

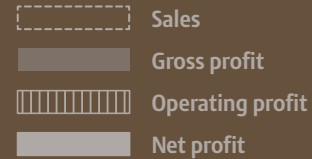
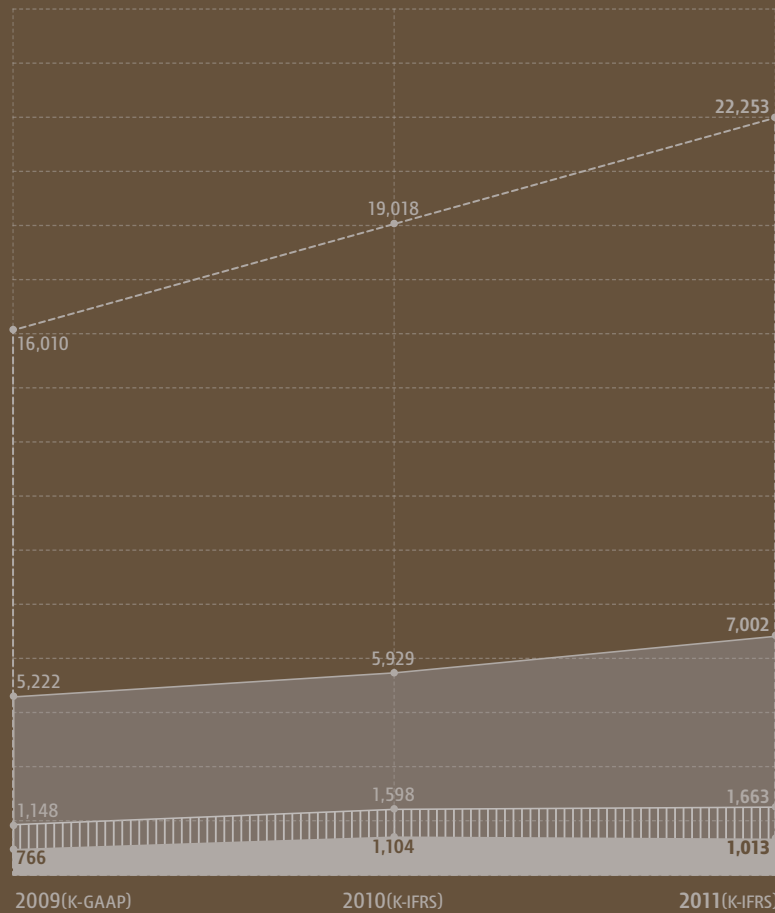
LOTTE SHOPPING



RE  
DE  
FINING  
RETAIL

## Key Operating Results

[in KRW billions]

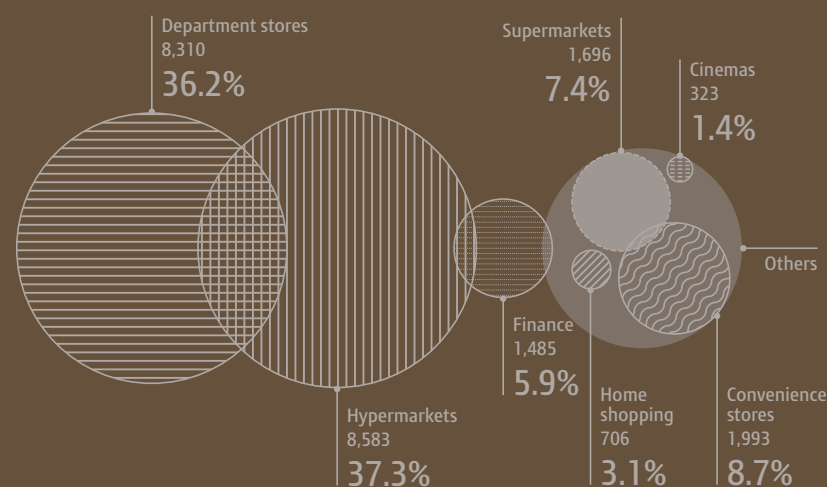


### 2011 Results

The operating environment in 2011 was particularly difficult, due to the ongoing effects of the global financial crisis and a sluggish domestic economy. Despite this, Lotte Shopping managed to grow in terms of both sales and operating profit by strengthening its core competencies and continuing with its strategy of emphasizing quality in all its operations. Our investments in our future growth included new retail channels in Korea and new department stores and supermarkets overseas.

## Sales by Business Division

[in KRW billions]



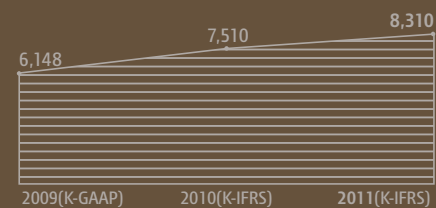
Until 2010, Lotte Shopping's business areas were divided into department stores, hypermarkets, supermarkets, multiplex cinemas, and subsidiaries. Since then, they have been reclassified into department stores, hypermarkets, finance, and other—including supermarkets, convenience stores, home shopping, and multiplex cinemas. 36.2% of our 2011 sales came from department stores and another 37.3% from hypermarkets.

## Key Results by Business

### Lotte Department Store

Gross sales [in KRW billions]

Including results from Lotte Midopa and GS Square



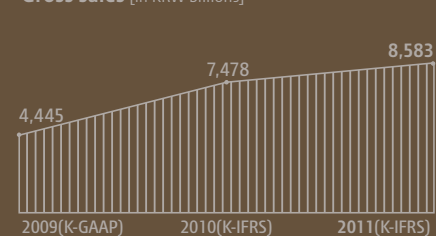
Overseas stores

|                    |    |
|--------------------|----|
| China              | 2  |
| Russia             | 1  |
| Domestic stores    |    |
| Department stores* | 30 |
| Outlets            | 6  |

\* Including six stores managed under contact

### Lotte Mart

Gross sales [in KRW billions]



Stores

|           |    |
|-----------|----|
| Korea     | 95 |
| China     | 94 |
| Indonesia | 28 |
| Vietnam   | 2  |

### Others

#### Lotte Super

Opened in 2001, Lotte Super operates 350 stores nationwide. Its efforts to improve customer convenience included increasing its supply of fresh and private brand products, adding to its menu of "mini" products, and offering online shopping. It has enjoyed impressive growth ever since its establishment.

#### Korea Seven

Established in 1989, Korea Seven is a leading convenience store franchiser that operates a nationwide network of stores under the 7-Eleven and Buy The Way banners. Its broad product mix and friendly and convenient service have made it a special favorite with Koreans.

#### Lotte Home Shopping

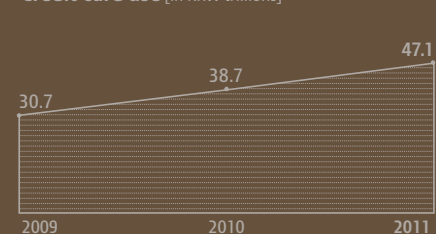
On-air since 2001, Lotte Home Shopping offers customers exciting shopping experiences through TV home shopping, Internet shopping, and catalogues, as well as new media like IPTV and mobile. It has burnished its reputation as Asia's finest home shopping network by advancing into Vietnam, Taiwan, and China.

#### Lotte Cinema

Opened in 1999, Lotte Cinema operates 75 multiplexes across Korea. It is also expanding overseas by opening facilities in China and Vietnam. In addition, it is growing into a leading entertainment company by investing in film production and distribution both at home and abroad.

### Lotte Card

Credit card use [in KRW trillions]



Cardholders [10,000 people]

|      |     |
|------|-----|
| 2009 | 784 |
| 2010 | 872 |
| 2011 | 884 |

Founded in 2002, Lotte Card offers its customers a wide range of credit card products and specialized services. This year, it is focusing on augmenting its core competencies, maintaining its strategy of quality-centered management, and increasing its level of cooperation with its financial subsidiaries and Lotte Group's retail affiliates.

## Financial Highlights

Achieved stable and sustainable growth through qualitative and quantitative growth.

### Condensed Consolidated Financial Position Statements

2009 results are based on K-GAAP, while 2010 and 2011 results are based on K-IFRS.

[in KRW billions]

|   | 2011          | 2010          | 2009          |
|---|---------------|---------------|---------------|
| <b>ASSETS</b>                                 | <b>33,061</b> | <b>29,191</b> | <b>23,747</b> |
| Current assets                                | 12,728        | 10,029        | 7,449         |
| Non-current assets                            | 20,333        | 19,162        | 16,298        |
| <b>LIABILITIES</b>                            | <b>18,382</b> | <b>15,549</b> | <b>11,198</b> |
| Current liabilities                           | 9,911         | 9,003         | 6,432         |
| Non-current liabilities                       | 8,471         | 6,546         | 4,766         |
| <b>SHAREHOLDERS' EQUITY</b>                   | <b>14,679</b> | <b>13,642</b> | <b>12,549</b> |
| Controlling shareholders' equity holdings     | 13,966        | 13,109        | 12,088        |
| Capital stock                                 | 145           | 145           | 145           |
| Capital surplus                               | 3,622         | 3,622         | 3,622         |
| Capital adjustments                           | (31)          | (16)          | (16)          |
| Retained earnings                             | 10,092        | 9,211         | 8,235         |
| Accumulated other comprehensive income        | 138           | 147           | 102           |
| Non-controlling shareholders' equity holdings | 713           | 533           | 461           |

### Condensed Consolidated Comprehensive Income Statements

2009 results are based on K-GAAP, while 2010 and 2011 results are based on K-IFRS.

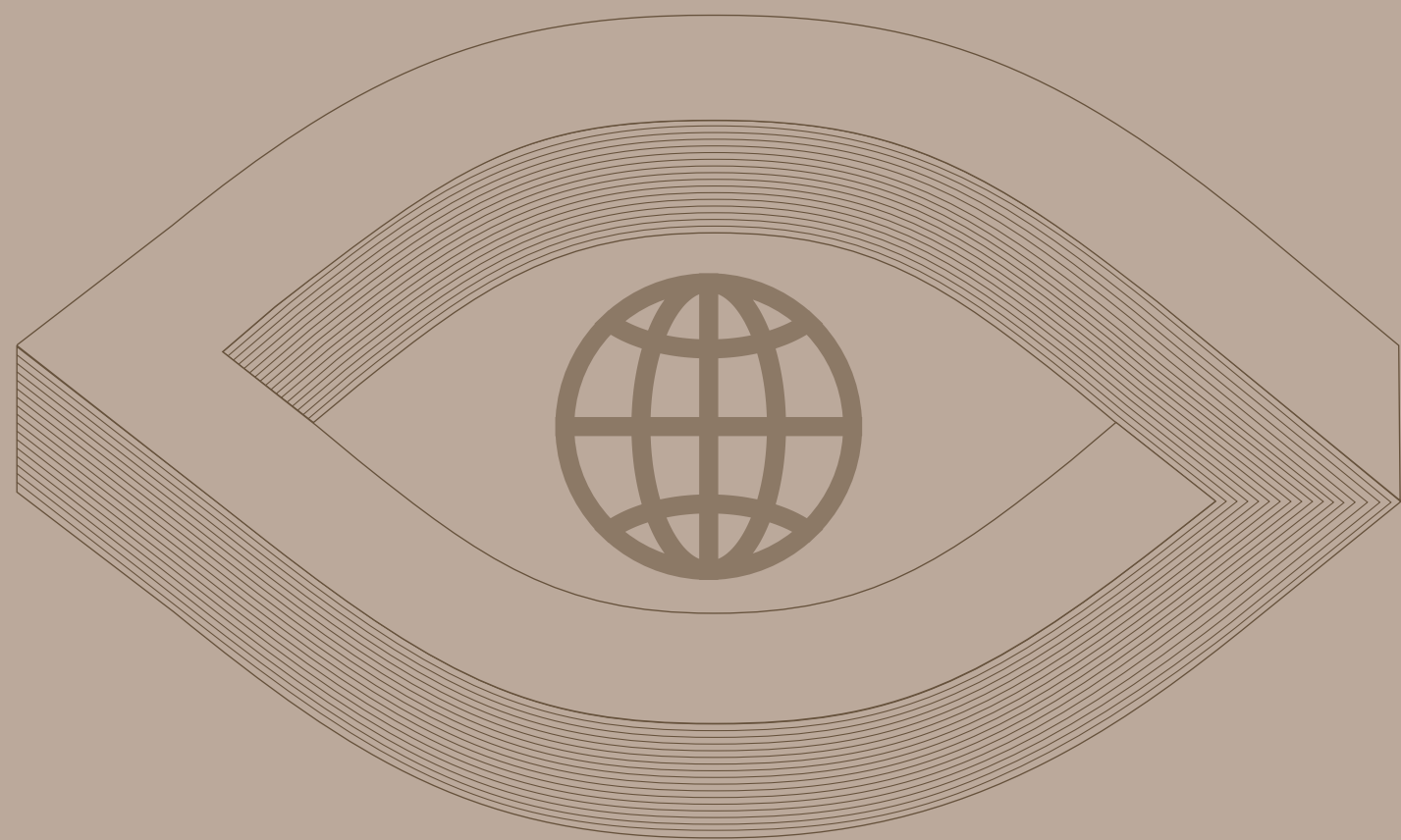
[in KRW billions]

|  | 2011          | 2010          | 2009          |
|--|---------------|---------------|---------------|
| <b>SALES</b>                                 | <b>22,253</b> | <b>19,018</b> | <b>16,010</b> |
| <b>SALES COST</b>                            | <b>15,251</b> | <b>13,089</b> | <b>10,788</b> |
| <b>GROSS PROFIT</b>                          | <b>7,002</b>  | <b>5,929</b>  | <b>5,222</b>  |
| <b>SELLING &amp; ADMINISTRATIVE EXPENSES</b> | <b>5,183</b>  | <b>4,271</b>  | <b>4,074</b>  |
| <b>OPERATING PROFIT</b>                      | <b>1,663</b>  | <b>1,598</b>  | <b>1,148</b>  |
| <b>PROFIT BEFORE INCOME TAX</b>              | <b>1,555</b>  | <b>1,540</b>  | <b>1,193</b>  |
| <b>NET PROFIT</b>                            | <b>1,013</b>  | <b>1,104</b>  | <b>766</b>    |

↑  
Lotte Shopping 2011

# RE

Lotte Shopping has enjoyed 30 years of continuous success by increasing its business range, its operating territories, and its customer base. Our focus is to decide on ways to continue our leadership of Korea's retail industry and help us become a leading global retailer. This means that we must redefine the meaning of "retail."

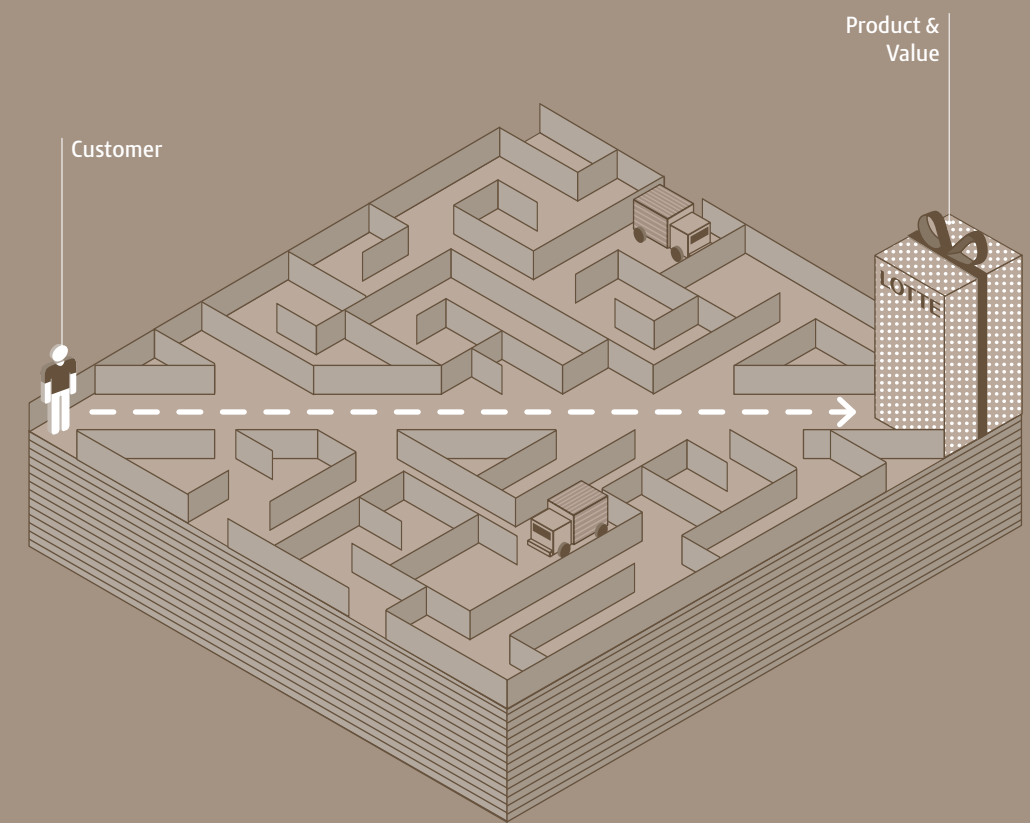


For us, it means making people's lives happier and more convenient. Shopping should not be just a matter of buying things, but a pleasurable and fun experience. We are remaking the future of retail by taking innovative steps to gain better insights into our customers' wants and needs in an era of constant change.

RE  
DE  
FINING

# RE DE FINING PRO CESSES

Competitiveness in the retail trade depends on finding merchandise that will “catch fire.” We recognize true value and discover new and exciting products at prices that make our suppliers happy to deal with us.

