

		Korean won (thousands)	
		December 31, 2016	**December 31, 2015**
Trade receivables	₩	79,054,868	53,069,684
Less: bad debts allowance		(179,371)	(194,125)
Trade receivables, net		78,875,497	52,875,559
Trade receivables		14,143,192	18,314,245
Less: bad debts allowance		(2,310,960)	(1,891,225)
Non-trade receivables, net		11,832,232	16,423,020
Total	₩	90,707,729	69,298,579

(b) Movements in bad debts allowance on trade and other receivables for the years ended December 31, 2016 and 2015 are summarized as follows:

		Korean won (thousands)			
		2016		**2015**	
		Trade receivables	**Other receivables**	**Trade receivables**	**Other receivables**
Balance as of January 1	₩	194,125	1,891,225	721,602	—
Impairment loss		—	419,735	—	1,891,225
Reversal of impairment loss		(14,754)	—	(33,444)	—
Write-off		—	—	(494,033)	—
Balance as of December 31	₩	179,371	2,310,960	194,125	1,891,225

8. Trade and Other Receivables, Continued

(c) The aging analyzes of trade receivables as of December 31, 2016 and 2015, are as follows:

	Korean won (thousands)			
	2016		2015	
	Trade receivables	Other receivables	Trade receivables	Other receivables
Receivables not past due	₩78,731,700	11,024,662	52,860,234	15,936,492
Past due but not impaired				
– 3 months or less	125,589	139,797	7,758	2,922
– 3 ~ 6 months	10,381	69,497	564	22
– More than 6 months	7,827	173,236	7,003	18,544
Sub Total	143,797	382,530	15,325	21,488
Impaired				
– 3 months or less	—	419,735	—	—
– More than 6 months	179,371	2,316,265	194,125	2,356,265
Sub Total	179,371	2,736,000	194,125	2,356,265
Total	₩79,054,868	14,143,192	53,069,684	18,314,245

There are no significant concentrations of credit risk on trade receivables, which are dispersed among many customers.

9. Other financial Assets

(a) Trade and other receivables as of December 31, 2016 and 2015 are summarized as follows:

	Korean won (thousands)			
	December 31, 2016		December 31, 2015	
	Current	Non-current	Current	Non-current
Financial deposits (*)	₩ 15,500,000	—	500,000	—
Available-for-sale securities	—	60,343,194	—	51,939,042
Accrued income	89,172	—	65,831	—
Derivative assets held for the purpose of hedging	—	—	1,499,978	—
Special deposits (*)	—	8,000	—	8,000
Lease guaranty deposits	—	87,353,873	—	75,850,711
Total	₩ 15,589,172	147,705,067	2,065,809	127,797,753

9. Other financial Assets, Continued

(a) Trade and other receivables as of December 31, 2016 and 2015 are summarized as follows, Continued:

(*) Restricted deposits included in current and non-current other financial assets as of December 31, 2016 and 2015 are summarized as follows:

			Korean won (thousands)	
Description	Depositary		December 31, 2016	December 31, 2015
Current:				
Financial deposits	Woori Bank	₩	500,000	500,000
Financial deposits	Industrial Bank of Korea		10,000,000	—
Non-current:				
Special deposits	KB Bank and others		8,000	8,000
Total		₩	10,508,000	508,000

(b) Available-for-sale financial assets as of December 31, 2016 and 2015 are summarized as follows:

	Korean won (thousands)					
	December 31, 2016					December 31, 2015
Description	Number of shares	Percentage of ownership		Acquisition Cost	Carrying amount	Carrying amount
LOTTE rental co., ltd.	576,690	4.90%	₩	59,780,647	59,992,484	51,588,332
Ohmynews	10,000	2.90%		300,000	300,000	300,000
The Korea Economic Daily	10,142	0.05%		50,710	50,710	50,710
Total			₩	60,131,357	60,343,194	51,939,042

(c) The gross deposits balance and related bad debts allowance as of December 31, 2016 and 2015 are as follows:

		Korean won (thousands)	
		December 31, 2016	December 31, 2015
Deposits	₩	87,971,175	75,900,711
Less: bad debts allowance		(617,302)	(50,000)
Deposits, net	₩	87,353,873	75,850,711

December 31, 2016 and 2015

10. Inventories

Inventories as of December 31, 2016 and 2015 are summarized as follows:

		Korean won (thousands)	
		December 31, 2016	December 31, 2015
Merchandise	₩	463,528,907	418,571,122
Allowance for inventory valuation		(2,700,879)	(2,490,584)
Materials-in-transit		1,035,723	142,023
Total	₩	461,863,751	416,222,561

The Company recognized loss on inventory valuation of ₩210 million for the year ended December 31, 2016 (2015: reversal of loss on inventory valuation of ₩1,232 million).

11. Other Non-financial Assets

Other non-financial assets as of December 31, 2016 and 2015 are summarized as follows:

		Korean won (thousands)			
		December 31, 2016		December 31, 2015	
		Current	Non-current	Current	Non-current
Advance payments	₩	2,557,218	—	21,266,157	—
Prepaid expenses (*)		1,309,313	6,697,131	1,733,340	7,645,099
Total	₩	3,866,531	6,697,131	22,999,497	7,645,099

(*) Includes lease prepayments in lease guaranty deposit calculated using effective interest method.

December 31, 2016 and 2015

12. Property and Equipment

(a) Changes in property and equipment for the year ended December 31, 2016 and 2015 are as follows:

		Korean won (thousands)						
		2016						
		Land	Buildings	Structures	Vehicles	Tools and equipment	Construction-in-progress	Total
Acquisition cost								
Balance as of January 1	₩	210,587,309	257,373,249	50,000	104,545	248,838,374	2,280,386	719,233,863
Acquisitions		6,276,057	7,861,115	—	—	24,002,689	1,384,289	39,524,150
Disposals		—	(3,886,595)	—	—	(3,951,580)	—	(7,838,175)
Others		—	1,059,319	—	—	196,835	(2,280,386)	(1,024,232)
Balance as of December 31		216,863,366	262,407,088	50,000	104,545	269,086,318	1,384,289	749,895,606
Accumulated depreciation and impairment losses								
Balance as of January 1		—	(130,708,094)	(14,112)	(104,544)	(166,682,359)	—	(297,509,109)
Depreciation		—	(13,926,476)	(1,250)	—	(32,841,250)	—	(46,768,976)
Impairment		—	(62,433)	—	—	(54,120)	—	(116,553)
Disposals		—	3,886,550	—	—	3,623,175	—	7,509,725
Others		—	(20,692)	—	—	20,692	—	—
Balance as of December 31		—	(140,831,145)	(15,362)	(104,544)	(195,933,862)	—	(336,884,913)
Book value								
Balance as of January 1		210,587,309	126,665,155	35,888	1	82,156,015	2,280,386	421,724,754
Balance as of December 31	₩	216,863,366	121,575,943	34,638	1	73,152,456	1,384,289	413,010,693