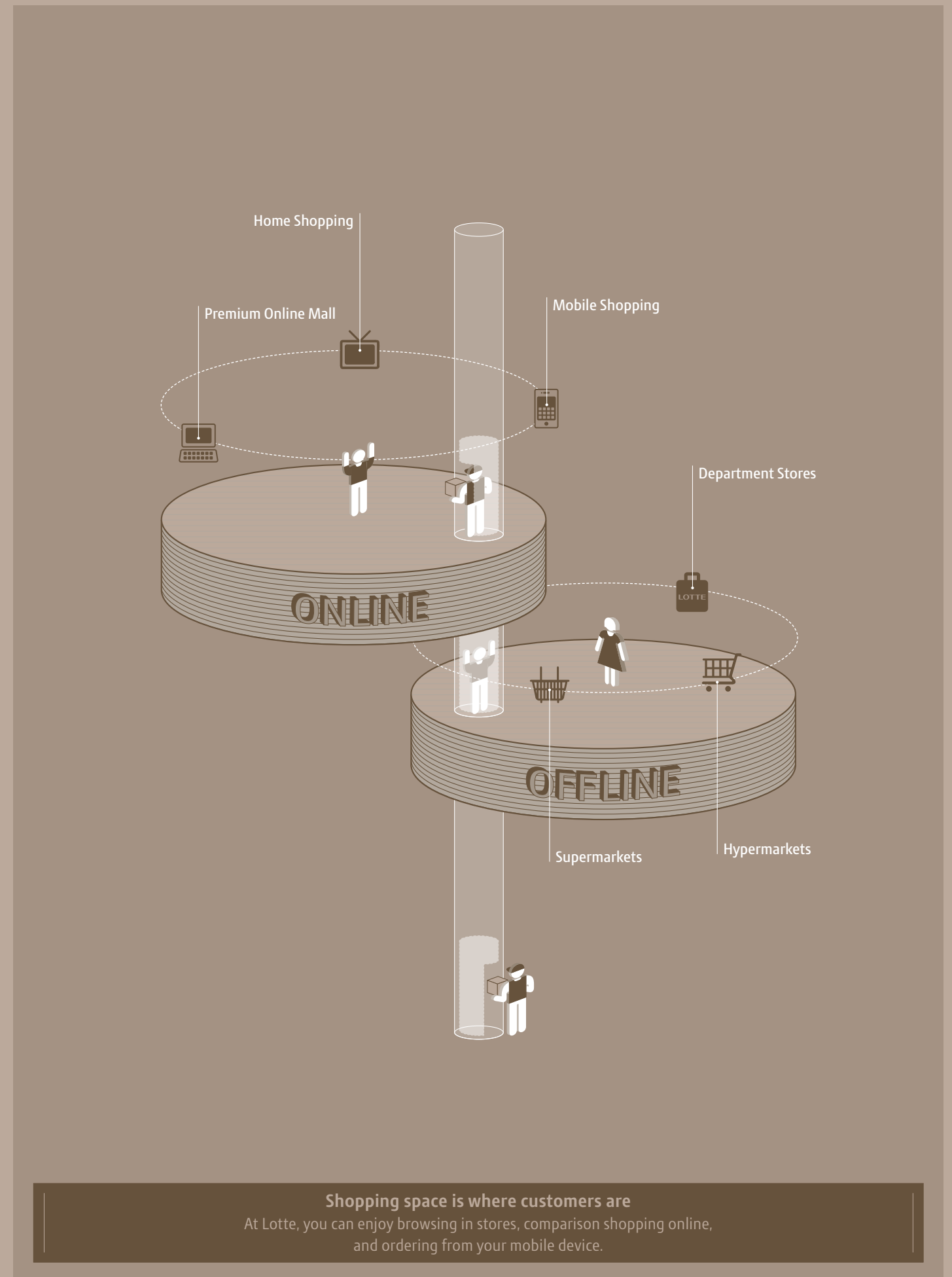


### Always one step ahead

We scour the globe for products that our customers will want and desire, and pride ourselves on delivering the world's best products quickly and efficiently.

# RE DE FINING SPA CEE

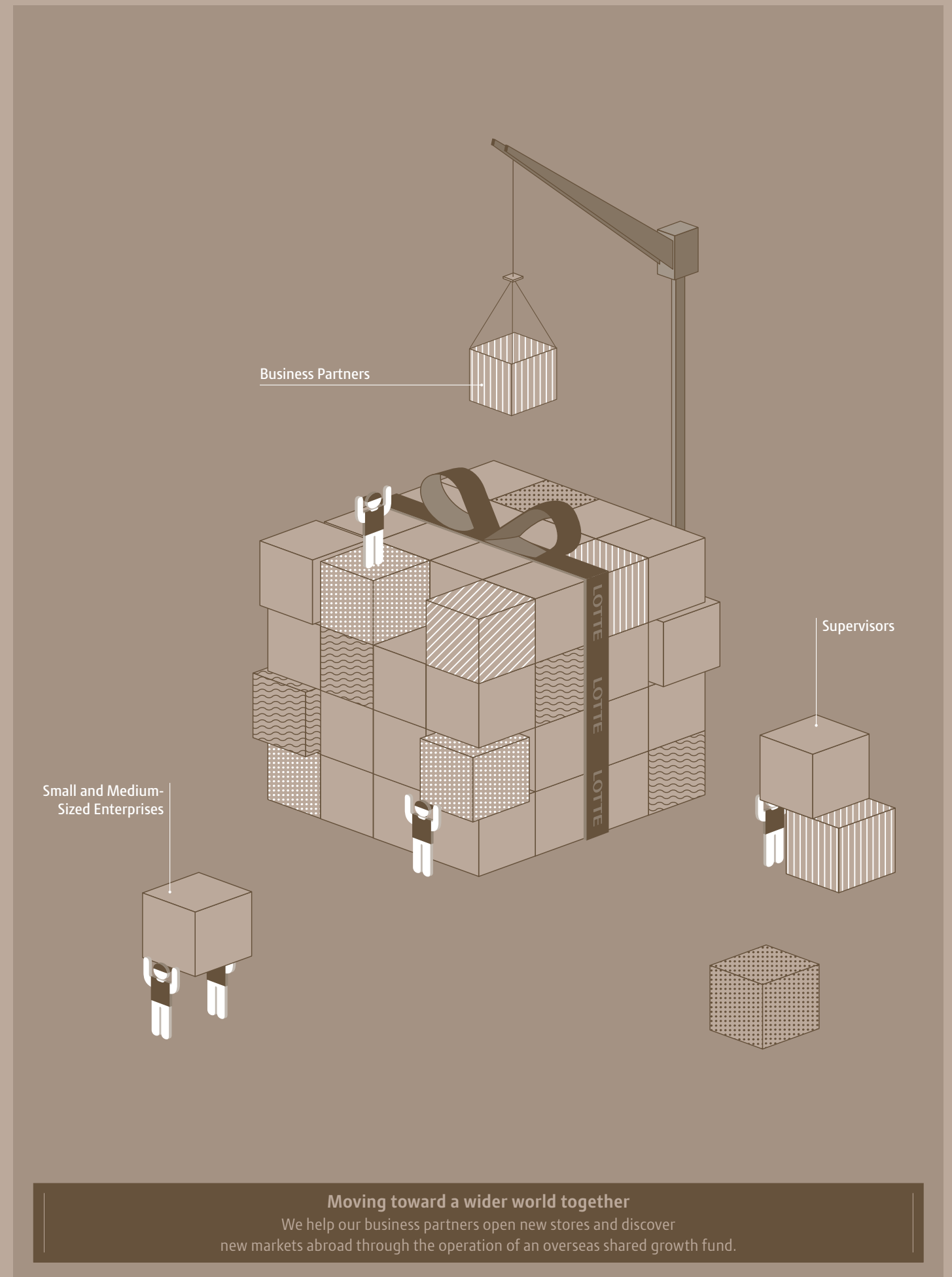
At Lotte, we make shopping an experience that is both convenient and delightful. We are extending the boundaries of the retail trade by expanding our business from offline to online, and from Korea to the world.



**Shopping space is where customers are**  
At Lotte, you can enjoy browsing in stores, comparison shopping online, and ordering from your mobile device.

# RE DE FINING RELA TION SHIPS

Lotte supports the technology development, quality improvement, and human resources training efforts of its business partners. Our goal is to achieve mutually beneficial growth by forming honest and equitable relationships with all of them.



### Moving toward a wider world together

We help our business partners open new stores and discover new markets abroad through the operation of an overseas shared growth fund.



# We are redefining the meaning of challenge and innovation

## Dear Lotte Shopping customers and shareholders:

In 2011, we came ever closer to realizing our goal of becoming one of the world's leading retailers. Backed by the addition of new stores, business diversification, and innovative marketing initiatives, we achieved double-digit growth once again. We also strengthened our overseas foundations by expanding our operations in China, Vietnam, and Indonesia.

As a result of these efforts, Lotte Shopping was included in the Dow Jones Sustainability World Index for the third consecutive year. We were also named the Supersector Leader in the retail category for the second straight year. In addition, *Forbes* Global 2000 confirmed our international presence by naming us the world's sixth-largest retailer.

I am deeply grateful for your continuing enthusiasm and support, and am pleased to tell you about our results for 2011 and our plans for 2012.



Global  
Supersector Leader

**DJSI**

We were included in the DJSI World Index for the third consecutive year, and named the Supersector Leader in the retail category for the second.





## 2011: The year in review

### Enhanced core competencies and took on new challenges

Despite a slowdown in consumption due to the ongoing effects of the global economic crisis, we maintain our record of solid growth by enhancing our core competencies and taking on new challenges both at home and abroad. Gross sales rose by 17.0% over the year to KRW 22.2 trillion, while operating profit increased by 4.1% to KRW 1.7 trillion. Profit before income tax edged up by 1.0% to KRW 1.6 trillion, but net profit fell to KRW 1.0 trillion. This was due to a rise in our income tax costs.

Our flagship department store business demonstrated its industry leadership by opening new stores in a variety of formats. In Korea, we opened the Lotte Mall Gimpo Airport, the Lotte Mall Daegu Esiapolis, and the Lotte Premium Outlet Paju. Sales rose by 8.5% year-on-year, led by growth in global fashions and women's and men's sports clothing. This helped the company burnish its status as Korea's leading department store. We also opened our third overseas store in Tianjin, China. Sales at our stores in Moscow and Beijing were solid and stable.

We opened five new hypermarkets in Korea, another 12 in China, and six in Indonesia as part of our strategy of asserting our industry leadership in local markets on an immediate basis. As a result, we now operate a total of 219 stores at home and abroad. We also carried out a variety of marketing activities designed to separate us from our competitors. They included introducing value innovation products and our third generation of private brands, and adding to our number of category killer stores like Toys "R" Us and Digital Park.

In terms of our finance business, Lotte Card's credit card use and operating profit both grew sharply, thanks to solid growth in all sectors. We launched a series of specialized credit card products featuring enhanced customer benefits, and broadened our customer and revenue bases by advancing into such new business areas as car rentals and mutual aid services. In addition, our financial subsidiaries, including eB Card and Mybi, took steps to add to their operating capabilities.

Our supermarket business firmed up its lead position in terms of market share and number of stores, while its sales and operating profit grew significantly from the year before. Another impressive achievement was that we laid the footing for another take-off by acquiring the CS Mart in 2012.

Our multiplex cinema business opened seven new locations in Korea and another four abroad. Lotte Home Shopping and Korea Seven both enjoyed solid growth in sales and operating profit, while Lotte Home Shopping enhanced its overseas operations by establishing a joint venture in Vietnam.

We were also named the Global Supersector Leader in retail in the Dow Jones Sustainability World Index for the second consecutive year. In addition, we placed sixth in the *Forbes* Global 2000 annual ranking of the top 2000 public companies in the world. Honors like these both at home and around the world, show how well our drive to become a leading global retailer is succeeding.

*Forbes* ranked us sixth in its Global 2000 ranking of leading global public companies, in the department stores category. Criteria that were measured included sales, profits, assets, and market value.



## 2012: The year ahead

### Following our dream of becoming a leading global retailer

We believe that economic uncertainties both at home and abroad will continue, and that competition will intensify even more. In addition, the retail industry is facing more and more regulation. We will deal with these difficult business conditions by honing our competitive edges and focusing on our core competencies.

In terms of our department store business, we will open two new stores in China and expand our Lotte Department Store and Lotte Premium Outlet operations in Korea. In addition, we will make our eLotte premium online mall, which we introduced in March 2012, our premier new growth engine. We are also planning to open premium online malls in China and Indonesia by 2015.

In the area of hypermarkets, we will promote such new operations as a wholesale membership club and add to our menu of value innovation products. We will also launch more stores overseas, and enhance their efficiency. In addition, we will introduce a variety of new products in the finance business, while advancing into new business areas, and adding to the quality of our operations. Finally, we will open new supermarkets in both China and Korea.

Lotte Shopping is committed to fulfilling its responsibilities as a caring and concerned corporate citizen. This includes searching for new and innovative ways to grow with our business partners and independent operators at our retail stores. We will also play a lead role in helping to resolve such societal problems as Korea's low birth rate and social divisions, increase our efforts to preserve and protect the environment, and strengthen our commitment to open and honest management.

Our overall goal is to become one of the leading global retailers. To achieve it, we will continue with our strategy of steady and solid growth through innovation and the efficient management of all our resources.

I look forward to your continuing interest and encouragement. Thank you.

A handwritten signature in black ink, appearing to read "Shin Heon".

President & CEO **Shin Heon**



Lotte Shopping boasted a global network of 694 stores, including department stores, hypermarkets, supermarkets, and multiplex cinemas as of the end of 2011. We are strengthening our presence as a leading global retailer by expanding our existing stores and opening new ones.



Board of Directors

# Committed to responsible and transparent management

Lotte Shopping's Board of Directors, or BOD, consists of 11 directors, six of whom are outside directors. At our 2012 general shareholders' meeting on March 23, 2012, Lotte Shopping's president & CEO, Shin Heon, was also appointed an inside director, while Kim Won-hei, Kim Tae-hyeon, and Min Sang-kee were named new outside directors.

The BOD operates two committees. The Audit Committee, which is composed of three outside directors, met five times in 2011. The Outside Director Nominating Committee consists of two directors, one inside and one outside. It met once in 2011. The BOD held 13 meetings in 2011.

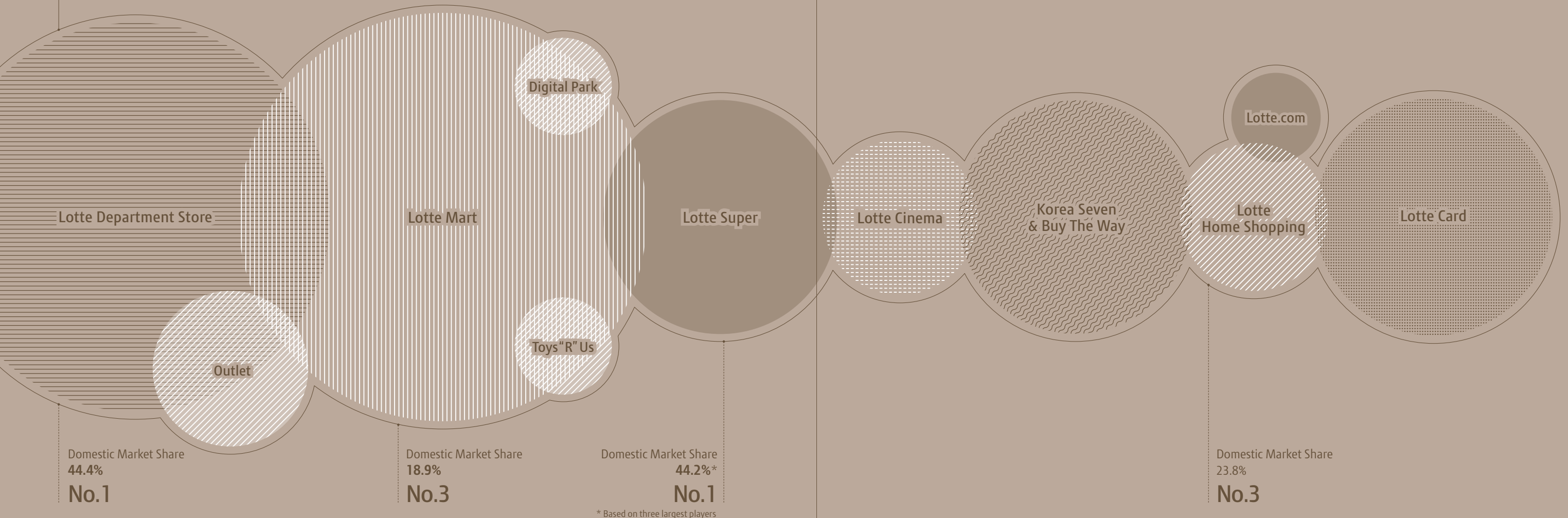
- 1** SHIN KYUK-HO  
General Chairman, Lotte Group
- 2** SHIN DONG-BIN  
Chairman, Lotte Group
- 3** LEE IN-WON  
Vice Chairman, Lotte Group
- 4** SHIN YOUNG-JA  
Chairman, Lotte Foundation
- 5** SHIN HEON  
President & CEO, Lotte Shopping
- 6** KIM SE-HO  
Advisor, Bae, Kim & Lee LLC
- 7** HOWARD RHEE  
Former Outside Director, Korea Exchange
- 8** YE JONG-SUK  
Dean, Global Graduate School of Business, Hanyang University
- 9** KIM WON-HEI  
Former CFO, Honam Petrochemical
- 10** KIM TAE-HYEON  
Lawyer, Yulchon LLC
- 11** MIN SANG-KEE  
Professor, Business School Seoul National University

# Portfolio Diversification

Our business is becoming more and more diverse. Lotte Shopping continues to extend the boundaries of the retail industry by diversifying its businesses, with a host of subsidiaries whose interests range from department stores, hypermarkets, supermarkets, and multiplex cinemas, to finance, home shopping, and convenience stores.

## Our Business Portfolio

We have steadily expanded our value chain to include department stores, hypermarkets, supermarkets, multiplex cinemas, finance, home shopping, and convenience stores. Ranking first, second, or third in each business that we have entered, we are strengthening our synergies even more.



## Our Brand Business

We entered the fashion business, and are fostering it as a new growth engine by acquiring fashion brands, winning retail rights for global brands, and carrying out joint ventures.



# Format Convergence

We are redefining how people think and feel about shopping. This includes offering them an eclectic mix of lifestyle centers, shopping mall complexes, and "carriage trade" stores. Creating new business types helps us build the foundations for sustainable growth and makes shopping a more relaxing and pleasurable experience for our customers.

## Main Facilities

- ⊖ Lotte Department Store & Outlet & Shopping Mall
- ⊕ Lotte Mart
- Lotte Super
- ▨ Category Killer
- ⊙ Lotte Cinema
- Theme Park
- ⊙ Korea Seven
- Other

### Lotte Mall Daegu Esiapolis

Featuring a broad range of amenities that befit its status as the nation's first lifestyle center, the Lotte Mall Daegu Esiapolis mixes leisure and shopping at the same time.

Average daily visitors



11,123 people

### Lotte Premium Outlet Paju

Boasting more than 200 brands and a wide variety of cultural and relaxation spaces, the Lotte Premium Outlet Paju is an excellent shopping destination for families.

### Lotte Mall Gimpo Airport

This facility has been fashioned as an eco-friendly shopping and tourist experience, combining the best of retail and visitor facilities in one place.

No. of Brand stores  
381

Average daily visitors

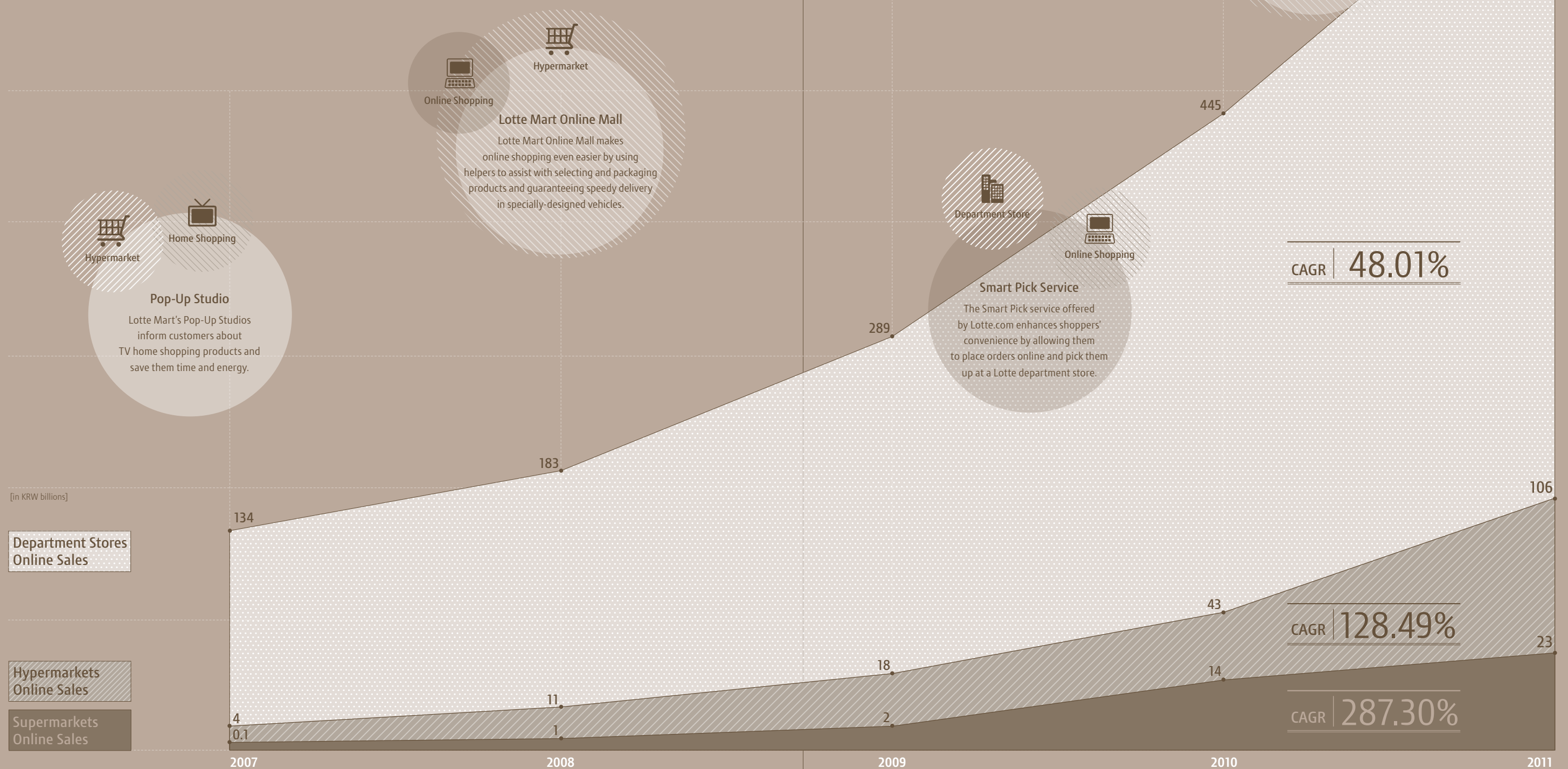


21,493 people



# Online Evolution

We make shopping faster and easier by providing customers with the speed and convenience of online and mobile shopping and offering them a host of online and offline services. We are committed to harnessing change and innovation to make shopping "smarter" and more pleasurable.



# Global Advance

Lotte Shopping is broadening its territories even more. Our overseas growth activities are mainly focused on Russia, China, Vietnam, and Indonesia, presenting customers there with a wide range of new and unique shopping experiences. Our globalization strategy enhances and enriches the lives of customers everywhere.



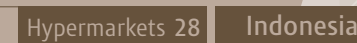
We opened a number of new stores in China in 2011. Lotte Department Store opened one in Tianjin, while Lotte Mart opened 12, giving it a total of 94. In addition, Lotte Cinema opened three multiplex cinemas.



Lotte Mart saw sales at its two stores in Vietnam rise by more than 40% in 2011, while Lotte Cinema opened a multiplex cinema.



Lotte Mart opened six new stores in Indonesia in 2011, bringing its total to 28. The company's localization strategies and improvements to the efficiency of the stores' management helped sales grow by double-digit figures over the year.



## Strategies for global advance

We add to our competitiveness in and our share of overseas markets by a calculated strategy of opening stores within a very short period of time.

### Concentration

Select and concentrate by region and city

### Localization

Study the management styles of each country and adapt to them

### Differentiation

Increase competitiveness through differentiated merchandising and services

We are growing into a leading global retailer by creating enhanced customer value in all our operating areas through change and innovation.



February 2

**Opened Second Lotte School in Vietnam**

We opened the Tam Di Elementary School, our second Lotte School, in Bac Giang, Vietnam. The newly-built structure has eight classrooms. Its play ground and fences were repaired to help the students enjoy a more conducive school environment.

April 4

**Opened Lotte Mall Daegu Esiapolis**

We opened the Lotte Mall Daegu Esiapolis, a new-concept lifestyle center. Furnished with such amenities as a library, a park, and a playing field, it enables visitors to enjoy leisure and shopping in one place and at the same time.

May 5

## Global No.6

**Ranked sixth in department store category by *Forbes***

We were ranked sixth (second in Asia) in the department stores category in *Forbes* Global 2000 rankings. The company hopes to be included in its Global Top 5 by 2018.

June 6

**Opened Lotte Department Store in Tianjin**

We opened our third overseas department store branch in Tianjin, China. Consisting of four stories above-ground and two below, it is the company's first wholly-owned, independently-operated store in that country.

September 9

## DJSI

**Included in DJSI World for third consecutive year**

Lotte Shopping was included in the Dow Jones Sustainability World Index for the third consecutive year. It was also named the Supersector Leader in the retail category for the second consecutive year.

**Opened second Lotte Multiplex Cinema in China**

Lotte Cinema opened the Insun Lotte Cinema in the city of Wuhan, China. It is the largest such facility in the region, boasting 12 screens and 2,300 seats. This includes a large theater, a VIP cinema, and a 4D theater.

December 12

**Opened Lotte Premium Outlet Paju**

Lotte Department Store opened its second premium outlet in Paju Book City. The largest such outlet in Korea, the Lotte Premium Outlet Paju features over 200 exclusive brand stores, cultural facilities, and rest and relaxation places.

**Opened Lotte Mall Gimpo Airport**

We opened the Lotte Mall Gimpo Airport in the international travel area of Gimpo Airport. A new-concept shopping mall complex, it boasts a department store, a hypermarket, a shopping mall, a hotel, a theme park, and cultural spaces.

## NCSI 1st

**Lotte Department Store and Lotte Mart ranked first in NCSI survey**

Lotte Department Store ranked first in the 2011 National Customer Satisfaction Index survey in the department stores category for the ninth consecutive year. Lotte Mart ranked first in the discount stores category.

**Number of Lotte Mart stores exceeded 219**

Lotte Mart opened its 28th Fatmawati store in Indonesia, its 95th Wonju store in Korea, and its 95th Zunhua store in China. It now operates a total of 219 stores at home and abroad.

January 2012 1

**Acquired CS Mart**

Lotte Super signed an agreement to take a stake in CS Mart, a competitor whose stores include Good Morning and Harmony Mart.





Lotte Department Store Tianjin  
**June 2011**  
Lotte Department Store Tianjin is becoming a new local attraction due to its distinguished services.





200th Lotte Mart store

# 200 stores

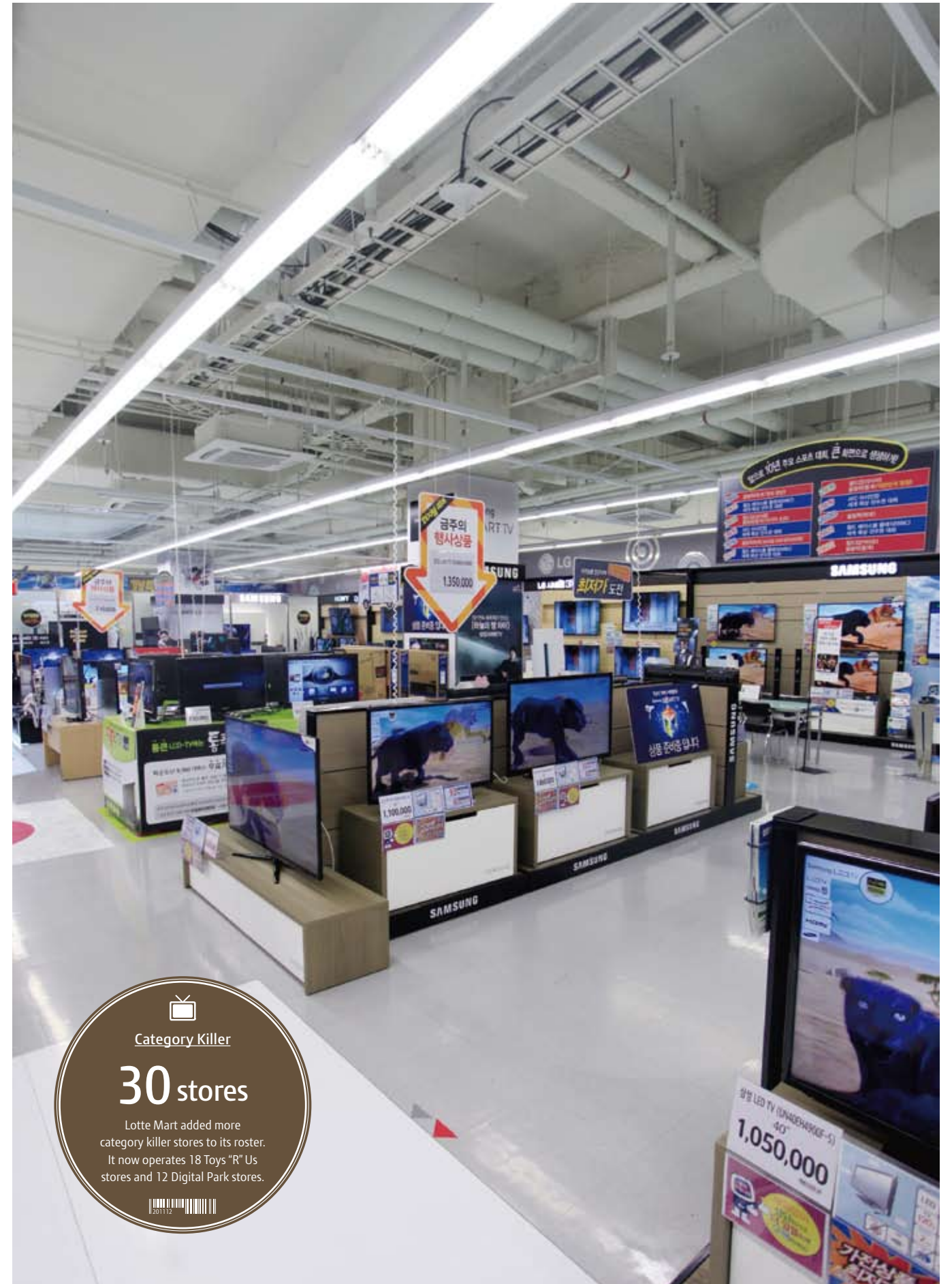
Lotte Mart opened its 200th store in the city of Luyuan, China, less than four years since it began its overseas expansion.



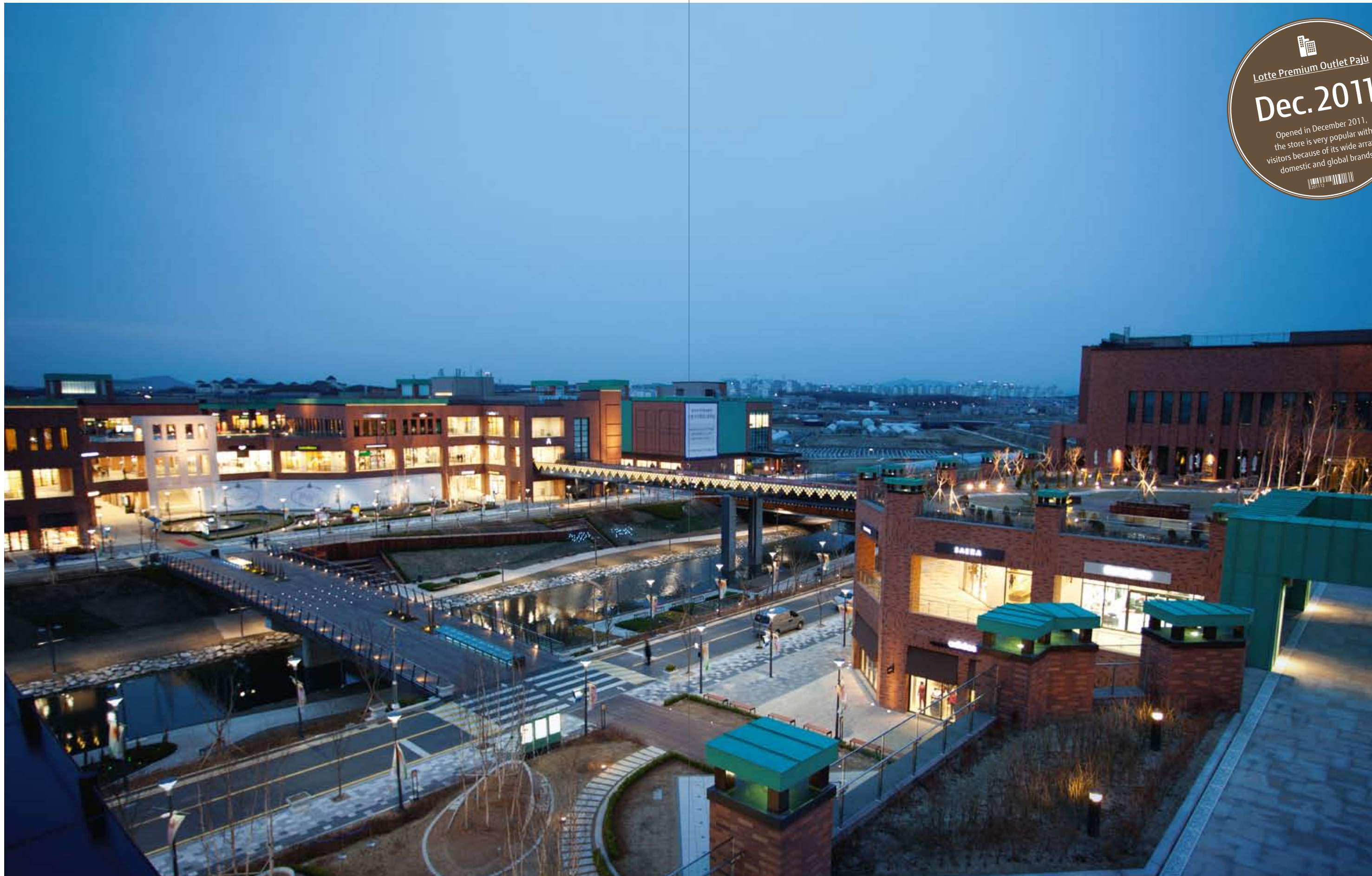
Category Killer

# 30 stores

Lotte Mart added more category killer stores to its roster. It now operates 18 Toys "R" Us stores and 12 Digital Park stores.







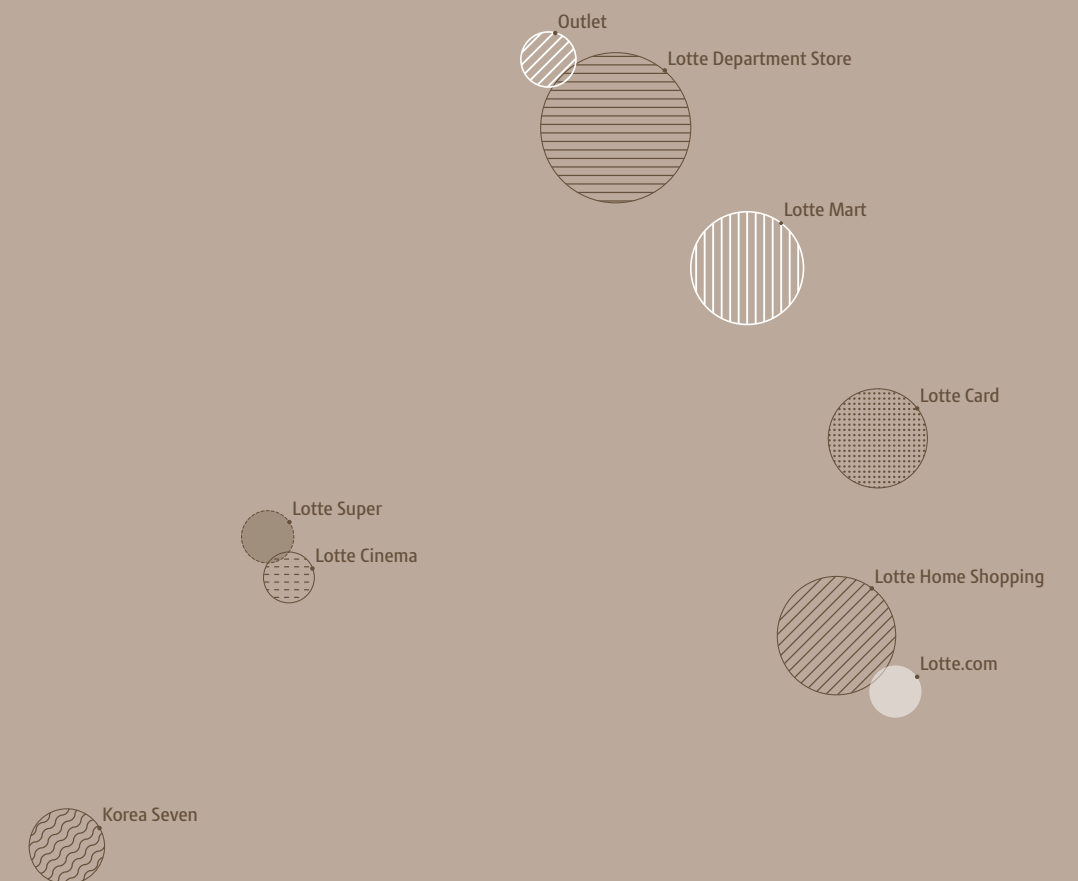
  
Lotte Premium Outlet Paju  
**Dec. 2011**  
Opened in December 2011,  
the store is very popular with  
visitors because of its wide array of  
domestic and global brands.  