December 31, 2016 and 2015

12. Property and Equipment, Continued

(a) Changes in property and equipment for the year ended December 31, 2016 and 2015 are as follows, Continued:

		Korean won (thousands)						
		2015						
		Land	Buildings	Structures	Vehicles	Tools and equipment	Construction-in-progress	Total
Acquisition cost								
Balance as of January 1	₩	200,561,051	253,102,553	50,000	104,545	235,521,513	3,552,423	692,892,085
Acquisitions		1,336,797	4,988,636	—	—	19,325,273	6,045,681	31,696,387
Disposals		—	(4,901,715)	—	—	(6,222,212)	—	(11,123,927)
Others		8,689,461	4,183,775	—	—	213,800	(7,317,718)	5,769,318
Balance as of December 31		210,587,309	257,373,249	50,000	104,545	248,838,374	2,280,386	719,233,863
Accumulated depreciation and impairment losses								
Balance as of January 1		—	(118,995,258)	(12,862)	(104,544)	(139,233,824)	—	(258,346,488)
Depreciation		—	(16,302,063)	(1,250)	—	(33,065,795)	—	(49,369,108)
Disposals		—	4,901,637	—	—	5,617,260	—	10,518,897
Others		—	(312,410)	—	—	—	—	(312,410)
Balance as of December 31		—	(130,708,094)	(14,112)	(104,544)	(166,682,359)	—	(297,509,109)
Book value								
Balance as of January 1		200,561,051	134,107,295	37,138	1	96,287,689	3,552,423	434,545,597
Balance as of December 31	₩	210,587,309	126,665,155	35,888	1	82,156,015	2,280,386	421,724,754

(b) Pledged property and equipment were pledged as collateral for the Company's as of December 31, 2016 and 2015 are as follows:

		Korean won (thousands)			
		Book value	Guaranteed amount	Account	Amount
December 31, 2016 Buildings	₩	1,386,067	720,000	Deposit	600,000
December 31, 2015 Buildings		1,452,070	720,000	Deposit	600,000

(c) Property and equipment pledged as collateral on behalf of third parties as of December 31, 2016 and 2015 are summarized as follows;

		Korean won (thousands)			
		Book value	Guaranteed amount	Guarantee recipient	Lender
December 31, 2016					
Buildings	₩	2,240,412	44,515,750	Lessor of land	NH Bank and others
December 31, 2015					
Buildings		3,213,531	43,941,000	Lessor of land	NH Bank and others

December 31, 2016 and 2015

12. Property and Equipment, Continued

(d) The insured property and equipment ended December 31, 2016 and 2015 are as follows:

	Insured assets	Insurance company		Korean won (thousands) December 31, 2016	December 31, 2015
Package and fire Insurance	Buildings and equipment	Lotte Non - Life Insurance Co., Ltd.	₩	800,354,996	596,670,134

(e) As of December 31, 2016, the Company reviewed whether there is any indication of impairment and conducted impairment testing for branches where impairment indicators exist. As a result, recoverable amounts of some CGUs were less than respective carrying amounts, so the Company recognized impairment loss of ₩117 million.

13. Investment Properties

(a) Changes in Investment Properties for the year ended December 31, 2016 and 2015 are as follows:

		Korean won (thousands)					
		2016			2015		
		Land	Buildings	Total	Land	Buildings	Total
Acquisition cost							
Balance as of January 1	₩	2,602,661	622,596	3,225,257	10,214,514	4,593,609	14,808,123
Disposals		—	—	—	(960,000)	(2,240,000)	(3,200,000)
Others		—	—	—	(6,651,853)	(1,731,013)	(8,382,866)
Balance as of December 31		2,602,661	622,596	3,225,257	2,602,661	622,596	3,225,257
Accumulated depreciation and impairment losses							
Balance as of January 1		—	(129,842)	(129,842)	—	(896,179)	(896,179)
Depreciation		—	(15,565)	(15,565)	—	(45,393)	(45,393)
Disposals		—	—	—	—	499,320	499,320
Others		—	—	—	—	312,410	312,410
Balance as of December 31		—	(145,407)	(145,407)	—	(129,842)	(129,842)
Book value							
Balance as of January 1		2,602,661	492,754	3,095,415	10,214,514	3,697,430	13,911,944
Balance as of December 31	₩	2,602,661	477,189	3,079,850	2,602,661	492,754	3,095,415

(b) Details of gain and losses recognized in relation to the Company's investment properties for the years ended December 31, 2016 and 2015, are as follows:

		Korean won (thousands) 2016	2015
Rental revenue	₩	—	433,341
Operating expenses (depreciation)		15,565	45,393
Total	₩	15,565	478,734

December 31, 2016 and 2015

13. Investment Properties, Continued

(c) As of December 31, 2016 there are no significant differences between the carrying amounts and the fair value of investment properties.

14. Goodwill and Intangible Assets

(a) Changes in Goodwill and Intangible Assets for the year ended December 31, 2016 and 2015 are as follows:

	Korean won (thousands)					
	2016					
	Goodwill	Trademarks	Member ships	Right to use property	Others	Total
Acquisition cost						
Balance as of January 1 ₩	1,683,324,078	74,372	4,674,964	345,000	26,012,954	1,714,431,368
Acquisitions	—	101,238	291,270	—	3,775,888	4,168,396
Others	—	4,832	—	—	1,019,400	1,024,232
Balance as of December 31	1,683,324,078	180,442	4,966,234	345,000	30,808,242	1,719,623,996
Accumulated depreciation and impairment losses						
Balance as of January 1	—	(28,498)	(1,902,937)	(136,167)	(7,790,591)	(9,858,193)
Depreciation	—	(29,663)	—	(49,537)	(5,548,766)	(5,627,966)
Impairment	—	—	(265,358)	—	—	(265,358)
Balance as of December 31	—	(58,161)	(2,168,295)	(185,704)	(13,339,357)	(15,751,517)
Book value						
Balance as of January 1	1,683,324,078	45,874	2,772,027	208,833	18,222,363	1,704,573,175
Balance as of December 31 ₩	1,683,324,078	122,281	2,797,939	159,296	17,468,885	1,703,872,479

14. Goodwill and Intangible Assets, Continued

(a) Changes in Goodwill and Intangible Assets for the year ended December 31, 2016 and 2015 are as follows, Continued:

		Korean won (thousands)					
		2015					
		Goodwill	Trademarks	Member ships	Right to use property	Others	Total
Acquisition cost							
Balance as of January 1	₩	1,683,324,078	49,510	4,468,697	345,000	12,375,845	1,700,563,130
Acquisitions		—	19,234	206,267	—	11,029,189	11,254,690
Others		—	5,628	—	—	2,607,920	2,613,548
Balance as of December 31		1,683,324,078	74,372	4,674,964	345,000	26,012,954	1,714,431,368
Accumulated depreciation and impairment losses							
Balance as of January 1		—	(18,833)	(1,943,618)	(86,629)	(4,878,297)	(6,927,377)
Depreciation		—	(9,665)	—	(49,538)	(2,912,294)	(2,971,497)
Impairment		—	—	40,681	—	—	40,681
Balance as of December 31		—	(28,498)	(1,902,937)	(136,167)	(7,790,591)	(9,858,193)
Book value							
Balance as of January 1		1,683,324,078	30,677	2,525,079	258,371	7,497,548	1,693,635,753
Balance as of December 31	₩	1,683,324,078	45,874	2,772,027	208,833	18,222,363	1,704,573,175

(b) Impairment testing for goodwill

(i) Goodwill is tested for impairment annually by the Company. The recoverable amount is estimated for all CGUs as one group.