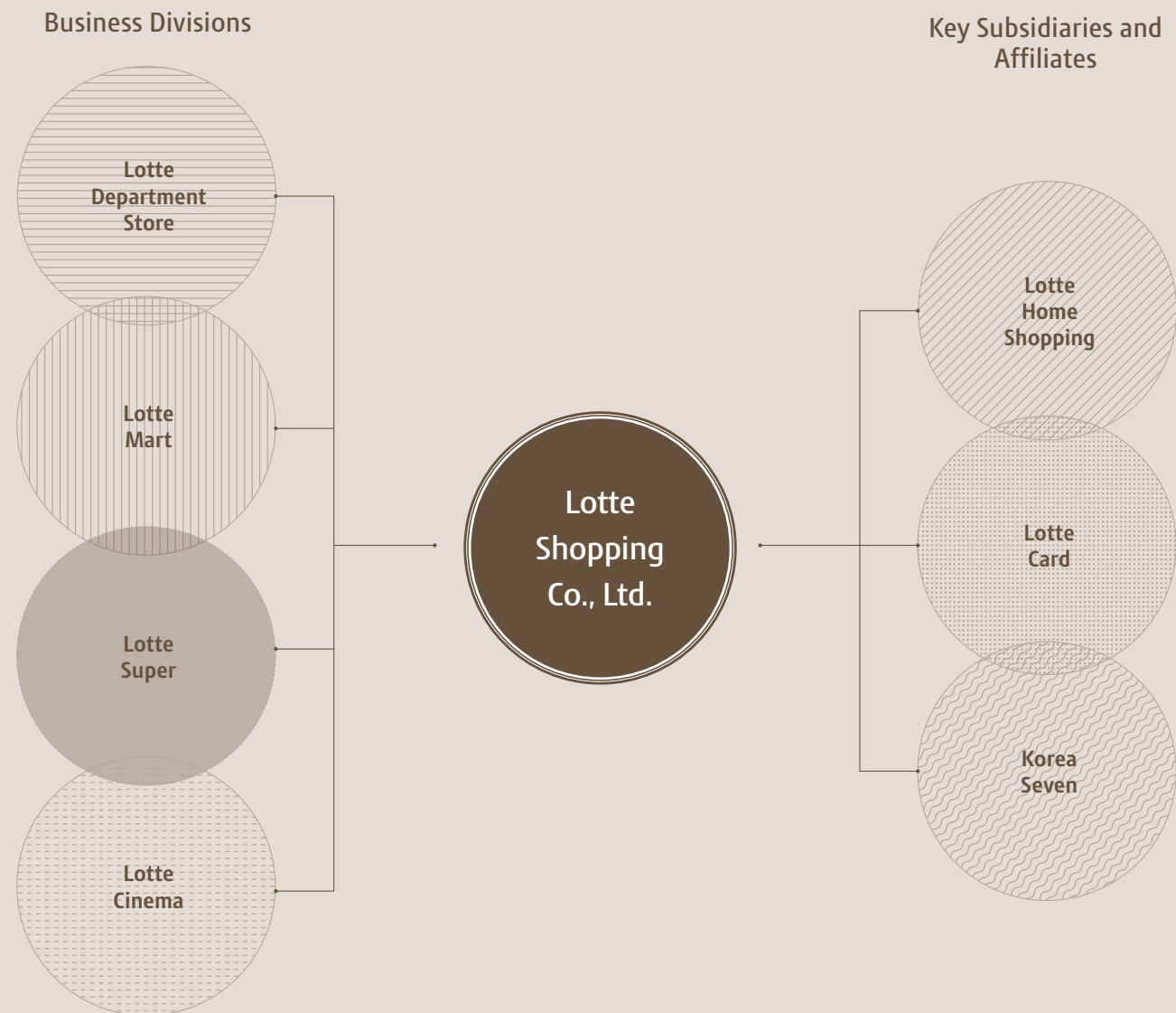

  
 Lotte Mall Gimpo Airport  
**Dec. 2011**  
 Opened in December 2011, this eco-friendly shopping mall complex combines shopping with leisure, entertainment, and relaxation activities.

We are coming nearer and nearer to our goal of becoming a leading global retailer.



# Business Units

Lotte Shopping's business divisions are department stores, supermarkets, and multiplex cinemas. Our subsidiaries include Lotte Home Shopping, Lotte Card, and Korea Seven. We count Lotte Card as a business division, along with Lotte Department Store and Lotte Mart. Lotte Super, Korea Seven, Lotte Home Shopping, and Lotte Cinema are classified as other businesses.



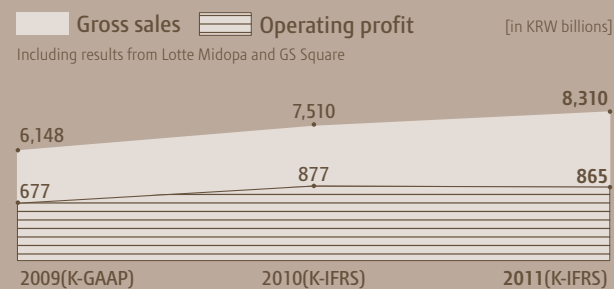
# Consolidated Affiliates

Lotte Shopping has 42 affiliates, including 19 in Korea and 23 abroad. 19 of them are major subsidiaries. This means that their total assets in the previous year were worth more than 10% of the parent company's, that their assets amounted to more than KRW 50 billion, and/or that they exercise a great influence on the operations of the parent company.

- Lotte Card Co., Ltd.
- Lotte Midopa Co., Ltd.
- Lotte Square Co., Ltd.
- Korea Seven Co., Ltd.
- Woori Home Shopping & Television Co., Ltd.
- Buy the way Inc.
- eB Card Co., Ltd.
- Lotte Boulangerie Co., Ltd.
- Lotte Songdo Shopping Town Co., Ltd.
- NCF Co., Ltd.
- Gyeonggi Smartcard Co., Ltd.
- Incheon Smartcard Co., Ltd.
- Chungnam Smartcard Co., Ltd.
- Lotte Suwon Station Shopping Town Co., Ltd.
- Lotte Kimhae Development Co., Ltd.
- The 2nd Supreme
- The 3rd Supreme
- The 4th Supreme
- The 4th Sprint
- Lotte Shopping Holdings (Hong Kong), Ltd.
- Lotte Mart China Co., Ltd. and its subsidiaries
- PT. Lotte Shopping Indonesia
- LHSC Limited
- Lotte Shopping Holdings (Singapore), Ltd.
- Lotte Mart Co., Ltd.
- Lotte Vietnam Shopping Co., Ltd.
- PT. Lotte Mart Indonesia
- Qingdao Lotte Mart Commercial Co., Ltd.
- Lucky Pai Limited and its subsidiaries
- Liaoning Lotte Mart Co., Ltd.
- Lotte Business Management (Tianjin) Co., Ltd.
- Lotte Cinema Vietnam Co., Ltd.
- Lottemart Danang Co., Ltd.
- Lotte Mart Global Sourcing Center Co., Ltd.
- Lotte Shopping India Pvt., Ltd.
- Lotte Hotel & Retail Vietnam Pte., Ltd.
- Jilin Lotte Mart Co., Ltd.
- PT. Lotte Shopping Plaza Indonesia
- Lotte Department Store (Shenyang) Co., Ltd.
- Lotte International Department Store (Weihai) Co., Ltd.
- Lotte Datviet Homeshopping Co., Ltd.
- Lottemart C&C India Pvt., Ltd.

In 2011,  
**Lotte Department Store's**  
 gross sales increased  
 by 10.6% to  
 KRW 8.3 trillion.  
 The company achieved  
 this healthy level of  
 growth by opening  
 new department stores  
 and outlet branches.  
 Operating profit  
 edged down by 1.1%  
 to KRW 864.8 billion,  
 mostly due to  
 new store openings.

[www.lotteshopping.com](http://www.lotteshopping.com)



| Overseas stores |   | Domestic stores    |    |
|-----------------|---|--------------------|----|
| China           | 2 | Department Stores* | 30 |
| Russia          | 1 | Outlets            | 6  |

\* Including six stores managed under contact

The Korean department store sector continued its solid growth in 2011, mainly through store openings and large-scale refurbishments. Global fashion brands and SPA brands were especially popular. There was also a sharp increase in online sales.

Lotte Department Store continued its record of continuous growth, opening four new stores and carrying out a number of marketing campaigns. At home, it opened the Lotte Mall Daegu Esiapolis, the Lotte Premium Outlet Paju, and the Lotte Mall Gimpo Airport. Overseas, it opened a store in Tianjin, China. Sales rose by 8.5% year-on-year, led by growth in global fashions and women's and men's sports clothing. This helped the company burnish its status as Korea's leading department store.

Opened in April as Korea's first lifestyle center, the Lotte Mall Daegu Esiapolis is an open-type shopping mall boasting a wide range of shopping and leisure attractions. Featuring a mix of stores and a broad array of amenities, it has quickly become one of the most popular shopping and entertainment areas in Daegu.

The company also experienced growth in its premium outlets. They include the Lotte Premium Outlet Paju, the Lotte Premium Outlet Gwangju World Cup, the Lotte Premium Outlet Gimhae, the Lotte Premium Outlet Gwangju Suwan, and the Lotte Premium Outlet Daegu Yulha. The Lotte Premium Outlet Paju, with over 200 brand stores, recorded sales of KRW 38.5 billion in December 2011, its first month of operation.

Opened in December, the Lotte Mall Gimpo Airport is a new-concept shopping mall complex featuring a department store, a hypermarket, a shopping mall, a cinema, cultural amenities, and much more. It has become a popular entertainment and shopping destination for Koreans and non-Koreans like.

The "eLotte" premium online mall, featuring over 1,000 brands and hard-to-find products, specializes in global luxury goods, new Korean designer brands, and well-known overseas brands. One of its key features is its "smart finder" function, which analyzes customers' traits and purchasing histories to recommend suitable products and remind them of the many other services it offers. This includes being able to pick up purchases, make exchanges, get refunds, or have something repaired at a regular department store that they bought online.

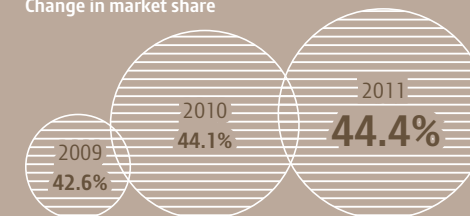
We also recorded healthy results in our overseas operations. Store sales in Moscow and Beijing surged by 15.5% and 27.0%, respectively, over the year. In June, the company opened a store in Tianjin, its third overseas department store and second in China. Located in a large-scale complex, it is also the first store in that country that the company opened independently with a 100% capital investment. Its sophisticated shopping system, boasting differentiated visual merchandizing, product assortment, and services has made it a very popular destination for quality-conscious Chinese customers.

Growth in the department store sector in 2012 is forecast to slow slightly from the previous year, due to reduced consumer demand and continuing uncertainties about the world economy. Lotte Department Store will continue to strengthen its position both at home and abroad by diversifying its sales channels and opening more stores. These will include a department store branch in Pyeongchon, premium outlets in Buyeo and Cheongju, and the second Tianjin store and a Weihai store in China.

### 1 Creating a new retail culture

We are creating a new retail culture by introducing new-concept retail channels, such as lifestyle centers, shopping mall complexes, and premium online malls. These moves are strengthening our standing as the leader of Korea's department store sector even more. Lotte Department Store's share of the Korean market in 2011 was 44.4%.

Change in market share



### 2 Growth in global fashions

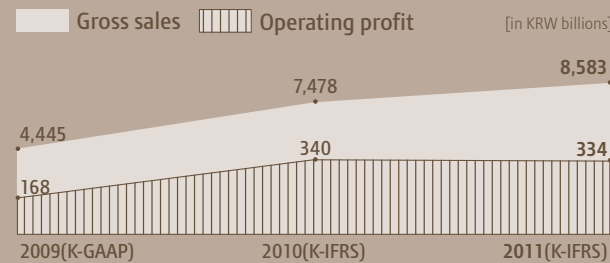
Our competitiveness in the global fashion sector is rapidly approaching a world-class level. In 2011, we launched brands like Comptoir des Cotonniers, Du Pareil au Mème, and Gymboree, and established a joint venture operation with Japan's Samantha Thavasa fashion company.

### 3 Premium online malls

We opened our "eLotte" premium online mall in March 2012. Featuring a diverse product portfolio that ranges from luxury brands to hard-to-find goods and from art works to hand-made artisanal products, it offers shoppers the highest-quality shopping experience available on the Internet.

In 2011,  
a number of new  
hypermarket stores  
were opened by  
**Lotte Mart** and  
carried out marketing  
campaigns to  
differentiate themselves  
from their competitors.  
Gross sales increased by  
14.8% over the year,  
continuing  
Lotte Mart's record of  
double-digit growth.

[www.lottemart.com](http://www.lottemart.com)



| Overseas stores |    | Domestic stores |
|-----------------|----|-----------------|
| China           | 94 | 95              |
| Indonesia       | 28 |                 |
| Vietnam         | 2  |                 |

Korea's hypermarket sector enjoyed steady growth in 2011 despite a sluggish domestic economy, the ongoing effects of the global economic meltdown of 2008, and ever-tightening government regulations. Lotte Mart was the only player in the sector to record double-digit sales growth. Much of this was due to business expansion, by opening new stores (5 in Korea and 18 abroad), and increasing in the number of specialty stores like Toys "R" Us and Digital Park. In addition, we ranked first in the hypermarket category in the National Customer Satisfaction Index survey, obtained a Green Management System certification from the Ministry of Knowledge Economy, and developed three exclusive typographies: Haengbok, Deurim, and Tongkeun.

Our efforts to provide customers with lower prices and greater value continued in 2011. For example, our "Tongkeun" and "Sonkeun" private brands became huge hits, contributing to stable prices and improving our customer satisfaction levels. In addition, we replaced our "Wiselect" private brand with a third-generation one called "Choice L." Sales of our private brand products grew by 21.8% over the year, while their ratio to total sales climbed to 23.5%.

Our new businesses also enjoyed growth. We added eight new Toys "R" Us stores, making a grand total of 18. Sales rose by 11.2% over the year. We also added six more Digital Park home electronics stores, making a total of 12. This chain is becoming very popular because of its focus on digital home appliances, including laptop computers, digital cameras, and cell phones.

Sales at our online Lotte Mart Mall ([www.lottemart.com](http://www.lottemart.com)) surged by 144% over the year. They have been increasing since 2009, due to enhanced customer services and convenience and the introduction of a short-distance delivery service. We revamped our website in December 2011, increasing our product mix, and added new discount information. We launched a series of mobile apps in January 2012.

We also added to our presence in global markets. We brought our total of overseas stores to 124 by opening 12 new ones in Shanghai, Beijing, Shandong, and Shenyang, China, and another six in Indonesia. Sales in 2011 grew by 7.8% in China, 13.7% in Indonesia, and 47.5% in Vietnam (except exchange rates effect). Much of this success was due to our strategies of opening new stores in rapid succession to each other and adapting our time-proven systems and processes to coincide with local circumstances.

Consumer demand is forecast to slacken in 2012, with customers becoming increasingly selective about their purchases due to rising prices. In the hypermarket sector, sales of private brand products and clothing are expected to rise. Lotte Mart will continue to open new stores, add to its number of Toys "R" Us and Digital Park stores, and continue introducing its Tongkeun and Sonkeun value innovation products. We are also planning to introduce a wholesale membership club. Overseas, we will focus on improving efficiencies at our existing stores and adding new ones.

### 1 Operating 219 stores around the world

Lotte Mart operates a total of 219 stores around the world, including 95 in Korea, 94 in China, 28 in Indonesia, and two in Vietnam (as of 2011-end). We are planning to push our total past 250 in 2012 by opening more stores both at home and abroad.

Number of overseas stores



### 2 Ranked first in NCSI

Lotte Mart ranked first in the discount stores category in the 2011 National Customer Satisfaction Index (NCSI) survey, up from second in 2010. This resulted from our efforts to improve customer satisfaction through the introduction of a wide range of value innovation products.

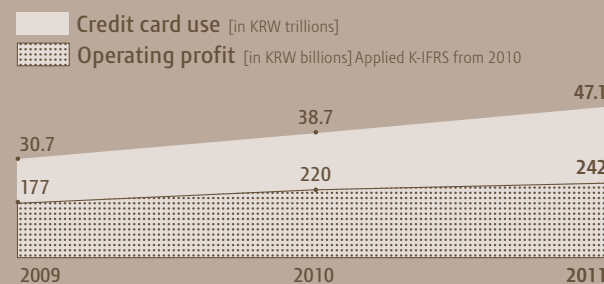
### 3 Third-generation "Choice L" private brand

We launched "Choice L," our third-generation private brand, as a replacement for "Wiselect," which we had been using since 2003. We also reduced our number of private brands from 15 to seven and enhanced our product operations. This included upgrading their quality and offering customers more nutritional information.



In 2011,  
**Lotte Card's** revenue  
 from credit card  
 purchase, loans, and  
 services all grew.  
 Total credit card use  
 exceeded KRW 47.1 trillion.  
 Lotte Card retained  
 its fifth-place position  
 in the industry,  
 with its market share  
 rising to 8.4%  
 from 7.5% the  
 previous year.

[www.lottecard.co.kr](http://www.lottecard.co.kr)



| Delinquency ratio |       | Cardholders [10,000 people] |     |
|-------------------|-------|-----------------------------|-----|
| 2009              | 1.25% | 2009                        | 784 |
| 2010              | 1.42% | 2010                        | 872 |
| 2011              | 1.96% | 2011                        | 884 |

The country's credit card industry faced a difficult operating environment in 2011, due to intensifying competition, ever-increasing regulation, and lowered sales commissions. Despite this, total credit card use in Korea increased by 7.9% over the year to KRW 558 trillion. The value of purchases rose by 9.6%, but the volume of credit card loans only increased marginally, as a result of the central government's policy of curbing excessive consumer borrowing.

Lotte Card's total volume of credit card use in 2011 amounted to KRW 47.1 trillion. Credit purchases and financing climbed by 26.1% and 7.6%, respectively. Operating profit grew by 9.9% to KRW 241.8 billion, led by increases in sales and supplementary revenues. Revenue from life services (including travel and insurance products and shopping malls) also rose. The company reduced its commission rate to 1.8% from 2.1% as part of a program to help small and medium-sized merchants.

The company launched a number of specialized services during the year. They included point-accumulation cards, such as the Lotte VEEX Card and the Lotte 7 Unit Card. The Charlotte Platinum Star Card, a specialized card targeting female consumers, was also well received. In addition to a broad array of life services, we added to our menu of new businesses by advancing into car rentals and mutual aid services.

The company also benefited from its relationship with Korea's professional baseball league through "2011 Lotte Card Pro Baseball." A ready-made audience of seven million fans provided us with excellent publicity opportunities and marked increases in our brand value and credit card purchases. We also operated social contributions programs like the "Tenth Batter of Love" campaign.

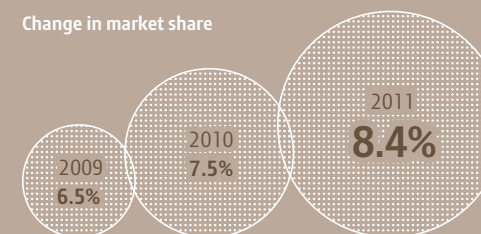
2012 will probably be a year of reduced consumption, even more regulation, and fierce competition. Lotte Card will continue with its plans to become a leading industry player by practicing solid, stable, and prudent management. It will enhance its operating and marketing efficiencies by collaborating with Lotte's retail affiliates and improve its products in response to customer demand and an ever-changing market. This will include check cards and mobile products. In addition, it will focus on securing more VIP customers and entering new business areas.

Lotte Card owns a 95% stake in eB Card, a payment services provider. Its "Cash Bee" pre-paid card, launched in 2010, can be used in a number of geographical areas for public transportation and at convenience stores and Lotte retail member stores. Its "Mobile Cash Bee," a near field, communication-based, pre-paid transportation card that was introduced in 2011, performs the same functions for smartphone users.

### 1 Steady rise in market share

Lotte Card's share of the credit card market is rising steadily. Some of the reasons for this include a raft of exciting new products and services, innovative marketing campaigns, and active collaboration with Lotte's retail affiliates.

Change in market share



### 2 Point-accumulating Lotte VEEX Card

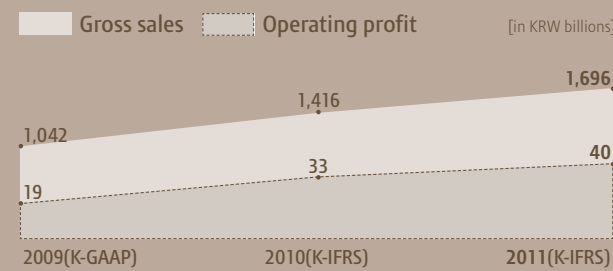
Launched in 2011, the Lotte VEEX Card accumulates points at a rate of up to 2%. It can be used at all the company's merchant stores both at home and abroad. Accumulated points can be used easily at any Lotte store in Korea.

### 3 Ranked first in KSAAI

The Smart Lotte mobile app, which combines Lotte Card and Lotte Members services in one program, became very popular due to its wide range of content and user friendliness. It ranked first in the credit card category in the 2011 Korea Smart App Assessment Index (KSAAI) survey.

**Lotte Super** continued growing in 2011, with both sales and operating profit posting double-digit increases. Gross sales surged by 19.8% to KRW 1.7 trillion, while operating profit ballooned by 24.4% to KRW 40.4 billion. The company plans to maintain its industry leadership by continuously opening new stores.

[www.lottesuper.co.kr](http://www.lottesuper.co.kr)



| Total stores |
|--------------|
| 350          |

The Korean supermarket sector faced many challenges in 2011, mainly due to an overall reduction in consumption and tightened regulations regarding store openings. On the plus side, the frequency of supermarket use rose, along with a preference for neighborhood stores. Slowing business conditions led to a trend toward more frugal consumption, while purchasing patterns reflected a pronounced liking for new channels, such as online malls. Despite this unpromising landscape, Lotte Super achieved outstanding results in both sales and operating profit. It did this by concentrating on qualitative growth in its existing stores and by opening new ones.

Our network of 350 stores kept us in the number one position in Korea in terms of stores. We also ranked first in the number of franchise stores, with more than 50 at the end of the year. This resulted from our extensive advertising campaigns and our efforts to find high-quality franchisees.

In January 2012, we acquired CS Mart, which used to operate Good Morning and Harmony Mart. This move will maximize our economies of scale by increasing our purchasing power.

We also took a number of steps to improve our customer satisfaction levels. They included offering a wider selection of fresh products, high-end private brand products, online shopping, and marketing that distinguished us from the competition. We were able to provide first-quality fresh goods at lower prices by buying more locally-grown produce and operating our own farms. Our customers also benefited from more private brand products, online mall sales, and a speedy delivery service.

We introduced the Sales Force Effectiveness program to improve our operating efficiency. It focuses on motivating employees, enhancing their capabilities and skills, facilitating cooperation and communications, and improving operations on a system-wide basis. This will help us to add to our stores' capabilities, establish worksite support systems, and maximize our operating efficiencies.

Our plans for 2012 include opening more stores in new town districts and redevelopment areas, differentiating our stores by region and size, and continuing to open franchise stores. We will also carry out new product strategies, such as offering more small-unit products that appeal to singles and small families. Another goal is to strengthen our online mall business by lowering the purchase amount needed for free deliveries and adding to the number of areas in which delivery in three hours or less is guaranteed.

1 Ranked first in the industry

**44.2%**

We maintained our 44.2% market share\* and led the industry in terms of number of stores with 350. The total exceeds 500 when the CS Mart stores, which we recently acquired, are included.

\* Based on three largest players

2 Expanding our franchising business

Our independently operated franchise stores offer their owners maximum revenues through a mutually beneficial operating agreement. It includes an unsecured loan support program that eases a franchisee's first payment for products.

3 Improving our online mall

Our "e-Super" online mall enjoys significant sales growth every year due to ongoing changes in our customers' lifestyles and purchasing patterns. In 2012, we will add to their convenience by increasing the number of areas in which delivery in three hours or less is guaranteed and revamping our homepage to make ordering easier.

**Korea Seven** recorded a 52.1% rise in gross sales to KRW 2.0 trillion and more than doubled its operating profit to KRW 75.0 billion. Much of this success was due to differentiated operations and marketing campaigns to alert customers to the expansion of its nationwide network of stores. [www.7-eleven.co.kr](http://www.7-eleven.co.kr)

The Korean convenience store industry grew at a rate of 26.3% in 2011, mostly through store expansions. It is expected to grow even faster going forward, due to such ongoing societal changes as a rapidly-aging population, a rise in the number of one-person households, and the increasing entry of women into the workforce.

Korea Seven's growth is made possible by its competitiveness and its strong product mix. Our stores operate on a segmented basis, meaning that we operate cafe, bakery, and supermarket-type stores. In addition, we help our franchisees optimize their layouts and enhance their product range by analyzing such factors as customer preferences and the strengths and weaknesses of their competitors.

Another of our advantages is the deep level of cooperation between 7-Eleven and Lotte's retail affiliates. We collaborate with 7-Eleven (the world's largest convenience store chain with over 40,000 stores in 18 countries) on a wide range of matters, from product development to store operations and logistics systems. Synergies generated with other Lotte affiliates also enable us to benefit from the most experienced retail experts in all of Korea.

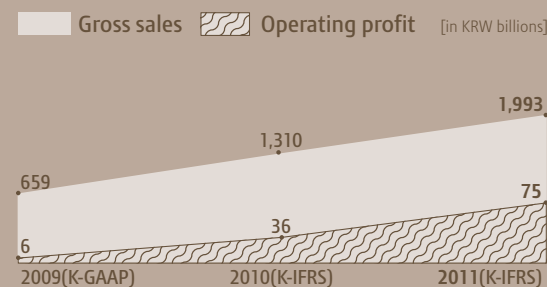
The convenience store industry is expected to experience fierce competition in 2012, due to the increasing diversification of operating formats and a more cost-conscious customer base. In reaction, Korea Seven plans to increase its number of stores and add to its volume of sales. This will include expanding its range of private brand products and strengthening its product mix in its supermarket-type stores.

### 1 Developing a wide variety of ready-to-go foods

We are developing a wide variety of ready-to-go foods, such as low-cost/high-quality lunches, sandwiches, and coffee. This will help us meet the challenges of a rise in the number of one-person households and an increasingly frugal customer base.

### 2 Operating differentiated stores

We differentiate our stores by segment, such as cafe, bakery, and supermarket-type stores. Our supermarket-type stores offer one-stop shopping convenience and a variety of small packaged goods targeting singles and working couples.



**Impressive growth continued at Lotte Home Shopping in 2011.** Sales over the year grew by 24.7% to KRW 2.24 trillion, while operating profit climbed by 12.9% to KRW 95.9 billion. [www.lotteimall.com](http://www.lotteimall.com)

Korea's home shopping industry continued its double-digit growth in 2011. Lotte Home Shopping celebrated its 10th anniversary by achieving 24.7% year-on-year growth in sales to KRW 2.24 trillion. These increases were led by its Internet shopping mall and TV home shopping businesses, which saw sales rise by 36.6% and 20.3%, respectively.

Our businesses include Lotte TV Home Shopping, Lotte i-Mall Internet shopping, Lotte IPTV shopping mall (with a focus on Lotte Catalogue), and Lotte m-Mall mobile shopping. We are adopting many strategies to respond to changing customer lifestyles, such as the use of mobile devices and SNS. For example, we strengthened our mobile shopping experience by launching Lotte Home Shopping apps and communicating with our customers in real time through "Social Connecting," which connects with Twitter and Facebook inside the Lotte i-Mall.

Our overseas operations are also expanding. Following our very successful advances into Taiwan in 2005 and China in 2010, we entered Vietnam by establishing the Lotte DatViet joint venture with DatViet, the nation's largest media group, in 2011. We launched our 24/7 home shopping broadcasts in Hanoi and Ho Chi Minh City in February 2012, targeting 1.5 million households. We plan to grow into Asia's number one home shopping company by 2018 by expanding into Indonesia, Japan, Thailand, and Malaysia.

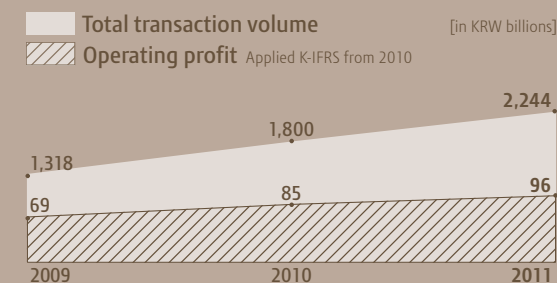
The Lotte.com online shopping mall enjoyed substantial rises in both sales and operating profit. The main reasons for this growth were sales of department store products under contract, an expanded Lotte E-commerce Customizing Service, and increased mobile sales. The company is planning to strengthen its synergies with Lotte Home Shopping going forward.

### 1 Rapid growth of Internet shopping

Sales by the Lotte i-Mall Internet shopping mall are growing rapidly every year. Gross sales in 2010 and 2011 ballooned by 45.8% and 36.6%, respectively, over the year.

### 2 Strengthening mobile shopping

Mobile shopping sales grew rapidly, increasing by more than 30% every month. This enabled us to maintain our lead position in the industry. Some reasons for this included using the QR code on our TV home shopping live broadcasting screens, offering mobile web services for smartphones, and launching Lotte Catalogue and Lotte Home Shopping apps.



## Lotte Cinema

posted strong results both at home and abroad in 2011, backed by new multiplex cinema openings, a slew of box office hits, and innovative marketing activities. Gross sales and operating profit rose by 27.2% and 16.0%, respectively, from the year before.

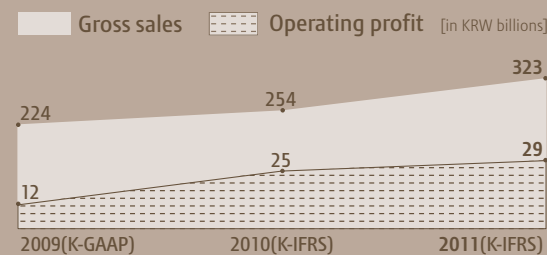
[www.lottecinema.co.kr](http://www.lottecinema.co.kr)

The Korean movie industry continued its growth trend in 2011, posting new records in terms of audience numbers and ticket sales. Korean films won a more than 50% share of the market. Lotte Cinema achieved equally remarkable results in both sales and operating profit by opening new theaters and carrying out exciting and innovative marketing campaigns both at home and abroad.

We added seven more multiplex cinemas in Korea during the year, bringing our nationwide total to 75. In addition, our market share grew to 26.9% from 26.3%, due to an increase in our number of viewers and a broad menu of box office hits. Some of the new services that we introduced included the KTX Cinema, which lets people watch movies while traveling on the train, and the "Wine & Cinema Train" that combines train trips with wine tasting and movie watching.

With regard to our overseas operations, we increased our presence in China and Vietnam by opening more multiplex cinemas. In China, we opened three, including one in Wuhan that boasts 12 screens. We opened another one with five screens in Hanoi. We will continue to realize our vision of becoming a leading Asian entertainment company by having more than 43 multiplexes in China and 18 in Vietnam by 2015.

Lotte Entertainment is the company's film investment and distribution division. Its box office successes in 2011 included "War of the Arrows" and "Leafie, A Hen into the Wild." In 2012, the company plans to add to its presence on the international stage by increasing its level of participation in foreign films.



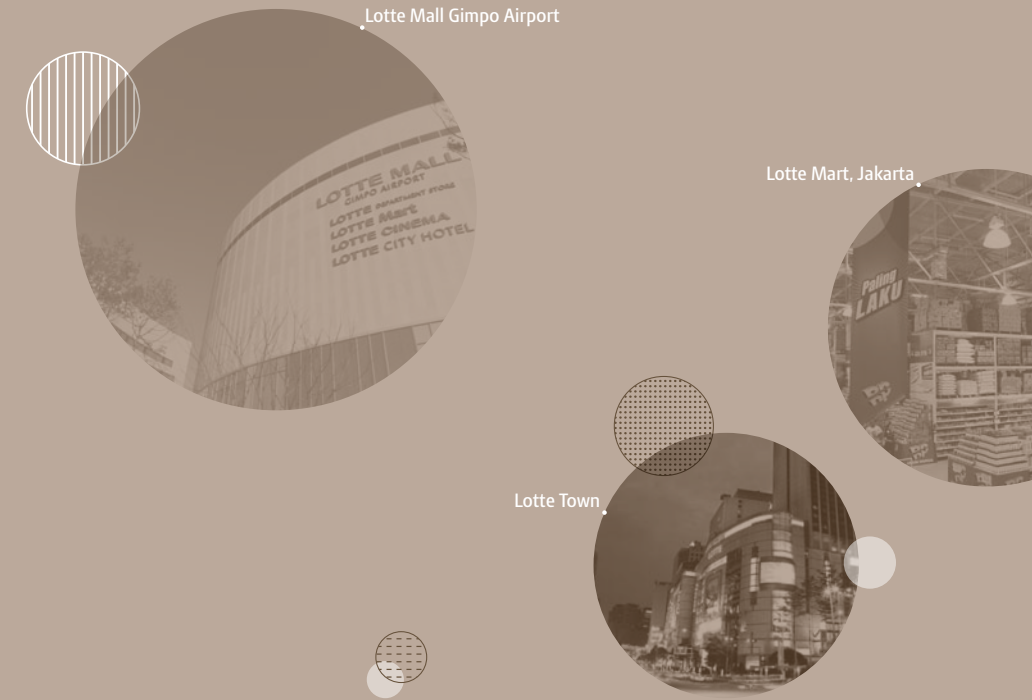
| Multiplexes |    | Screens |     |
|-------------|----|---------|-----|
| Korea       | 75 | Korea   | 543 |
| China       | 4  | China   | 31  |
| Vietnam     | 4  | Vietnam | 17  |

### 1 Rising in market share

Lotte Cinema increases its audience base every year by upgrading its existing facilities, carrying out innovative marketing campaigns, and opening new multiplex cinemas. In 2011, it had a 26.9% market share and a total audience of 41,970,000.

### 2 Increasing investments in overseas films

Lotte Entertainment is strengthening its position as a global investment and distribution company by adding to its portfolio of overseas investments. They include Sony's "The Smurfs" 3D movie and "Man in Black III," Paramount's "The Adventures of Tintin," and Plan B Entertainment's "World War Z."



The steady growth at all our affiliates has been made possible by our efforts to find out what our customers really want and need. In return, their support and encouragement have contributed to our history of constant innovations.



To us, retail means both happiness and convenience. Retail is “connection” and “cooperation.” We believe in constantly communicating with our neighbors, developing warm and positive relationships with our business partners, and doing whatever we can to preserve and protect the environment.



RE  
DE  
FINING  
RES  
PONSIB  
ILITY



We are committed to sharing and caring so that our children and neighbors can lead happier and healthier lives. We do this through a broad range of **social contribution** activities that bring hope to people everywhere.



Support for children of low-income families suffering from atopic dermatitis

Overseas child sponsorship program



### 1 Operating the "Room with Mom" Bus

We began the "Room with Mom" bus program in the capital region. In addition to providing would-be and working mothers with a place to rest and relax, it is equipped with such healthcare professionals as gynecologists and nurses. It offers information on pregnancy, childbirth, and prenatal care, as well as rest and relaxation services.

### 2 Order of Civil Merit for Promoting Childbirth

In August 2011, we were awarded the Order of Civil Merit at the second annual "Giving Birth, Wonderful World" exhibition hosted by Korea's Ministry of Health & Welfare. The award was given in recognition of our help in spreading positive information about pregnancy and childbirth in our society. This includes practicing family-friendly management within the company and carrying out campaigns to promote childbirth with the general public.

### 3 Helping Children Suffering from Atopic Dermatitis

Our atopic treatment support program targets the children of low-income families who are suffering from atopic dermatitis. More than 100 children aged 12 and under in Seoul, Incheon, Busan, and Ulsan received no-cost treatments from August through December 2011. We issued reports about the results of the treatments, the best ways of caring for the children, and environmental diseases in general.

### 4 Overseas Child Sponsorship Program

In 2009, we launched a program that gives our employees the opportunity to "adopt" the children of impoverished families in Vietnam, Cambodia, and India and provide financial assistance to help them live happier and healthier lives. The employees also provide them with emotional support and guidance by acting as their friends and mentors.

### 5 Volunteer Work at Child Care Facilities

In 2011, Lotte Mart's Happy Dream Volunteer Group supported over 100 child care centers across the country by forming one-on-one partnerships with them. This included providing scholarships to elementary, middle, and high school students, as well as helping them with their studies and offering them career counseling. The company is also planning to assist about 400 promising middle and high school students in obtaining further education.

### 6 Beautiful Neighborhood Campaign

Lotte Super has been carrying out a Beautiful Neighborhood campaign in collaboration with the Food Bank since 2010. It provides basic living necessities, including rice and eggs, to 1,000 low-income households. The company also carries out monthly volunteer activities by employees at its head office and branches, along with a number of other sharing efforts, such as donations to the Beautiful Store.

We practice a wide range of activities to preserve and protect the environment and cope with climate change. All of them are based on tried and tested environmental management systems.



Low Carbon Green Growth Expo



A signing ceremony for the agreement about the Green Card policy



**1 Named Green Stores, a First for the Industry**  
 In November 2011, Lotte Department Store's branches in Yeongdeungpo, Ilsan, and Ulsan were named Green Stores by the Ministry of Environment, a first for the industry in Korea. The Green Store certification is given to retail stores after an evaluation of their overall level of eco-friendliness, including their facilities, products, and store operations. Lotte Department Store has been participating in the Green Store pilot project since 2010.