(ii) The recoverable amount of CGU group is its value in use. The value in use is measured by the estimated future cash flows based on the Company's five-year business plan. The cash flows after the five-year period are assumed to grow constantly at 1.8%.

(iii) Key assumptions applied in estimating the value in use as of December 31, 2016 and 2015 are as follows:

	2016	2015
Discount rate	7.0%	7.5%
Terminal growth rate	1.8%	2.0%
Gross margin ratio	24.9% ~ 25.2%	24.9% ~ 25.0%
Sales growth ratio	2.1% ~ 4.0%	2.6% ~ 6.9%

Management determined budgeted gross margin and growth rate based on past performance and its expectations of market development. The discount rates used are pretax and reflect specific risks relating to the relevant operating segment.

14. Goodwill and Intangible Assets, Continued

(b) Impairment testing for goodwill, Continued

The value in use is affected by the key assumptions such as discount rate or terminal growth rate used in discounted cash flow model. When the discount rate increases by 0.5%, the value in use would be decreased by 11%. And if the terminal growth rate decreases by 0.5%, the value in use would be decreased by 8.7%.

(iv) Value in use is based on the above assumptions and represents management's estimation of future cash flows, and is calculated using external and internal sources. As a result of impairment testing, value in use is higher than the CGU group's carrying amount as of December 31, 2016 and 2015.

15. Trade and Other Payables

Trade and other payables as of December 31, 2016 and 2015 are summarized as follows:

		Korean won (thousands)	
		December 31, 2016	**December 31, 2015**
Trade payables	₩	281,453,893	193,365,846
Other payables		87,847,822	86,154,660
Total	₩	369,301,715	279,520,506

16. Borrowings

Borrowings as of December 31 2015 was summarized as follows:

	Lender	Annual interest rate (%)	Maturity		Korean won (thousands) December 31, 2015
Long-term borrowings	Mizuho Bank, Ltd.	2.32	Mar. 28, 2016	₩	100,000,000
Less: Discount on borrowings					(123,617)
	Subtotal				99,876,383
Current portion of long-term borrowings					100,000,000
Less: Discount on Current portion of long-term borrowings					(123,617)
	Total			₩	—

17. Debentures

(a) Debentures as of December 31, 2016 and 2015 are summarized as follows:

Description	Maturity	Annual interest rate (%)		Korean won (thousands) December 31, 2016	Korean won (thousands) December 31, 2015
3-1st non-guaranteed debenture	Mar. 4, 2016	2.9	₩	—	150,000,000
3-2nd non-guaranteed debenture	Mar. 4, 2018	3		150,000,000	150,000,000
4-1st non-guaranteed debenture	Oct. 28, 2018	2.1		180,000,000	180,000,000
4-2nd non-guaranteed debenture	Oct. 28, 2020	2.4		100,000,000	100,000,000
4-3rd non-guaranteed debenture	Oct. 28, 2022	2.7		40,000,000	40,000,000
5-1st non-guaranteed debenture	Jan. 28, 2019	2.1		130,000,000	—
5-2nd non-guaranteed debenture	Jan. 28, 2021	2.4		50,000,000	—
USD bonds	Mar. 29, 2016	3M USD Libor +0.5		—	35,160,000
Subtotal				650,000,000	655,160,000
Less: Discount on debentures				(1,000,165)	(1,082,862)
Total book value				648,999,835	654,077,138
Current portion of debentures				—	185,160,000
Less: Discount on Current portion of debentures				—	(38,333)
Total			₩	648,999,835	468,955,471

(b) The Company's debentures contain financial covenants that require a debt ratio which the Company is required to maintain. Financial covenants are as follows:

Debenture	Debt ratio
3-2nd	Less than 200%
4-1st, , 4-2nd, 4-3rd	Less than 500%
5-1st, , 5-2nd	Less than 300%

18. Other financial Liabilities

Other financial Liabilities as of December 31, 2016 and 2015 are summarized as follows:

		Korean won (thousands) December 31, 2016		December 31, 2015	
		Current	Non-current	Current	Non-current
Accrued expenses	₩	2,322,082	—	1,988,257	—
Deposits		827,299	717,318	—	1,368,123
Total	₩	3,149,381	717,318	1,988,257	1,368,123

December 31, 2016 and 2015

19. Other Non-financial Liabilities

(a) Other Non-financial Liabilities as of December 31, 2016 and 2015 are summarized as follows:

		Korean won (thousands)			
		December 31, 2016		**December 31, 2015**	
		Current	**Non-current**	**Current**	**Non-current**
Advances received	₩	34,648,354	—	33,147,058	—
Unearned revenues (*)		3,689,883	80,816	7,802,794	165,371
Withholdings		2,333,070	—	2,236,617	—
Withholdings of value added tax		6,433,046	—	5,716,550	—
Total	₩	47,104,353	80,816	48,903,019	165,371

(*) Includes advanced rental deposits calculated using effective interest method.