**2 Participated in 2011 Low Carbon Green Growth Expo**  
 In October 2011, Lotte Department Store and Lotte Mart participated in the 2011 Low Carbon Green Growth Expo hosted by the Ministry of Environment. They provided information about our green management activities, including our Eco-Shop, our Green Store designation, and the development of our Green Point-of-Sales system.

**3 Store-Wide Green Card Program**  
 Lotte Department Store and Lotte Mart are active participants in the Ministry of Environment's Green Card program to encourage "green" lifestyles and greenhouse gas reductions. It helps people practice green consumption in their daily lives by offering them a wide range of benefits when they purchase eco-friendly products with a Green Card. Lotte signed an agreement to participate in it in April 2011.

**4 Green Lotte International Environmental Drawing Contest**  
 Lotte Department Store held its first Green Lotte International Environmental Drawing Contest on April 24, 2011. It was carried out at all its stores under the theme of Sharing Love for the Environment with Everyone. Over 10,000 children participated in it, including non-Korean students from international and foreign schools and children from multi-cultural families.

**5 Green Management System Certification**  
 In 2011, Lotte Mart obtained a Green Management System certification, a first for the Korean retail industry, from the Ministry of Knowledge Economy. The company earned very favorable reviews for the way it practices environmental management. This includes establishing a greenhouse gas emissions control system at each store, increasing our menu of green products and operating green stores, and saving energy and resources by using photovoltaic power generation systems.

**6 Plastic Bag-Free Stores**  
 Lotte Mart and Lotte Super both stopped using plastic shopping bags after signing an agreement to become disposable plastic shopping bag-free stores with the Ministry of Environment. In addition to reducing the cost of producing and disposing of plastic shopping bags, the program lowers the volume of carbon dioxide emissions. Customers are encouraged to use reusable bags instead.



Lotte helps its business partners strengthen their management processes and add to their competitiveness through a broad range of **shared growth** programs, including financial and educational supports and improved communications.



Seminar on win-win marketing strategies



Signing ceremony for 2011 Lotte Shared Growth and Fair Trade Agreement



**1 Signed Shared Growth and Fair Trade Agreement**

We established a shared growth promotion office in 2010. In April 2011, we declared our commitment to observing retail-related fair trade laws and regulations by signing a Shared Growth and Fair Trade Agreement. The signing ceremony was attended by the heads of the Fair Trade Commission and the Shared Growth Commission, as well as representatives of all our business partners.

**2 Helping Finance Stable Management**

We provide our small and medium-sized partners with a number of financial assistance programs to enhance their operations. They include a KRW 100 billion shared growth fund that offers them zero-interest loans for their management activities; another KRW 129 billion shared growth fund created by Lotte Department Store, Lotte Mart, and Lotte Super that offers prime rate loans; a product development fund that helps them cover the costs of raw and supplementary materials; and a line of credit-based business financing program that we operate in conjunction with the Industrial Bank of Korea.

**3 Helping to Reduce Costs and Develop New Technologies**

Lotte Department Store helps its business partners reduce their costs by covering up to 100% of the cost of shop relocations that are caused by its renewal projects. Lotte Department Store, Lotte Mart, and Lotte Super have also introduced a partner patent cost support program that helps their business partners develop technologies and reduce their expenses.

**4 Providing Education and Training to Enhance Competitiveness**

We offer a wide range of educational and training programs to enhance the competitiveness of our business partners. This includes the Shared Growth Academy, which trains their employees using our own talent cultivation programs. We also hold meetings and workshops for their CEOs, and provide their workers with long- and short-term service, job, and overseas training. We also assist our business partners with their employee benefits programs, such as group insurance.

**5 Helping to Find Markets at Home and Abroad**

We are committed to helping our business partners enhance their brand value and add to their global competitiveness. Lotte Department Store operates a KRW 20 billion overseas shared growth fund to supplement their working capital when both parties expand overseas together. Lotte Mart has been operating a "Manufacturing Private Brand" program since 2008. It targets high-quality, smaller manufacturers who have had difficulty securing stable markets.

**6 Operating Shared Growth Websites**

Our shared growth websites enable efficient communications with our business partners. Lotte Department Store has a menu on its Product Division's homepage that talks about its shared growth programs, while Lotte Mart and Lotte Super operate their own websites covering the same topic. All the sites are designed to inform our business partners about our various financial support programs and offer them advice about products and events.

Our goal of becoming a leading global retailer does not refer to size alone.

Instead, it means fostering growth that adds to our customers' satisfaction and increases our shareholders' and investors' value every day.

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# FINANCIAL STATEMENTS

## Independent Auditors' Report

March 14, 2012



Based on a report originally issued in Korean

### THE BOARD OF DIRECTORS AND SHAREHOLDERS LOTTE SHOPPING CO., LTD.:

We have audited the accompanying consolidated statements of financial position of Lotte Shopping Co., Ltd. and its subsidiaries (the "Group") as of December 31, 2011, 2010 and January 1, 2010, and the related consolidated statements of comprehensive income, consolidated statements of changes in equity and cash flows for the years ended December 31, 2011 and 2010. Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Korean International Financial Reporting Standards. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of certain subsidiaries including Korea Seven Co., Ltd., whose financial statements represent 9.38%, 8.85% and 7.34% of the consolidated total assets as of December 31, 2011, 2010 and January 1, 2010, respectively, and 17.54% and 17.91% of the consolidated total sales for the years ended December 31, 2011 and 2010, respectively. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for those companies, is based solely on the reports of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

In our opinion, based on our audits and other auditors' reports, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Group as of December 31, 2011, 2010 and January 1, 2010 and its financial performance and its cash flows for the years ended December 31, 2011 and 2010, in accordance with Korean International Financial Reporting Standards.

#### Without Qualifying Our Opinion, We Draw Attention to the Following:

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. Accordingly, this report and the accompanying consolidated financial statements are for use by those knowledgeable about Korean auditing standards and their application in practice.

*KPMG Samjong Accounting Corp.*

KPMG Samjong Accounting Corp.  
Seoul, Korea

This report is effective as of March 14, 2012, 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, 2011, 2010 and January 1, 2010

|                                    | Notes          | December 31, 2011   | December 31, 2010   | January 1, 2010<br>In KRW millions |
|------------------------------------|----------------|---------------------|---------------------|------------------------------------|
| <b>ASSETS</b>                      |                |                     |                     |                                    |
| Cash and cash equivalents          | 5 8 31 33      | ₩ 1,958,204         | ₩ 1,242,426         | ₩ 998,865                          |
| Trade and other receivables        | 5 6 8 38       | 636,502             | 461,341             | 359,373                            |
| Other financial assets             | 5 7 8 22 31 38 | 7,732,819           | 6,487,294           | 4,606,799                          |
| Inventories                        | 9              | 2,042,285           | 1,669,798           | 1,360,126                          |
| Income tax refund receivable       |                | 983                 | 506                 | 195                                |
| Other current non-financial assets | 10 38          | 357,367             | 167,895             | 123,518                            |
| <b>Total current assets</b>        |                | <b>₩ 12,728,160</b> | <b>₩ 10,029,260</b> | <b>₩ 7,448,876</b>                 |
| Investments in associates          | 11             | ₩ 940,720           | ₩ 869,505           | ₩ 671,946                          |
| Other financial assets             | 5 7 8 22 31 38 | 1,651,237           | 1,609,875           | 1,413,512                          |
| Property, plant and equipment, net | 12             | 13,153,613          | 12,651,614          | 11,396,268                         |
| Investment property                | 13             | 640,896             | 632,798             | 743,572                            |
| Goodwill                           | 14             | 2,067,205           | 2,050,139           | 999,009                            |
| Other intangible assets, net       | 14             | 639,812             | 217,004             | 119,783                            |
| Other non-financial assets         | 10             | 1,182,998           | 1,066,825           | 903,793                            |
| Deferred tax assets                | 32             | 56,479              | 64,510              | 49,990                             |
| <b>Total non-current assets</b>    |                | <b>₩ 20,332,960</b> | <b>₩ 19,162,270</b> | <b>₩ 16,297,873</b>                |
| <b>TOTAL ASSETS</b>                |                | <b>₩ 33,061,120</b> | <b>₩ 29,191,530</b> | <b>₩ 23,746,749</b>                |

Continued

Consolidated Statements of Financial Position

As of December 31, 2011, 2010 and January 1, 2010

|   | Notes           | December 31, 2011   | December 31, 2010   | January 1, 2010<br>In KRW millions |
|---|-----------------|---------------------|---------------------|------------------------------------|
| <b>LIABILITIES</b>  |                 |                     |                     |                                    |
| Borrowings and debentures,<br>net of debenture issuance costs         | 5 8 17 31 38    | ₩ 3,447,284         | ₩ 3,336,879         | ₩ 1,878,777                        |
| Trade and other payables  | 5 8 15 38       | 4,724,017           | 4,036,750           | 3,269,020                          |
| Other financial liabilities   | 5 8 16 22 31    | 471,507             | 429,583             | 300,448                            |
| Income tax payables   | 32              | 184,153             | 285,563             | 161,204                            |
| Unearned revenues   | 18              | 184,365             | 163,904             | 146,912                            |
| Provisions  | 19              | 38,016              | 33,330              | 24,422                             |
| Other current non-financial liabilities                               | 20              | 861,666             | 716,702             | 651,415                            |
| <b>Total current liabilities</b>                                      |                 | <b>₩ 9,911,008</b>  | <b>₩ 9,002,711</b>  | <b>₩ 6,432,198</b>                 |
| Borrowings and debentures,<br>net of debentures issuance costs        | 5 8 17 31 38    | ₩ 6,738,647         | ₩ 5,058,546         | ₩ 3,457,841                        |
| Other financial liabilities   | 5 8 16 22 31 38 | 165,276             | 119,485             | 35,425                             |
| Employee benefit liabilities  | 21              | 157,267             | 143,522             | 101,261                            |
| Deferred tax liabilities  | 32              | 1,336,596           | 1,166,143           | 1,119,696                          |
| Long-term unearned revenues   | 18              | 21,411              | 21,906              | 19,587                             |
| Provisions  | 19              | 35,392              | 37,157              | 30,245                             |
| Other non-financial liabilities                                       | 20              | 16,518              | 62                  | 1,471                              |
| <b>Total non-current liabilities</b>                                  |                 | <b>₩ 8,471,107</b>  | <b>₩ 6,546,821</b>  | <b>₩ 4,765,526</b>                 |
| <b>TOTAL LIABILITIES</b>  |                 | <b>₩ 18,382,115</b> | <b>₩ 15,549,532</b> | <b>₩ 11,197,724</b>                |
| <b>EQUITY</b>   |                 |                     |                     |                                    |
| Common stock of ₩5,000 par value                                      |                 |                     |                     |                                    |
| Authorized - 60,000,000 shares  |                 |                     |                     |                                    |
| Issued and outstanding - 29,043,374 shares                            | 1 23            | ₩ 145,217           | ₩ 145,217           | ₩ 145,217                          |
| Capital surplus   | 23              | 3,622,183           | 3,622,183           | 3,622,183                          |
| Capital adjustments   |                 | (30,867)            | (16,097)            | (16,271)                           |
| Retained earnings   | 24              | 10,091,896          | 9,211,526           | 8,235,315                          |
| Accumulated other comprehensive income                                | 25              | 137,806             | 146,581             | 101,652                            |
| <b>Stockholders' equity attributable to<br/>owners of the Company</b> |                 | <b>₩ 13,966,235</b> | <b>₩ 13,109,410</b> | <b>₩ 12,088,096</b>                |
| <b>Non-controlling interests</b>                                      |                 | <b>₩ 712,770</b>    | <b>₩ 532,588</b>    | <b>₩ 460,929</b>                   |
| <b>TOTAL EQUITY</b>   |                 | <b>₩ 14,679,005</b> | <b>₩ 13,641,998</b> | <b>₩ 12,549,025</b>                |
| <b>TOTAL LIABILITIES AND EQUITY</b>                                   |                 | <b>₩ 33,061,120</b> | <b>₩ 29,191,530</b> | <b>₩ 23,746,749</b>                |

See accompanying notes to the consolidated financial statements.

Lotte Shopping Co., Ltd. and Subsidiaries

**Consolidated Statements of Comprehensive Income**

For the years ended December 31, 2011 and 2010

|   | Notes       | 2011  | 2010               |
|---|-------------|---|--------------------|
|   |             | In KRW millions (except for earnings per share) |                    |
| Sales   | 27 35 36 38 | ₩ 22,253,088                                    | ₩ 19,017,744       |
| Cost of sales   | 27 29 38    | (15,251,394)                                    | (13,088,638)       |
| <b>Gross profit</b>   |             | <b>₩ 7,001,694</b>                              | <b>₩ 5,929,106</b> |
| Selling, general and administrative expenses                      | 28 29       | ₩ (5,182,852)                                   | ₩ (4,271,095)      |
| Other operating income  | 28          | 59,220  | 97,360             |
| Other operating expense   | 28          | (215,162)                                       | (157,637)          |
| <b>Operating income</b>   | 30 35       | <b>₩ 1,662,900</b>                              | <b>₩ 1,597,734</b> |
| Finance income  | 31          | ₩ 257,265                                       | ₩ 180,281          |
| Finance expense   | 31          | (426,657)                                       | (312,035)          |
| Equity method income of investments in associates                 | 11          | 61,733  | 74,243             |
| <b>Profit before income tax</b>                                   |             | <b>₩ 1,555,241</b>                              | <b>₩ 1,540,223</b> |
| Income tax expense  | 32          | ₩ (542,641)                                     | ₩ (404,173)        |
| <b>Profit from continuing operations</b>                          |             | <b>₩ 1,012,600</b>                              | <b>₩ 1,136,050</b> |
| <b>Discontinued operations</b>                                    |             |   |                    |
| Loss from discontinued operations, net of tax of nil              |             | ₩ -   | ₩ (32,401)         |
| <b>Profit for the year</b>  |             | <b>₩ 1,012,600</b>                              | <b>₩ 1,103,649</b> |
| <b>Other comprehensive income, net of tax:</b>                    | 25          |   |                    |
| Change in fair value of available-for-sale financial assets       |             | ₩ 11,928  | ₩ 75,095           |
| Exchange differences on translating foreign operations            |             | 39,152  | (6,690)            |
| Effective portion of changes in fair value of cash flow hedges    |             | 25,460  | (20,488)           |
| Defined benefit plan actuarial losses                             |             | (10,993)  | (27,765)           |
| Change in equity of equity method investments                     |             | (49,393)  | 22,471             |
| Tax effects   |             | (16,169)  | (13,687)           |
| <b>Other comprehensive income (loss) for the year, net of tax</b> |             | <b>₩ (15)</b>                                   | <b>₩ 28,936</b>    |
| <b>Total comprehensive income for the year</b>                    |             | <b>₩ 1,012,585</b>                              | <b>₩ 1,132,585</b> |
| <b>Profit attributable to:</b>                                    |             |   |                    |
| - Owners of the Company   |             | ₩ 931,815                                       | ₩ 1,034,705        |
| - Non-controlling interests                                       |             | 80,785  | 68,944             |
|   |             | <b>₩ 1,012,600</b>                              | <b>₩ 1,103,649</b> |
| <b>Total comprehensive income attributable to:</b>                |             |   |                    |
| - Owners of the Company   |             | ₩ 916,316                                       | ₩ 1,058,753        |
| - Non-controlling interests                                       |             | 96,269  | 73,832             |
|   |             | <b>₩ 1,012,585</b>                              | <b>₩ 1,132,585</b> |
| <b>Earnings per share in won</b>                                  | 26          |   |                    |
| - Basic and diluted earnings per share - Continuing operations    |             | ₩ 32,084  | ₩ 36,742           |
| - Basic and diluted loss per share - Discontinued operations      |             | -   | (1,116)            |
|   |             | <b>₩ 32,084</b>                                 | <b>₩ 35,626</b>    |

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, 2011 and 2010

|  | Capital stock    | Capital surplus    | Capital adjustments | Retained earnings  | Accumulated other comprehensive income | Stockholders' equity attributable to owners of the Company | Non-controlling interests | Total equity        |
|--|------------------|--------------------|---------------------|--------------------|--|--|---------------------------|---------------------|
|  | In KRW millions  |                    |                     |                    |  |  |                           |                     |
| <b>Balance at January 1, 2010</b>  | ₩ 145,217        | ₩ 3,622,183        | ₩ (16,271)          | ₩ 8,235,315        | ₩ 101,652                              | ₩ 12,088,096   | ₩ 460,929                 | ₩ 12,549,025        |
| <b>Total comprehensive income for the year</b>                                 |                  |                    |                     |                    |  |  |                           | ₩ -                 |
| Profit for the year  | -                | -                  | -                   | 1,034,705          | -                                      | 1,034,705  | 68,944                    | 1,103,649           |
| <b>Other comprehensive income:</b>   |                  |                    |                     |                    |  |  |                           |                     |
| Change in fair value of available-for-sale financial assets                    | -                | -                  | -                   | -                  | 49,988                                 | 49,988   | 4,990                     | 54,978              |
| Exchange differences on translating foreign operations                         | -                | -                  | -                   | -                  | (7,310)                                | (7,310)  | 619                       | (6,691)             |
| Effective portion of changes in fair value of cash flow hedges                 | -                | -                  | -                   | -                  | (12,795)                               | (12,795)   | (779)                     | (13,574)            |
| Defined benefit plan actuarial losses  | -                | -                  | -                   | (20,881)           | -                                      | (20,881)   | (852)                     | (21,733)            |
| Change in equity of equity method investments                                  | -                | -                  | -                   | -                  | 15,046                                 | 15,046   | 910                       | 15,956              |
| <b>Subtotal</b>  | -                | -                  | -                   | <b>(20,881)</b>    | <b>44,929</b>                          | <b>24,048</b>  | <b>4,888</b>              | <b>28,936</b>       |
| <b>Total comprehensive income for the year</b>                                 | ₩ -              | ₩ -                | ₩ -                 | ₩ 1,013,824        | ₩ 44,929                               | ₩ 1,058,753  | ₩ 73,832                  | ₩ 1,132,585         |
| <b>Transactions with owners of the Company, recognized directly in equity:</b> |                  |                    |                     |                    |  |  |                           |                     |
| Dividends to owners of the Company   | -                | -                  | -                   | (36,304)           | -                                      | (36,304)   | -                         | (36,304)            |
| Business combination and others  | -                | -                  | 174                 | (1,309)            | -                                      | (1,135)  | (2,173)                   | (3,308)             |
| <b>BALANCE AT DECEMBER 31, 2010</b>  | <b>₩ 145,217</b> | <b>₩ 3,622,183</b> | <b>₩ (16,097)</b>   | <b>₩ 9,211,526</b> | <b>₩ 146,581</b>                       | <b>₩ 13,109,410</b>  | <b>₩ 532,588</b>          | <b>₩ 13,641,998</b> |

Continued

### Consolidated Statements of Changes in Equity

For the years ended December 31, 2011 and 2010

|  | Capital stock    | Capital surplus    | Capital adjustments | Retained earnings   | Accumulated other comprehensive income (loss) | Stockholders' equity attributable to owners of the Company | Non-controlling interests | Total equity        |
|--|------------------|--------------------|---------------------|---------------------|---|--|---------------------------|---------------------|
|  | In KRW millions  |                    |                     |                     |   |  |                           |                     |
| <b>Balance at January 1, 2011</b>  | <b>₩ 145,217</b> | <b>₩ 3,622,183</b> | <b>₩ (16,097)</b>   | <b>₩ 9,211,526</b>  | <b>₩ 146,581</b>                              | <b>₩ 13,109,410</b>  | <b>₩ 532,588</b>          | <b>₩ 13,641,998</b> |
| <b>Total comprehensive income for the year:</b>                                |                  |                    |                     |                     |   |  |                           |                     |
| Profit for the year  | -                | -                  | -                   | 931,815             | -   | 931,815  | 80,785                    | 1,012,600           |
| <b>Other comprehensive income:</b>   |                  |                    |                     |                     |   |  |                           |                     |
| Change in fair value of available-for-sale financial assets                    | -                | -                  | -                   | -                   | (20,323)                                      | (20,323)   | 12,337                    | (7,986)             |
| Exchange differences on translating foreign operations                         | -                | -                  | -                   | -                   | 37,394  | 37,394   | 1,612                     | 39,006              |
| Effective portion of changes in fair value of cash flow hedges                 | -                | -                  | -                   | -                   | 16,730  | 16,730   | 896                       | 17,626              |
| Defined benefit plan actuarial losses  | -                | -                  | -                   | (6,724)             | -   | (6,724)  | (1,115)                   | (7,839)             |
| Change in equity of equity method investments                                  | -                | -                  | -                   | -                   | (42,576)                                      | (42,576)   | 1,754                     | (40,822)            |
| <b>Subtotal</b>  | <b>-</b>         | <b>-</b>           | <b>-</b>            | <b>(6,724)</b>      | <b>(8,775)</b>                                | <b>(15,499)</b>  | <b>15,484</b>             | <b>(15)</b>         |
| <b>Total comprehensive income for the year</b>                                 | <b>₩ -</b>       | <b>₩ -</b>         | <b>₩ -</b>          | <b>₩ 925,091</b>    | <b>₩ (8,775)</b>                              | <b>₩ 916,316</b>   | <b>₩ 96,269</b>           | <b>₩ 1,012,585</b>  |
| <b>Transactions with owners of the Company, recognized directly in equity:</b> |                  |                    |                     |                     |   |  |                           |                     |
| Dividends to owners of the Company   | -                | -                  | -                   | (43,565)            | -   | (43,565)   | (10,077)                  | (53,642)            |
| Capital increase from non-controlling interest                                 | -                | -                  | -                   | -                   | -   | -  | 91,664                    | 91,664              |
| Other  | -                | -                  | (14,770)            | (1,156)             | -   | (15,926)   | 2,326                     | (13,600)            |
| <b>BALANCE AT DECEMBER 31, 2011</b>  | <b>₩ 145,217</b> | <b>₩ 3,622,183</b> | <b>₩ (30,867)</b>   | <b>₩ 10,091,896</b> | <b>₩ 137,806</b>                              | <b>₩ 13,966,235</b>  | <b>₩ 712,770</b>          | <b>₩ 14,679,005</b> |

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, 2011 and 2010

|   | 2011             | 2010             |
|---|------------------|------------------|
|   | In KRW millions  |                  |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>       |                  |                  |
| Profit for the year                               | ₩ 1,012,600      | ₩ 1,103,649      |
| Income tax expense                                | 542,641          | 404,173          |
| Post-employment benefits                          | 77,273           | 58,266           |
| Long-term employee benefits                       | 7,587            | 17,700           |
| Depreciation                                      | 482,002          | 408,249          |
| Amortization                                      | 77,902           | 39,343           |
| Loss on foreign currency translation              | 84,194           | 99,822           |
| Loss on disposal of property, plant and equipment | 24,148           | 36,501           |
| Loss on disposition of derivative instruments     | 19,904           | 27               |
| Loss on valuation of derivative instruments       | 35,305           | 22,600           |
| Equity method loss of investments in associates   | 25,600           | 17,697           |
| Rental expenses                                   | 30,761           | 26,928           |
| Other expenses                                    | 112,743          | 101,597          |
| Gain on foreign currency translation              | (1,008)          | (24,620)         |
| Gain on disposal of property, plant and equipment | (10,303)         | (55,792)         |
| Equity method gain of investments in associates   | (87,333)         | (91,940)         |
| Gain on transaction of derivative instruments     | (26,492)         | (10,052)         |
| Gain on valuation of derivative instruments       | (18,978)         | (57,657)         |
| Other income                                      | (76,505)         | (15,793)         |
| Income of card business                           | (659,640)        | (606,692)        |
| Cost of card business                             | 380,156          | 372,350          |
| Interest expense                                  | 191,325          | 178,794          |
| Interest income                                   | (105,673)        | (79,222)         |
| Dividends income                                  | (6,448)          | (3,318)          |
| Trade receivables                                 | (117,433)        | (80,459)         |
| Other receivables                                 | (66,539)         | (32,506)         |
| Other financial assets                            | (1,113,285)      | (1,924,291)      |
| Inventories                                       | (384,965)        | (268,694)        |
| Other non-financial assets                        | (264,602)        | (278,060)        |
| Trade payables                                    | 427,897          | 621,105          |
| Other payables                                    | 240,286          | 57,954           |
| Other financial liabilities                       | 58,284           | 79,001           |
| Unearned revenues                                 | 20,158           | 11,777           |
| Provisions  | (9,665)          | (5,745)          |
| Other non-financial liabilities                   | 147,480          | 83,072           |
| Payment of post-employment benefits               | (48,194)         | (90,563)         |
| Plan assets                                       | (42,196)         | 7,644            |
| Income tax paid                                   | (491,470)        | (297,308)        |
| Interest received                                 | 621,403          | 508,123          |
| Interest paid                                     | (218,343)        | (163,302)        |
| Dividends received                                | 421              | 50               |
| <b>Net cash provided by operating activities</b>  | <b>₩ 870,998</b> | <b>₩ 170,408</b> |

Continued

## Consolidated Statements of Cash Flows

For the years ended December 31, 2011 and 2010

|   | 2011                 | 2010                 |
|---|----------------------|----------------------|
|   |                      | In KRW millions      |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                   |                      |                      |
| Decrease of deposits  | ₩ 604,560            | ₩ 1,105,345          |
| Decrease of loans   | 40,231               | 30,531               |
| Sale of available-for-sale financial assets                                   | 77,235               | 9,943                |
| Sale of investments in associates   | 2,166                | 1,030                |
| Proceeds from disposal of property, plant and equipment                       | 141,074              | 483,645              |
| Proceeds from disposal of intangible assets                                   | 1,042                | 535                  |
| Decrease of other non-financial assets  | 4,672                | 67,538               |
| Increase of short-term financial assets                                       | (903,838)            | (1,042,113)          |
| Increase of loans   | (19,149)             | (65,045)             |
| Purchase of available-for-sale financial assets                               | (30,324)             | (60,834)             |
| Purchase of investments in associates   | (63,735)             | (105,456)            |
| Purchase of investment properties   | (3,350)              | (36,409)             |
| Acquisition of property, plant and equipment                                  | (1,592,148)          | (1,165,585)          |
| Acquisition of intangible assets  | (82,026)             | (137,480)            |
| Acquisition of other investments  | (10,331)             | (96,686)             |
| Business combinations, net of cash acquired                                   | -                    | (1,811,059)          |
| Interest received   | 64,462               | 52,483               |
| Dividends received  | 12,895               | 8,425                |
| <b>Net cash used in investing activities</b>                                  | <b>₩ (1,756,564)</b> | <b>₩ (2,761,192)</b> |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                   |                      |                      |
| Proceeds from borrowings  | ₩ 7,104,970          | ₩ 14,401,792         |
| Proceeds from issuance of debentures  | 3,495,255            | 2,937,098            |
| Capital contribution from non-controlling interests                           | 89,258               | 47,305               |
| Repayment of borrowings   | (7,827,431)          | (12,609,582)         |
| Redemption of debentures  | (1,024,169)          | (1,674,883)          |
| Cash outflows from other financing activities                                 | (1,123)              | (5,082)              |
| Acquisition of additional ownership in subsidiaries                           | (19,699)             | -                    |
| Interest paid   | (168,033)            | (220,947)            |
| Dividends paid  | (53,642)             | (45,442)             |
| <b>Net cash provided by financing activities</b>                              | <b>₩ 1,595,386</b>   | <b>₩ 2,830,259</b>   |
| <b>Net increase in cash and cash equivalents</b>                              | <b>₩ 709,820</b>     | <b>₩ 239,475</b>     |
| <b>Cash and cash equivalents at beginning of the year</b>                     | <b>₩ 1,242,426</b>   | <b>₩ 998,865</b>     |
| <b>Impact of foreign currency exchange rates on cash and cash equivalents</b> | <b>₩ (137)</b>       | <b>₩ (262)</b>       |
| <b>Exchange differences on translating foreign operations</b>                 | <b>₩ 6,095</b>       | <b>₩ 4,348</b>       |
| <b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>                           | <b>₩ 1,958,204</b>   | <b>₩ 1,242,426</b>   |

See accompanying notes to the consolidated financial statements.

## Notes to the Consolidated Financial Statements

December 31, 2011 and 2010



## Lotte Shopping Co., Ltd. and Subsidiaries

### 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, discount stores and supermarkets. 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 a clothing retail division. The Company 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, 2011 are as follows:

| Stockholder                                | Number of shares  | Ownership (%)  |
|--|-------------------|----------------|
| Shin, Dong Bin                             | 4,237,627         | 14.60%         |
| Shin, Dong Ju                              | 4,235,883         | 14.60%         |
| Shin, Kyuk Ho                              | 293,877           | 1.00%          |
| Shin, Young Ja                             | 232,818           | 0.80%          |
| Hotel Lotte Co., Ltd.                      | 2,781,947         | 9.60%          |
| Korea Fuji Film Co., Ltd.                  | 2,474,543         | 8.50%          |
| Lotte Confectionery Co., Ltd.              | 2,474,543         | 8.50%          |
| Lotte Data Communication Company           | 1,515,653         | 5.20%          |
| Lotte Chilsung Beverage Co., Ltd.          | 1,237,272         | 4.30%          |
| Lotte Engineering & Construction Co., Ltd. | 300,019           | 1.00%          |
| Hotel Lotte Pusan Co., Ltd.                | 246,720           | 0.90%          |
| Others                                     | 9,012,472         | 31.00%         |
| <b>Total</b>                               | <b>29,043,374</b> | <b>100.00%</b> |

#### (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 jointly controlled entities. A summary of the subsidiaries of the Company as of December 31, 2011, 2010 and January 1, 2010 is as follows:

| Subsidiaries                                | December 31, 2011 |                             |             |                             |
|---|-------------------|-----------------------------|-------------|-----------------------------|
|   | Location          | Products or services        | Fiscal year | Percentage of ownership (%) |
| Lotte Midopa Co., Ltd.                      | Korea             | Distribution                | Dec. 31     | 79.01                       |
| Lotte Card Co., Ltd.                        | Korea             | Credit card, capital        | Dec. 31     | 92.54                       |
| 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                      |
| Chungnam Smartcard Co., Ltd.                | Korea             | Electronic banking business | Dec. 31     | 100.00                      |
| Woori Home Shopping & Television Co., Ltd.  | Korea             | Distribution                | Dec. 31     | 53.03                       |
| Korea Seven Co., Ltd.                       | Korea             | Distribution                | Dec. 31     | 51.14                       |
| Buy the way Inc.                            | Korea             | Distribution                | Dec. 31     | 100.00                      |
| Lotte Boulangerie Co., Ltd.                 | Korea             | Bakery                      | Dec. 31     | 90.54                       |
| Lotte Square Co., Ltd.                      | Korea             | Distribution                | Dec. 31     | 100.00                      |
| NCF Co., Ltd.                               | Korea             | Apparel manufacturing       | Dec. 31     | 94.50                       |
| 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     | 58.82                       |
| Lotte Vietnam Shopping Co., Ltd.            | Vietnam           | Distribution                | Dec. 31     | 94.55                       |

Continued

| Subsidiaries   | December 31, 2011 |                      |             |                             |
|--|-------------------|----------------------|-------------|-----------------------------|
|  | Location          | Products or services | Fiscal year | Percentage of ownership (%) |
| Qingdao Lotte Mart Commercial Co., Ltd.                    | China             | Distribution         | Dec. 31     | 100.00                      |
| Lotte Mart Co., Ltd.                                       | China             | Distribution         | Dec. 31     | 100.00                      |
| Lotte Shopping Holdings (Singapore), 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                      |
| Lotte Shopping India Pvt., Ltd.                            | India             | Distribution         | Dec. 31     | 100.00                      |
| Lotte Hotel & Retail Vietnam Pte. Ltd.                     | Singapore         | Holding company      | Dec. 31     | 60.00                       |
| Lotte Shopping Holdings (Hong Kong), Ltd.                  | Hong Kong         | Holding company      | Dec. 31     | 100.00                      |
| Lotte Mart China Co., Ltd. and its subsidiaries            | China             | Distribution         | Dec. 31     | 100.00                      |
| Lotte Home Shopping Company Limited                        | Cayman            | Holding company      | Dec. 31     | 88.98                       |
| Lucky Pai Ltd. and its subsidiaries                        | China             | Distribution         | Dec. 31     | 73.80                       |
| Lotte Business Management (Tianjin) Co., Ltd.              | China             | Distribution         | Dec. 31     | 100.00                      |
| Lotte Mart Global Sourcing Center Co., Ltd.                | China             | Trading company      | Dec. 31     | 100.00                      |
| Liaoning Lotte Mart Co., Ltd.                              | China             | Distribution         | Dec. 31     | 100.00                      |
| Lotte Cinema Vietnam Co., Ltd.                             | Vietnam           | Cinema               | Dec. 31     | 90.00                       |
| Jilin Lotte Mart Co., Ltd.                                 | China             | Distribution         | Dec. 31     | 100.00                      |
| PT. Lotte Shopping Plaza Indonesia                         | Indonesia         | Distribution         | Dec. 31     | 100.00                      |
| Lotte Department Store (Shenyang) Co., Ltd.                | China             | Distribution         | Dec. 31     | 100.00                      |
| Lotte International<br>Department Store (Weihai) Co., Ltd. | China             | Distribution         | Dec. 31     | 100.00                      |
| Lotte DatViet Homeshopping Co., Ltd.                       | Vietnam           | Distribution         | Dec. 31     | 63.03                       |
| Lottemart Danang Co., Ltd.                                 | Vietnam           | Distribution         | Dec. 31     | 100.00                      |
| Lottemart C&C India Pvt. Ltd.                              | India             | Distribution         | Dec. 31     | 100.00                      |
| The 4th Sprint (*)   | Korea             | SPC                  | Dec. 31     | 0.90                        |
| The 2nd Supreme (*)  | Korea             | SPC                  | Dec. 31     | 0.90                        |
| The 3rd Supreme (*)  | Korea             | SPC                  | Dec. 31     | 0.90                        |
| The 4th Supreme (*)  | Korea             | SPC                  | Dec. 31     | 0.90                        |

(\*) The Group possesses substantial risks and rewards of Special Purpose Company (SPC) specializing in factoring credit card sale receivables.

| Subsidiaries                                    | December 31, 2010 |                             |             |                             |
|---|-------------------|-----------------------------|-------------|-----------------------------|
|   | Location          | Products or services        | Fiscal year | Percentage of ownership (%) |
| Lotte Midopa Co., Ltd.                          | Korea             | Distribution                | Dec. 31     | 79.01                       |
| Lotte Card Co., Ltd.                            | Korea             | Credit card, capital        | Dec. 31     | 92.54                       |
| 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                      |
| Chungnam Smartcard Co., Ltd.                    | Korea             | Electronic banking business | Dec. 31     | 100.00                      |
| Woori Home Shopping & Television Co., Ltd.      | Korea             | Distribution                | Dec. 31     | 53.03                       |
| Korea Seven Co., Ltd.                           | Korea             | Distribution                | Dec. 31     | 51.44                       |
| Buy the way Inc.                                | Korea             | Distribution                | Dec. 31     | 100.00                      |
| Lotte Boulangerie Co., Ltd.                     | Korea             | Bakery                      | Dec. 31     | 90.54                       |
| Lotte Square Co., Ltd.                          | Korea             | Distribution                | Dec. 31     | 100.00                      |
| NCF Co., Ltd.                                   | Korea             | Apparel manufacturing       | Dec. 31     | 94.50                       |
| 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 Vietnam Shopping Co., Ltd.                | Vietnam           | Distribution                | Dec. 31     | 80.00                       |
| Qingdao Lotte Mart Commercial Co., Ltd.         | China             | Distribution                | Dec. 31     | 100.00                      |
| Lotte Mart Co., Ltd.                            | China             | Distribution                | Dec. 31     | 100.00                      |
| Lotte Shopping Holdings (Singapore), 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                      |
| Lotte Shopping India Pvt., Ltd.                 | India             | Distribution                | Dec. 31     | 100.00                      |
| Lotte Shopping Holdings (Hong Kong), Ltd.       | Hong Kong         | Holding company             | Dec. 31     | 100.00                      |
| Lotte Mart China Co., Ltd. and its subsidiaries | China             | Distribution                | Dec. 31     | 100.00                      |
| Lotte Home Shopping Company Limited             | Cayman            | Holding company             | Dec. 31     | 88.23                       |
| Lucky Pai Ltd. and its subsidiaries             | China             | Distribution                | Dec. 31     | 63.22                       |
| Lotte Business Management (Tianjin) Co., Ltd.   | China             | Distribution                | Dec. 31     | 100.00                      |
| Lotte Mart Global Sourcing Center Co., Ltd.     | China             | Trading company             | Dec. 31     | 100.00                      |
| Liaoning Lotte Mart Co., Ltd.                   | China             | Distribution                | Dec. 31     | 100.00                      |
| Lotte Cinema Vietnam Co., Ltd.                  | Vietnam           | Cinema                      | Dec. 31     | 90.00                       |
| The 4th Sprint (*)                              | Korea             | SPC                         | Dec. 31     | 0.90                        |
| The 1st Supreme (*)                             | Korea             | SPC                         | Dec. 31     | 0.90                        |
| The 2nd Supreme (*)                             | Korea             | SPC                         | Dec. 31     | 0.90                        |

(\*) The Group possesses substantial risks and rewards of Special Purpose Company (SPC) specializing in factoring credit card sale receivables.

| Subsidiaries                                    | January 1, 2010 |                      |             |                             |
|---|-----------------|----------------------|-------------|-----------------------------|
|   | Location        | Products or services | Fiscal year | Percentage of ownership (%) |
| Lotte Midopa Co., Ltd.                          | Korea           | Distribution         | Dec. 31     | 79.01                       |
| Lotte Card Co., Ltd.                            | Korea           | Credit card, capital | Dec. 31     | 92.54                       |
| Woori Home Shopping & Television Co., Ltd.      | Korea           | Distribution         | Dec. 31     | 53.03                       |
| Korea Seven Co., Ltd.                           | Korea           | Distribution         | Dec. 31     | 50.12                       |
| Lotte Boulangerie Co., Ltd.                     | Korea           | Bakery               | Dec. 31     | 95.71                       |
| Lotte Krispy Kreme Doughnuts co., Ltd.          | Korea           | Food manufacturing   | Dec. 31     | 100.00                      |
| Lotte Vietnam Shopping Co., Ltd.                | Vietnam         | Distribution         | Dec. 31     | 80.00                       |
| Qingdao Lotte Mart Commercial Co., Ltd.         | China           | Distribution         | Dec. 31     | 100.00                      |
| Lotte Mart Co., Ltd.                            | China           | Distribution         | Dec. 31     | 100.00                      |
| Lotte Shopping Holdings (Singapore), 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                      |
| Lotte Shopping India Pvt., Ltd.                 | India           | Distribution         | Dec. 31     | 100.00                      |
| Lotte Shopping Holdings (Hong Kong), Ltd.       | Hong Kong       | Holding company      | Dec. 31     | 100.00                      |
| Lotte Mart China Co., Ltd. and its subsidiaries | China           | Distribution         | Dec. 31     | 100.00                      |
| Lotte Business Management (Tianjin) Co., Ltd.   | China           | Distribution         | Dec. 31     | 100.00                      |
| Liaoning Lotte Mart Co., Ltd.                   | China           | Distribution         | Dec. 31     | 100.00                      |
| Lotte Cinema Vietnam Co., Ltd.                  | Vietnam         | Cinema               | Dec. 31     | 90.00                       |
| KKD Lotte Holdings Co., Ltd.                    | Hong Kong       | Holding company      | Dec. 31     | 100.00                      |
| Krispykreme-lotte(Shanghai) co., Ltd.           | China           | Food manufacturing   | Dec. 31     | 100.00                      |
| KKD(Shanghai) Food. co., Ltd.                   | China           | Bakery               | Dec. 31     | 100.00                      |
| The 4th Sprint (*)                              | Korea           | SPC                  | Dec. 31     | 0.90                        |
| The 1st Supreme (*)                             | Korea           | SPC                  | Dec. 31     | 0.90                        |

(\*) The Group possesses substantial risks and rewards of Special Purpose Company (SPC) specializing in factoring credit card sale receivables.