(b) In order to promote sales, the Company grants award credits to its customers upon sale, which are effective for three years. Movements in unearned revenues relating to the Company's obligations on award credits for the years ended December 31, 2016 and 2015, are as follows:

		Korean won (thousands)	
		2016	**2015**
Balance as of January 1	₩	7,802,794	20,957,905
Unearned revenue relating to award credits earned		6,152,115	16,326,566
Utilization of award credits		(10,282,959)	(18,962,229)
Transferred		—	(10,519,448)
Balance as of December 31		3,671,950	7,802,794
Statement of financial position			
– Current		3,671,950	7,802,794
– Non-current		—	—
Total	₩	3,671,950	7,802,794

December 31, 2016 and 2015

20. Provisions

Changes in provisions for the years ended December 31, 2016 and 2015 are as follows:

		Korean won (thousands)			
		2016			
		Book value as of January 1, 2016	Increase	Utilization	Book value as of December 31, 2016
Current:					
Provision for sales return	₩	294,010	320,722	—	614,732
Non-current:					
Provision for restructuring		123,191	10,776	(45,000)	88,967

		Korean won (thousands)			
		2015			
		Book value as of January 1, 2016	Increase	Utilization	Book value as of December 31, 2016
Current:					
Provision for sales return	₩	197,431	96,579	—	294,010
Non-current:					
Provision for restructuring		—	123,191	—	123,191

21. Retirement Benefit Obligations

(a) Retirement benefit obligations recognized in the statements of financial position as of December 31, 2016 and 2015 are summarized as follows:

		Korean won (thousands)	
		December 31, 2016	December 31, 2015
Present value of funded obligations	₩	79,425,366	73,471,881
Present value of unfunded obligations		527,865	547,404
Subtotal		79,953,231	74,019,285
Fair value of plan assets		(72,946,512)	(63,908,056)
Total	₩	7,006,719	10,111,229

(b) Details of present value of other long-term employee benefits as of December 31, 2016 and 2015 are summarized as follows:

		Korean won (thousands)	
		December 31, 2016	December 31, 2015
Present value of other long-term employee benefits	₩	1,829,391	1,935,311

21. Retirement Benefit Obligations, Continued

(c) Changes in the present value of defined benefit obligations for the years ended December 31, 2016 and 2015 are as follows:

		Korean won (thousands)	
		2016	**2015**
Beginning of the year	₩	74,019,285	62,143,282
Current service costs		13,910,211	12,863,513
Interest costs		2,601,847	2,858,621
Remeasurements:			
– Gain from change in demographic assumptions		(1,096,662)	(9,152,295)
– Gain from change in financial assumptions		(247,707)	12,130,881
– Gain from experience adjustments		(2,306,605)	(734,714)
Payments		(6,927,138)	(6,768,485)
Others		—	678,482
End of the year	₩	79,953,231	74,019,285

(d) During 2016 and 2015, changes on plan assets of an employee benefit plan are as follows:

		Korean won (thousands)	
		2016	**2015**
Beginning of the year	₩	63,908,056	55,658,971
Expected return on plan assets		1,878,002	2,123,300
Actuarial loss		(290,330)	(1,129,224)
Employer contributions		14,000,000	13,000,000
Payments		(6,549,216)	(5,744,991)
End of the year	₩	72,946,512	63,908,056

In 2016 the actual return on the plan assets are ₩1,588 million (2015: ₩994 million). The estimated contributions to the plan for the next annual reporting period are ₩12,916 million.

(e) Expenses recognized for the years ended December 31, 2016 and 2015 are as follows:

		Korean won (thousands)	
		2016	**2015**
Pension expenses_defined benefit plans			
Current service costs	₩	13,910,211	12,863,513
Interest costs, net		723,845	735,321
Subtotal		14,634,056	13,598,834
Pension expenses_defined contribution plans		1,897,132	2,139,385
Long-term employee benefits		34,681	1,491,555
Total	₩	16,565,869	17,229,774

21. Retirement Benefit Obligations, Continued

(f) The components of plan assets as of December 31, 2016 and 2015 are summarized as follows:

		Korean won (thousands)	
		December 31, 2016	**December 31, 2015**
Principal-guaranteed insurance policies	₩	72,821,367	63,774,727
Others		125,145	133,329
Total	₩	72,946,512	63,908,056

(g) The principal actuarial assumptions used as of December 31, 2016 and 2015 are summarized as follows:

	December 31, 2016	**December 31, 2015**
Discount rate	3.06%	3.10%
Expected rate of increase in salaries	3.00%	3.00%

At December 31, 2016, the weighted-average duration of the defined benefit obligation was 17.6 years.

(h) The sensitivity of the overall pension liability to changes in the weighted principal assumptions is as follows:

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions would have affected the defined benefit obligation by the amounts are as follows:

	Korean won (thousands)	
	Increase	**Decrease**
Discount rate (1% movement)	(7,983,506)	9,629,330
Expected rate of increase in salaries (1% movement)	9,541,202	(8,064,522)

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 maturity profile of the defined benefit obligation

Information about the maturity profile of the defined benefit obligation as of December 31, 2016 is as follows:

Korean won (thousands)				
1 year or less	1 ~ 2 years	2 ~ 5 years	5 ~ 10 years	More than 10 years
6,382,316	6,766,648	21,194,683	38,809,573	309,083,071

December 31, 2016 and 2015

22. Deferred Income Tax

(a) The analysis of deferred tax assets and deferred tax liabilities as of December 31, 2016 and 2015 are as follows:

		Korean won (thousands)	
		2016	2015
Deferred tax assets			
Deferred tax asset to be recovered after more than 12 months	₩	48,226,858	43,992,555
Deferred tax asset to be recovered within 12 months		1,327,663	2,658,565
Deferred tax liabilities			
Deferred tax liability to be recovered after more than 12 months		(46,326,420)	(44,752,748)
Deferred tax liability to be recovered within 12 months		(2,747,494)	(3,180,720)
Deferred tax assets (liabilities), net	₩	480,607	(1,282,348)

(b) Changes in deferred tax assets (liabilities) for the years ended December 31, 2016 and 2015 are as follows:

		Korean won (thousands)			
		2016			
		Beginning balance	Profit or loss	Other comprehensive income	Balance as of December 31, 2016
Deferred tax liabilities					
Land	₩	(27,006,175)	—	—	(27,006,175)
Long-term prepaid expenses		(1,850,115)	229,408	—	(1,620,707)
Sales rebate		(2,780,217)	2,780,217	—	—
Severance benefit insurance		(15,433,483)	(2,259,547)	70,260	(17,622,770)
Available-for-sale financial asset		(389,045)	—	337,780	(51,265)
Others		(474,433)	(2,276,987)	(21,577)	(2,772,997)
Total		(47,933,468)	(1,526,909)	386,463	(49,073,914)
Deferred tax assets					
Buildings		24,807,650	2,926,451	—	27,734,101
Deposits		2,021,310	(274,878)	—	1,746,432
Unearned revenues		1,888,276	(999,664)	—	888,612
Long-term unearned revenues		40,020	(16,122)	—	23,898
Retirement benefit obligations		16,228,823	2,412,988	(883,536)	17,758,275
Others		1,665,041	(261,838)	—	1,403,203
Total	₩	46,651,120	3,786,937	(883,536)	49,554,521

22. Deferred Income Tax, Continued

(b) Changes in deferred tax assets (liabilities) for the years ended December 31, 2016 and 2015 are as follows, Continued:

		Korean won (thousands)			
		2015			
		Beginning balance	Profit or loss	Other comprehensive income	Balance as of December 31, 2015
Deferred tax liabilities					
Land	₩	(27,152,614)	146,439	—	(27,006,175)
Long-term prepaid expenses		(2,350,508)	500,393	—	(1,850,115)
Sales rebate		(3,976,523)	1,196,306	—	(2,780,217)
Severance benefit insurance		(13,270,688)	(2,436,068)	273,273	(15,433,483)
Available-for-sale financial asset		—	—	(389,045)	(389,045)
Others		(369,787)	(32,156)	(72,490)	(474,433)
Total		(47,120,120)	(625,086)	(188,262)	(47,933,468)
Deferred tax assets					
Buildings		23,903,562	904,088	—	24,807,650
Deposits		2,562,390	(541,080)	—	2,021,310
Unearned revenues		4,851,027	(2,962,751)	—	1,888,276
Long-term unearned revenues		272,818	(232,798)	—	40,020
Retirement benefit obligations		13,270,688	2,415,117	543,018	16,228,823
Others		692,241	972,800	—	1,665,041
Total	₩	45,552,726	555,376	543,018	46,651,120

Realization of the future tax benefits related to the deferred tax assets is dependent on many factors, including the Company's ability to generate taxable income within the period during which the temporary differences reverse, the outlook of the Korean economic environment, and the overall future industry outlook. The Company's management periodically considers these factors in reaching its conclusion, and recognized deferred income tax asset, since, except for those determined not to be probable to be reversed in the foreseeable future, all the temporary differences are determined to be realizable as of December 31, 2016. The Company did not recognize deferred income tax assets in respect of the temporary differences related to goodwill arising from the business combination.

(c) The aggregate amount of current tax liabilities and tax assets are as follows:

		Korean won (thousands)	
		December 31, 2016	December 31, 2015
Current tax assets	₩	12,859,333	13,755,210
Current tax liabilities		(43,163,586)	(36,495,891)
Current tax assets(liabilities), net	₩	(30,304,253)	(22,740,681)

December 31, 2016 and 2015

23. Commitments and Contingencies

(a) As of December 31, 2016, the Company provides assets (Financial deposits : ₩500 million and properties ₩1,386 million) pledged as collateral on behalf of leaseholders. (Note 9,12)

(b) As of December 31, 2016, the Company has a bank overdraft agreement of up to ₩10,000 million with KB Bank. And the Company has general loan agreement of up to ₩120,000 million with Woori Bank and others.

(c) As of December 31, 2016, the Company is able to issue of the short-term bonds up to ₩200,000 million.

(d) As of December 31, 2016, the Company has a discount of bill commitment of up to ₩450,000 million with Hana Bank and others, and up to half of previous year's sales with INDUSTRIAL BANK OF KOREA. As of December 31, 2016 used amount is ₩165,578 million, which was recognized as trade payables.

(e) As of December 31, 2016, the Company has letter of credit agreement of up to USD10 million.

(f) The Company is provided guarantees to damages from Seoul Guarantee Insurance Company amounting ₩1,730 million.

(g) As of December 31, 2016, the Company has operating lease agreements with Sam Do Housing Co., Ltd. and others for its branch offices. In relation to the said agreements, the Company has provided lease guaranty deposits amounting to ₩94,120 million and incurred rental expenses of ₩101,837 million for the year ended December 31, 2016 (2015: ₩83,280 million and ₩100,519 million, respectively).

(h) As of December 31, 2016, the Company is the defendant in various lawsuits with damage claims totaling ₩2,454 million and the Company is the plaintiff in various lawsuits claiming damages totaling ₩19,637 million. The management believes that the ultimate resolutions of other legal actions will not have a material effect on the financial position or results of operations of the Company.

(i) The Company won lawsuit related a former representative partially in second district court on June 30, 2016 and the lawsuit is in progress. The Company recognized other income of ₩1,673 million related to the damage claims.

(j) As of December 31, 2015, the Company has a Cross-currency Swap agreement of USD30 million with Mizuho Bank, Ltd. Seoul Branch. As the contract ended in 2016 the Company recognized trade payables of ₩374 million.

24. Share Capital and Premium

Share capital and premium of the Company as of December 31, 2016 and 2015, are as follows:

		Korean won (thousands)	
		December 31, 2016	**December 31, 2015**
Authorized number of shares		100,000,000 shares	100,000,000 shares
Par value		5,000 won	5,000 won
Number of shares issued		23,607,712 shares	23,607,712 shares
Common shares	₩	118,038,560	118,038,560
Share premium		1,045,215,227	1,045,215,227
Total	₩	1,163,253,787	1,163,253,787

December 31, 2016 and 2015

25. Other components of equity

As of December 31, 2016 and 2015, all other components of equity are considerations for conversion options.

26. Accumulated Other Comprehensive Income

Accumulated Other Comprehensive Income of the Company as of December 31, 2016 and 2015, are as follows:

		Korean won (thousands)	
		December 31, 2016	December 31, 2015
Effective portion of unrealized changes in fair values of cash flow hedges	₩	—	(67,584)
Net change in unrealized fair value of available for-sale financial assets		160,573	1,218,577
Total	₩	160,573	1,150,993

27. Retained Earnings

(a) Retained Earnings of the Company as of December 31, 2016 and 2015, are as follows:

		Korean won (thousands)	
		December 31, 2016	December 31, 2015
Legal reserve (*)	₩	6,097,046	5,081,915
Unappropriated retained earnings		715,690,135	602,881,197
Total	₩	721,787,181	607,963,112

(*) The Korean Commercial Code requires the Company to appropriate a legal reserve in an amount equal to at least 10% of cash dividends for each accounting period until the reserve equals 50% of stated capital. The legal reserve may be used to reduce a deficit or may be transferred to common stock in connection with a free issue of shares.

27. Retained Earnings, Continued

(b) Details of appropriation of retained earnings for the years ended December 31, 2016 and 2015 are as follows:

		Korean won	
		2016	**2015**
I. Unappropriated retained earnings:	₩	715,690,134,695	602,881,196,710
Balance at beginning of the year		591,714,748,934	498,843,286,874
Actuarial gains (losses) on defined benefit pension plans		2,547,368,336	(2,556,807,642)
Profit for the year		121,428,017,425	106,594,717,478
II. Appropriation of retained earnings:		12,984,241,600	11,166,447,776
Regal reserve		1,180,385,600	1,015,131,616
Cash dividends		11,803,856,000	10,151,316,160
III. Unappropriated retained earnings to be carried over to subsequent year	₩	702,705,893,095	591,714,748,934

28. Sales and Cost of Sales

(a) Details of sales for the years ended December 31, 2016 and 2015 are as follows:

		Korean won (thousands)	
		2016	**2015**
Sales-merchandise	₩	3,923,580,361	3,880,911,368
Others		15,862,057	15,225,178
Total	₩	3,939,442,418	3,896,136,546

(*) Sales of merchandise include the VAT refund for sales in the amount of mileage accruals, which is 10,292 million won.

(b) Details of cost of sales for the years ended December 31, 2016 and 2015 are as follows:

		Korean won (thousands)	
		2016	**2015**
Cost of merchandise sold	₩	2,911,968,184	2,919,580,405
Cost of other operating revenue		14,100,351	13,084,827
Total	₩	2,926,068,535	2,932,665,232

December 31, 2016 and 2015

29. Selling, General and Administrative Expenses

Details of selling, general and administrative expenses for the years ended December 31, 2016 and 2015 are as follows:

		Korean won (thousands)	
		2016	**2015**
Salaries	₩	181,289,914	176,715,569
Retirement and termination benefits		16,531,187	15,738,219
Long-term employee benefits		34,681	1,491,555
Employee welfare		46,170,661	47,397,699
Advertising		63,409,262	70,041,375
Sales promotion expenses		34,701,445	24,189,632
Commissions and fees		144,178,192	130,402,323
Transportation		89,399,138	86,398,356
Installation		43,657,821	32,095,122
Bad debt expenses		(14,754)	(33,444)
Rental expenses		123,220,097	121,851,146
Depreciation		46,784,541	49,414,501
Amortization of intangible assets		5,627,966	2,971,497
Utilities		17,046,203	17,217,079
Taxes and dues		4,236,470	4,674,025
Travel		4,137,982	4,291,215
Communications		1,881,077	1,911,263
Repairs		3,363,740	3,859,400
Supplies		5,691,138	5,829,930
Printing		690,013	705,408
Education and training		2,985,670	2,572,399
Insurance		2,568,236	2,534,593
Vehicle maintenance		434,219	421,337
Entertainment		748,019	588,126
Other miscellaneous expenses		61,084	13,018
Total	₩	838,834,002	803,291,343

30. Selling, General and Administrative Expenses

(a) Details of nature of expenses for the years ended December 31, 2016 and 2015 are as follows:

		Korean won (thousands)	
		2016	**2015**
Purchase of inventories	₩	2,957,609,373	2,981,082,115
Changes in inventories		(45,641,189)	(61,501,710)
Employee benefits expense		216,842,813	211,751,257
Depreciation		46,784,541	49,414,501
Amortization		5,627,966	2,971,497
Transportation		89,399,138	86,398,356
Installation		43,657,821	32,095,122
Advertising		98,110,707	94,231,007
Rental expenses		123,220,097	121,851,146
Commissions and fees		158,278,543	143,487,150
Utilities		17,046,203	17,217,079
Others		53,966,524	56,959,055
Total	₩	3,764,902,537	3,735,956,575

(b) Employee salaries and benefit expenses for the years ended December 31, 2016 and 2015, are as follows:

		Korean won (thousands)	
		2016	**2015**
Wages and salaries	₩	146,950,011	146,382,747
Bonuses		34,339,903	30,332,822
Pension expenses		16,531,187	15,738,219
Long-term employee benefits		34,681	1,491,555
Employee benefits		18,987,031	17,805,914
Total	₩	216,842,813	211,751,257

31. Other incomes and expenses

Details of other income and expenses for the years ended December 31, 2016 and 2015 are as follows:

		Korean won (thousands)	
		2016	**2015**
Other income:			
Commission income	₩	2,699,686	2,026,555
Gain on disposal of property and equipment		78,285	199,430
Gain on disposal of investment property		—	699,319
Reversal of impairment loss on intangible assets		—	40,681
Gain on foreign currency transactions		63,994	18,322
Dividend income		507	507
Gain on insurance settlements		81,031	44,809
Miscellaneous income		4,322,539	3,172,585
Total	₩	7,246,042	6,202,208
Other expenses:			
Loss on disposal of property and equipment	₩	318,780	519,229
Impairment of property and equipment		116,553	—
Loss on disposal of intangible assets		265,358	—
Loss on foreign currency transactions		156,027	25,281
Loss on foreign currency translation		1,306	21,781
Other bad debt expenses		987,037	1,891,225
Donation		2,348,162	1,433,192
Loss on insurance settlements		—	11,587
Others		2,684,180	1,042,892
Total	₩	6,877,403	4,945,187

December 31, 2016 and 2015

32. Finance Income and Finance Costs

Details of finance income and finance costs for the years ended December 31, 2016 and 2015 are as follows:

		Korean won (thousands)	
		2016	2015
Finance costs:			
Interest expense	₩	17,789,655	24,077,074
Loss on foreign currency transactions		—	2,182,682
Loss on transactions of derivative instruments held for the purpose of hedging		374,139	—
Total		18,163,794	26,259,756
Finance income:			
Interest income		5,415,995	5,864,936
Gain on foreign currency transactions		375,429	—
Gain on disposal of available-for-sale financial assets		—	11
Gain on valuation of derivative instruments held for the purpose of hedging		—	2,184,000
Total		5,791,424	8,048,947
Net finance income(costs)	₩	12,372,370	18,210,809

33. Income Tax Expense

(a) Income tax expense for the years ended December 31, 2016 and 2015, consists of the following:

		Korean won (thousands)	
		2016	2015
Current tax			
Current income tax expense	₩	39,018,462	34,396,706
Income tax expense of the past period		32,280	65,864
Tax investigation (*1)		2,297,751	—
Cash Reserve Taxation (*2)		2,019,668	2,099,185
Sub total		43,368,161	36,561,755
Deferred tax		(1,762,955)	(285,046)
Income tax directly credited (charged) to equity		(497,073)	354,756
Total	₩	41,108,133	36,631,465

(*1) As a result of regular tax investigation from 2011 to 2013, the Company paid taxes of ₩2,298 million and recognized in profit or loss.

(*2) In accordance with Cash Reserve Taxation which is effective for three years from January 1, 2015 to December 31, 2017, if utilization of current taxable income for facility investment, increase in employee's salary, or dividend distribution does not reach the required level, Cash Reserve Tax is additionally imposed. Estimation of the income tax expense at year-end involves estimation of taxable income, as well as facility

December 31, 2016 and 2015

33. Income Tax Expense, Continued

(a) Income tax expense for the years ended December 31, 2016 and 2015, consists of the following, Continued:

investments, salary increases and dividend distributions for the future periods subject to Cash Reserve Taxation, hence uncertainty on estimation of income tax expense exists as the actual amounts may differ from these estimates

The Company's undistributed profits for the year ended December 31, 2016 amounted to ₩2,020 thousand and that was carried forward to the following year. If the qualifying expenditures which can offset the undistributed profits carried forward are not sufficient in the following year, the entire or part of the amount carried forward shall be subject to Cash Reserve Tax.

(b) During 2016 and 2015, effective tax rates are reconciled as follows:

		Korean won (thousands)	
		2016	2015
Profit before income tax	₩	162,536,150	143,226,183
Income tax using statutory tax rates		38,871,748	34,198,736
Adjustment:			
Tax effects on non-taxable income		(2,372,653)	—
Tax effects on non-deductible expense		262,491	9,215
Tax credit		(12,100)	437,869
Cash Reserve Taxation		2,019,668	2,099,185
Tax investigation		2,297,751	—
Others		41,228	(113,540)
Income tax expenses	₩	41,108,133	36,631,465
Effective tax rate		25.3%	25.6%

(c) During 2016 and 2015, the details of income tax expense recognized directly to equity are as follows:

		Korean won (thousands)					
		2016			2015		
		Before tax	Tax credit (charge)	After tax	Before tax	Tax credit (charge)	After tax
Defined benefit plan actuarial loss (gain)	₩	3,360,644	(813,276)	2,547,368	(3,373,098)	816,291	(2,556,807)
Effective portion of changes in fair value of cash flow hedges		89,161	(21,577)	67,584	299,544	(72,490)	227,054
Change in fair value of available-for-sale financial assets		(1,395,784)	337,780	(1,058,004)	1,607,622	(389,045)	1,218,577
Total	₩	2,054,021	(497,073)	1,556,948	(1,465,932)	354,756	(1,111,176)

December 31, 2016 and 2015

34. Earnings per Share

(a) Basic earnings per share for the years ended December 31, 2016 and 2015 are as follows:

		Korean won (thousands, except per share amount)	
		2016	2015
Profit for the year	₩	121,428,017	106,594,717
Profit attributable to common stock holders		121,428,017	106,594,717
Weighted average number of common shares outstanding (*)		23,607,712	23,607,712
Basic earnings per share (in won)		5,144	4,515

(*) Weighted-average numbers of outstanding common shares for the years ended December 31, 2016 and 2015, are calculated as follows:

	Period	Number of shares	Number of Days outstanding	Weighted number of shares
2016	2016.01.01 ~ 2016.12.31	23,607,712	366	8,640,422,592
2015	2015.01.01 ~ 2015.12.31	23,607,712	365	8,616,814,880

Weighted-average number of common shares outstanding:

- for the year ended December 31, 2016: 8,640,422,592 shares ÷ 366 days = 23,607,712 shares
- for the year ended December 31, 2015: 8,616,814,880 shares ÷ 365 days = 23,607,712 shares

(b) The Company have no dilutive potential ordinary shares for the years ended December 31, 2016 and 2015 . So there are no difference between basic and diluted earnings per share.

35. Operating Leases

(a) Lessee

The Company has entered into the operating leases for buildings, furniture and fixtures and vehicles. Future minimum lease payments under operating leases as of December 31, 2016 and 2015 are as follows:

		Korean won (thousands)	
		2016	2015
Within 1 year	₩	93,707,307	93,986,329
1 ~ 5 years		135,403,032	180,276,215
Thereafter		10,265,887	7,606,760
Total	₩	239,376,226	281,869,304

Lease payments for rental recognized as expenses for the year ended December 31, 2016 and 2015 were ₩120,224 million and ₩118,459 million, respectively.

December 31, 2016 and 2015

35. Operating Leases, Continued

(b) Lessor

The Company has entered into the operating leases of its certain of properties and equipment. Future minimum lease payments receivable under operating leases as of December 31, 2016 and 2015 are as follows:

		Korean won (thousands)	
		2016	**2015**
Within 1 year	₩	606,451	598,670
1 ~ 5 years		1,026,517	1,465,150
Thereafter		75	75
Total	₩	1,633,043	2,063,895

Lease payments for rental recognized as expenses for the year ended December 31, 2016 and 2015 were ₩1,070 million and ₩1,290 million, respectively.

December 31, 2016 and 2015

36. Cash Generated from Operations

(a) Cash generated from operations for the years ended December 31, 2016 and 2015, are as follows:

		Korean won (thousands)	
		2016	2015
Profit for the year	₩	121,428,017	106,594,717
Addition of expenses without cash outflows			
Income tax		41,108,133	36,631,465
Depreciation		46,784,541	49,414,501
Severance benefits		14,634,055	13,598,834
Long-term employee benefits		34,681	1,491,555
Amortization		5,627,966	2,971,497
Interest expenses		17,789,655	24,077,074
Losses on disposition of property and equipment		318,780	519,229
Rental		2,754,123	3,161,525
Impairment loss for property and equipment		116,553	—
Impairment loss for intangible assets		265,358	—
Loss on foreign currency translation		1,306	2,204,463
Loss on transactions of derivative instruments held for the purpose of hedging		374,139	—
Reversal of bad debt expenses		(14,754)	(33,444)
Other bad debt expenses		987,037	1,891,225
Deduction of incomes without cash inflows			
Gains on disposition of property and equipment		(78,285)	(199,430)
Gain on disposal of Investment property		—	(699,319)
Gain on disposal of available-for-sale financial assets		—	(11)
Reversal of impairment loss on intangible assets		—	(40,681)
Interest income		(5,415,995)	(5,864,936)
Rental income		(72,317)	(113,491)
Gain on foreign currency transactions		(375,429)	—
Gain on valuation of derivative instruments held for the purpose of hedging		—	(2,184,000)
Dividend income		(507)	(507)
Changes in operating assets and liabilities			
Decrease (Increase) in trade and other receivables		(21,814,132)	2,835,203
Decrease (Increase) in other assets		19,132,966	(11,812,522)
Increase in inventories		(45,641,189)	(59,109,082)
Increase in trade and other payables		90,744,929	3,621,375
Decrease in other liabilities		(1,816,599)	(6,906,789)
Decrease in provision		286,497	219,770
Payment of severance benefits		(6,927,138)	(6,768,485)
Transfer between affiliated companies		—	678,482
Increase in plan assets		(7,450,784)	(7,255,009)
Payment of Long-term employee benefits		(140,600)	(298,100)
Increase (Decrease) in other financial liabilities		100,000	(3,050,313)
Cash generated from operations	₩	272,741,007	145,574,796

36. Cash Generated from Operations, Continued

(b) The significant transactions not affecting cash inflows for the years ended December 31, 2016 and 2015 are as follows:

		Korean won (thousands)	
		2016	2015
Reclassification of construction-in-progress	₩	2,280,386	7,317,717
Reclassification from investment properties to property and equipment		—	9,166,650
Reclassification property and equipment from to investment properties		—	1,096,194
Non-cash acquisition of property and intangible assets		4,037,765	5,497,612
Reclassification of current portion of long-term Debentures		—	183,025,533
Reclassification of current portion of long-term borrowing		—	99,490,502

37. Related Party Transactions

(a) Details of related parties with the Company as of December 31, 2016 and 2015 are as follows:

	Related Company
Parent Company	LOTTE SHOPPING CO., LTD.
Affiliate of Lotte Group (*)	Lotte Card Co., Ltd.
	Daehong Communications Co., Ltd.
	LOTTE DATA COMMUNICATION COMPANY
	Lotte Aluminum Co., Ltd.
	LOTTE LOGISTICS CORP.
	LOTTE.COM INC.
	Lotte Members Co., Ltd.
	Woori Home Shopping & Television Co., Ltd.
	LOTTE rental co., ltd.
	Others (Lotte Non – Life Insurance Co., Ltd., etc.)

(*) Lotte Group represents a group of entities as defined and restricted by the Monopoly Regulation and Fair Trade Act in Korea.

37. Related Party Transactions, Continued

(b) Significant transactions which occurred in the normal course of business with related companies for the years ended December 31, 2016 and 2015 are summarized as follows:

	Korean won (thousands)				
	2016				
Related Company	Sales	Purchases of inventories	Purchases of fixed assets	Other revenue	Other expenses
Shareholders:					
LOTTE SHOPPING CO., LTD.	₩ 4,896,149	499,656	—	—	49,303,210
Others:					
Lotte Card Co., Ltd.	92,591	—	—	—	23,032,813
Daehong Communications Co., Ltd.	—	—	90,200	—	12,179,668
LOTTE DATA COMMUNICATION COMPANY	16,909	—	7,872,899	—	7,641,941
Lotte Aluminum Co., Ltd.	197,034	8,099,591	2,608,503	—	4,948,860
LOTTE LOGISTICS CORP.	—	—	—	—	5,385,659
LOTTE.COM INC.	69,544	—	621,500	—	1,265,136
Lotte Members Co., Ltd.	1,239	—	—	368,216	5,826,683
Woori Home Shopping & Television Co., Ltd.	9,934	—	—	—	968,524
LOTTE rental co., ltd.	9,815	—	—	—	3,763,597
Others	1,534,444	640,198	844,493	—	8,306,592
Total	₩ 6,827,659	9,239,445	12,037,595	368,216	122,622,683

	Korean won (thousands)				
	2015				
Related Company	Sales	Purchases of inventories	Purchases of fixed assets	Other revenue	Other expenses
Shareholders:					
LOTTE SHOPPING CO., LTD.	₩ 5,995,900	—	—	—	47,692,127
Others:					
Lotte Card Co., Ltd.	169,364	—	—	184,618	23,074,003
Daehong Communications Co., Ltd.	—	—	—	—	10,814,054
LOTTE DATA COMMUNICATION COMPANY	—	—	6,976,474	—	3,894,186
Lotte Aluminum Co., Ltd.	96,519	5,132,793	2,452,230	—	5,392,439
LOTTE LOGISTICS CORP.	5,730	—	—	—	4,377,131
LOTTE.COM INC.	5,746	—	5,394,486	—	1,250,908
Lotte Members Co., Ltd.	11,248	—	—	392,428	4,664,816
Woori Home Shopping & Television Co., Ltd.	57,271	—	—	—	684,387
LOTTE rental co., ltd.	6,317	—	—	—	—
Others	951,576	412,386	10,799	—	6,699,108
Total	₩ 7,299,671	5,545,179	14,833,989	577,046	108,543,159

December 31, 2016 and 2015

37. Related Party Transactions, Continued

(c) Account balances with related companies as of December 31, 2016 and 2015 are summarized as follows:

		Korean won (thousands)			
		December 31, 2016			
		Receivables		Payables	
Related company		Trade receivables	Other receivables	Trade payables	Other payables
Shareholders:					
LOTTE SHOPPING CO., LTD.	₩	3,836,933	631,855	221,059	9,247,364
Others:					
Lotte Card Co., Ltd.		3,342,087	—	—	5,771,690
Daehong Communications Co., Ltd.		—	—	—	12,335,730
LOTTE DATA COMMUNICATION COMPANY		—	—	—	3,227,567
Lotte Aluminum Co., Ltd.		—	—	2,028,766	1,371,489
LOTTE LOGISTICS CORP.		—	—	—	461,988
LOTTE.COM INC.		1,665,589	186	—	196,051
Lotte Members Co., Ltd.		—	34,051	—	2,041,879
Woori Home Shopping & Television Co., Ltd.		1,684,002	—	—	25,715
LOTTE rental co., ltd.		—	—	—	1,020,002
Others		64,848	508,700	165,249	4,101,558
Total	₩	10,593,459	1,174,792	2,415,074	39,801,033

		Korean won (thousands)			
		December 31, 2015			
		Receivables		Payables	
Related company		Trade receivables	Other receivables	Trade payables	Other payables
Shareholders:					
LOTTE SHOPPING CO., LTD.	₩	4,553,081	531,000	—	11,941,075
Others:					
Lotte Card Co., Ltd.		1,678,323	—	—	5,621,604
Daehong Communications Co., Ltd.		—	—	—	9,593,317
LOTTE DATA COMMUNICATION COMPANY		—	—	—	3,230,884
Lotte Aluminum Co., Ltd.		—	—	880,222	1,675,175
LOTTE LOGISTICS CORP.		—	—	—	416,404
LOTTE.COM INC.		1,530,205	—	—	2,240,559
Lotte Members Co., Ltd.		—	35,790	—	1,409,517
Woori Home Shopping & Television Co., Ltd.		1,945,833	—	—	—
LOTTE rental co.,ltd.		—	—	—	—
Others		389,888	—	68,497	2,139,188
Total	₩	10,097,330	566,790	948,719	38,267,723

December 31, 2016 and 2015

37. Related Party Transactions, Continued

(d) Key management personnel compensation for the years ended December 31, 2016 and 2015 are as follows:

		Korean won (thousands)	
		2016	**2015**
Short-term benefits and Other long-term benefits	₩	999,977	761,046
Retirement benefits		185,966	212,832
Total	₩	1,185,943	973,878

(e) The Company has no provided guarantees for related companies as of December 31, 2016 and 2015 as follows:

(f) The Company purchased the gift cards from LOTTE SHOPPING CO., LTD. During 2016 and 2015 the purchase amounts are ₩ 18,444 million and ₩ 6,343 million respectively.

(g) In 2016 the Company acquired shares of LOTTE rental Co., ltd. for ₩9,800 million through capital increase.

38. Dividends per Share

Dividends per share and total dividends are ₩500 and ₩11,804 million for the year ended December 31, 2016, respectively. A dividend in respect of the year ended December 31, 2016, is to be proposed at the annual general meeting on March 24, 2017. These financial statements do not reflect this dividend payable.

39. Subsequent Events

The Company previously claimed for rectification of the VAT refund related to membership point and gift certification. On January 13, 2017, tax authority decided to grant the refund including interest to the Company, which amount to ₩10,329 million.

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