(c) Financial Information of Subsidiaries as of December 31, 2011, 2010 and January 1, 2010 are summarized as follows:

| Company   | December 31, 2011 |                   |           |                   |
|---|-------------------|-------------------|-----------|-------------------|
|   | Total assets      | Total liabilities | Sales     | Net income (loss) |
|   | In KRW millions   |                   |           |                   |
| Lotte Midopa Co., Ltd.                                  | ₩ 1,058,431       | ₩ 219,513         | ₩ 405,798 | ₩ 47,429          |
| Lotte Card Co., Ltd.                                    | 7,541,569         | 6,035,433         | 1,438,574 | 184,290           |
| eB Card Co., Ltd.                                       | 159,199           | 98,674            | 35,340    | (6,383)           |
| Gyeonggi Smartcard Co., Ltd.                            | 16,963            | 6,302             | 19,596    | 3,676             |
| Inchon Smartcard Co., Ltd.                              | 15,568            | 8,326             | 10,714    | 1,538             |
| Chungnam Smartcard Co., Ltd.                            | 3,617             | 5,874             | 384       | (933)             |
| Woori Home Shopping & Television Co., Ltd.              | 639,604           | 278,010           | 636,015   | 87,399            |
| Korea Seven Co., Ltd.                                   | 769,815           | 562,273           | 1,353,510 | 30,618            |
| Buy the way Inc.  | 260,600           | 122,162           | 639,287   | 22,022            |
| Lotte Boulangerie Co., Ltd.                             | 56,126            | 49,204            | 90,569    | (3,011)           |
| Lotte Square Co., Ltd.                                  | 782,256           | 239,036           | 452,352   | 11,776            |
| NCF Co., Ltd.   | 32,517            | 14,297            | 48,501    | 4,065             |
| Lotte Gimhae Development Co., Ltd.                      | 603               | 184               | 1,846     | 84                |
| Lotte Suwon Station Shopping Town Co., Ltd.             | 15,590            | 952               | -         | (263)             |
| Lotte Songdo Shopping Town Co., Ltd.                    | 180,492           | 79,353            | -         | (354)             |
| Lotte Vietnam Shopping Co., Ltd.                        | 132,728           | 124,604           | 61,585    | (15,994)          |
| Qingdao Lotte Mart Commercial Co., Ltd.                 | 129,919           | 80,794            | 28,135    | (20,937)          |
| Lotte Mart Co., Ltd.                                    | 194,770           | 154,246           | 299,634   | (7,879)           |
| Lotte Shopping Holdings (Singapore), Ltd.               | 239,737           | 19                | -         | (39)              |
| PT. Lotte Shopping Indonesia                            | 257,485           | 144,110           | 775,122   | 11,573            |
| PT. Lotte Mart Indonesia                                | 205,347           | 128,998           | 105,435   | (13,711)          |
| Lotte Shopping India Pvt., Ltd.                         | 6                 | 65                | -         | (1)               |
| Lotte Hotel & Retail Vietnam Pte. Ltd.                  | 114,300           | 389               | -         | (1,362)           |
| Lotte Shopping Holdings (Hong Kong), Ltd.               | 940,220           | 33                | -         | (41)              |
| Lotte Mart China Co., Ltd. and its subsidiaries         | 766,011           | 521,157           | 927,164   | 1,153             |
| Lotte Home Shopping Company Limited                     | 157,800           | 17                | -         | 15                |
| Lucky Pai Ltd. and its subsidiaries                     | 39,733            | 27,147            | 74,082    | (13,043)          |
| Lotte Business Management (Tianjin) Co., Ltd.           | 34,921            | 12,664            | 9,055     | (21,141)          |
| Lotte Mart Global Sourcing Center Co., Ltd.             | 357               | 1,143             | 890       | (1,307)           |
| Liaoning Lotte Mart Co., Ltd.                           | 33,485            | 15,465            | 20,058    | (7,407)           |
| Lotte Cinema Vietnam Co., Ltd.                          | 10,972            | 7,630             | 3,208     | (1,033)           |
| Jilin Lotte Mart Co., Ltd.                              | 23,402            | 9,814             | 12,811    | (4,043)           |
| PT. Lotte Shopping Plaza Indonesia                      | 14,995            | 250               | -         | (1,521)           |
| Lotte Department Store (Shenyang) Co., Ltd.             | 3,062             | 7                 | -         | (463)             |
| Lotte International Department Store (Weihai) Co., Ltd. | 3,257             | 6                 | -         | (279)             |
| Lotte DatViet Homeshopping Co., Ltd.                    | 2,749             | 409               | -         | (104)             |
| Lottmart Danang Co., Ltd.                               | 5,761             | 6                 | -         | (4)               |
| Lottmart C&C India Pvt. Ltd.                            | 2,190             | -                 | -         | (98)              |
| The 4th Sprint  | 100,204           | 100,194           | 7,488     | -                 |
| The 2nd Supreme   | 228,723           | 233,316           | 10,902    | -                 |
| The 3rd Supreme   | 337,945           | 346,101           | 10,773    | -                 |
| The 4th Supreme   | ₩ 161,054         | ₩ 161,886         | ₩ 731     | ₩ -               |

| Company   | December 31, 2010 |                   |           |                   |
|---|-------------------|-------------------|-----------|-------------------|
|   | Total assets      | Total liabilities | Sales     | Net income (loss) |
|   | In KRW millions   |                   |           |                   |
| Lotte Midopa Co., Ltd.                          | ₩ 943,001         | ₩ 191,891         | ₩ 388,680 | ₩ 48,909          |
| Lotte Card Co., Ltd.                            | 6,572,277         | 5,272,846         | 1,299,319 | 159,840           |
| eB Card Co., Ltd.                               | 147,129           | 80,221            | 17,380    | 807               |
| Gyeonggi Smartcard Co., Ltd.                    | 20,453            | 13,468            | 18,657    | 3,441             |
| Inchon Smartcard Co., Ltd.                      | 18,112            | 12,408            | 12,890    | 1,710             |
| Chungnam Smartcard Co., Ltd.                    | 3,293             | 4,618             | 462       | (581)             |
| Woori Home Shopping & Television Co., Ltd.      | 520,506           | 233,625           | 526,587   | 75,089            |
| Korea Seven Co., Ltd.                           | 633,318           | 456,172           | 974,780   | 15,147            |
| Buy the way Inc.                                | 259,813           | 128,311           | 638,697   | 13,924            |
| Lotte Boulangerie Co., Ltd.                     | 50,256            | 40,314            | 77,020    | (169)             |
| Lotte Square Co., Ltd.                          | 720,326           | 188,859           | 311,672   | 9,877             |
| NCF Co., Ltd.                                   | 29,334            | 15,169            | 48,928    | 3,054             |
| Lotte Gimhae Development Co., Ltd.              | 515               | 180               | 901       | 35                |
| Lotte Suwon Station Shopping Town Co., Ltd.     | 2,807             | 2,827             | -         | 79                |
| Lotte Vietnam Shopping Co., Ltd.                | 120,598           | 143,355           | 46,963    | (15,862)          |
| Qingdao Lotte Mart Commercial Co., Ltd.         | 97,850            | 49,112            | 25,059    | (16,645)          |
| Lotte Mart Co., Ltd.                            | 137,665           | 91,439            | 263,573   | (6,077)           |
| Lotte Shopping Holdings (Singapore), Ltd.       | 149,146           | 19                | -         | (38)              |
| PT. Lotte Shopping Indonesia                    | 188,828           | 87,792            | 751,016   | 13,277            |
| PT. Lotte Mart Indonesia                        | 98,428            | 30,465            | 23,841    | (3,324)           |
| Lotte Shopping India Pvt., Ltd.                 | 11                | 78                | -         | (3)               |
| Lotte Shopping Holdings (Hong Kong), Ltd.       | 867,255           | 22                | -         | (94)              |
| Lotte Mart China Co., Ltd. and its subsidiaries | 686,599           | 456,334           | 905,428   | 9,717             |
| Lotte Home Shopping Company Limited             | 147,227           | 21                | -         | (22)              |
| Lucky Pai Ltd. and its subsidiaries             | 53,532            | 31,646            | 15,542    | (3,085)           |
| Lotte Business Management (Tianjin) Co., Ltd.   | 20,756            | 829               | -         | (2,476)           |
| Lotte Mart Global Sourcing Center Co., Ltd.     | 753               | 181               | -         | -                 |
| Liaoning Lotte Mart Co., Ltd.                   | 21,209            | 10,379            | 6,949     | (3,544)           |
| Lotte Cinema Vietnam Co., Ltd.                  | 6,730             | 6,890             | 2,553     | (1,602)           |
| The 4th Sprint                                  | 200,386           | 200,376           | 10,126    | -                 |
| The 1st Supreme                                 | 338,926           | 341,919           | 12,440    | -                 |
| The 2nd Supreme                                 | ₩ 228,666         | ₩ 239,061         | ₩ 8,431   | ₩ -               |

| Company   | January 1, 2010 |                   |                 |
|---|-----------------|-------------------|-----------------|
|   | Total assets    | Total liabilities | Total Capital   |
|   |                 |                   | In KRW millions |
| Lotte Midopa Co., Ltd.                          | ₩ 863,668       | ₩ 186,427         | ₩ 677,241       |
| Lotte Card Co., Ltd.                            | 4,588,796       | 3,441,559         | 1,147,237       |
| Woori Home Shopping & Television Co., Ltd.      | 430,189         | 200,686           | 229,503         |
| Korea Seven Co., Ltd.                           | 289,257         | 225,848           | 63,409          |
| Lotte Boulangerie Co., Ltd.                     | 48,150          | 38,370            | 9,780           |
| Lotte Krispy Kreme Doughnuts co., Ltd. (*)      | 86,218          | 5,100             | 81,118          |
| Lotte Vietnam Shopping Co., Ltd.                | 129,305         | 137,307           | (8,002)         |
| Qingdao Lotte Mart Commercial Co., Ltd.         | 87,040          | 56,993            | 30,047          |
| Lotte Mart Co., Ltd.                            | 129,887         | 77,962            | 51,925          |
| Lotte Shopping Holdings (Singapore), Ltd.       | 118,181         | 18                | 118,163         |
| PT. Lotte Shopping Indonesia                    | 165,791         | 79,477            | 86,314          |
| PT. Lotte Mart Indonesia                        | 36,538          | 7                 | 36,531          |
| Lotte Shopping India Pvt., Ltd.                 | 16              | 80                | (64)            |
| Lotte Shopping Holdings (Hong Kong), Ltd.       | 792,975         | 47,753            | 745,222         |
| Lotte Mart China Co., Ltd. and its subsidiaries | 627,643         | 409,031           | 218,612         |
| Lotte Business Management (Tianjin) Co., Ltd.   | 6,427           | 217               | 6,210           |
| Liaoning Lotte Mart Co., Ltd.                   | 10,845          | 4                 | 10,841          |
| Lotte Cinema Vietnam Co., Ltd.                  | 5,664           | 5,573             | 91              |
| KKD Lotte Holdings Co., Ltd.                    | 4,409           | 4                 | 4,405           |
| Krispykreme-lotte(Shanghai) co., Ltd.           | 1,957           | 460               | 1,497           |
| KKD(Shanghai) Food. co., Ltd.                   | 201             | 38                | 163             |
| The 4th Sprint                                  | 200,388         | 200,378           | 10              |
| The 1st Supreme                                 | ₩ 346,535       | ₩ 350,396         | ₩ (3,861)       |

(\*) The company was established by spin-off from the Group and merged to Lotteria Co., Ltd, an associate of the Group, in 2010.

(d) The Entities included in Subsidiaries for Consolidation in 2011 are as follows:

| Description                | Subsidiaries  |
|----------------------------|---|
| Acquired shares in 2011    | Lotte Songdo Shopping Town Co., Ltd.                    |
|                            | Lottmart Danang Co., Ltd.                               |
| Established entity in 2011 | The 3rd Supreme   |
|                            | The 4th Supreme   |
|                            | Lotte Hotel & Retail Vietnam Pte. Ltd.                  |
|                            | Jilin Lottmart Co., Ltd.                                |
|                            | PT. Lotte Shopping Plaza Indonesia                      |
|                            | Lotte Department Store (Shenyang) Co., Ltd.             |
|                            | Lotte International Department Store (Weihai) Co., Ltd. |
|                            | Lotte DatViet Homeshopping Co., Ltd.                    |
|                            | Lottmart C&C India Pvt. Ltd.                            |

(e) The Entity excluded from Subsidiaries for Consolidation in 2011 is as follows:

| Description         | Subsidiaries   |
|---------------------|----------------|
| Dissolution in 2011 | The 1st Suprem |

## 2 Basis of Preparation

### (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 Corporations in the Republic of Korea.

These are the Group's first consolidated financial statements prepared in accordance with K-IFRS and K-IFRS No.1101 *First-time Adoption of Korean International Financial Reporting Standards ("K-IFRS No.1101")* has been applied. The Group's date of transition to K-IFRS is January 1, 2010, and the effect of the transition from Korean Generally Accepted Accounting Principles ("K-GAAP") to K-IFRS on the Group's reported financial position and financial performance is explained in note 41.

The consolidated financial statements were authorized for issuance by the Board of Directors on February 28, 2012.

### (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

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 in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following notes:

- note 13 Classification of investment property
- note 34 Lease classification

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 6 Allowance for financial assets
- note 8 Financial instruments
- note 14 Intangible assets
- note 19 Provisions
- note 21 Employee benefits
- note 32 Income taxes
- note 36 Contingent liabilities and financial commitments

## 3 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 out below have been applied consistently to all periods presented in these consolidated financial statements and in preparing the opening K-IFRS statement of financial position at January 1, 2010 for the purpose of the transition to K-IFRS, unless otherwise indicated.

### (a) Operating Segment

A segment is a distinguishable component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues that relate to transactions with any of the Group's other components. All operating segments' operating results are regularly reviewed by the Group's chief operating decision maker in making decisions on how to allocate resources and in assessing 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 four operating segments which consist of department stores, discount stores, credit card service and others, as described in note 36.

## (b) Basis of Consolidation

### (i) Subsidiaries

A subsidiary is an entity controlled by the Group, where control is the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

If a member of the Group uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in preparing the consolidated financial statements.

### (ii) Special purpose entities

The Group has established a number of special purpose entities (SPEs) for trading and investment purposes. The Group does not have any direct or indirect shareholdings in these entities. An SPE is consolidated if, based on an evaluation of the substance of its relationship with the Group and the SPE's risks and rewards, the Group concludes that it controls the SPE.

### (iii) Intra-group transactions

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Intra-group losses are recognized as expense if intra-group losses indicate an impairment that requires recognition in the consolidated financial statements.

### (iv) Non-controlling interests

Non-controlling interests in a subsidiary are accounted for separately from the parent's ownership interests in a subsidiary. Each component of net profit or loss and other comprehensive income is attributed to the owners of the parent and non-controlling interest holders, even when the allocation reduces the non-controlling interest balance below zero.

## (c) Business Combinations

### (i) Business combinations

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control.

Each identifiable asset and liability is measured at its acquisition-date fair value except for below:

- Leases and insurance contracts are required to be classified on the basis of their contractual terms and other factors

- Only those contingent liabilities assumed in a business combination that are a present obligation and can be measured reliably are recognized

- Deferred tax assets or liabilities are recognized and measured in accordance with K-IFRS No.1012 *Income Taxes*

- Employee benefit arrangements are recognized and measured in accordance with K-IFRS No.1019 *Employee Benefits*

- Reacquired rights are measured in accordance with special provisions

As of the acquisition date, non-controlling interests in the acquiree are measured as the non-controlling interests' proportionate share of the acquiree's identifiable net assets.

The consideration transferred in a business combination shall be measured at fair value, which shall be calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity interests issued by the acquirer. However, any portion of the acquirer's share-based payment awards exchanged for awards held by the acquiree's employees that is included in consideration transferred in the business combination shall be measured in accordance with the method described above rather than at fair value.

Acquisition-related costs are costs the acquirer incurs to effect a business combination. Those costs include finder's fees; advisory, legal, accounting, valuation and other professional or consulting fees; general administrative costs, including the costs of maintaining an internal acquisitions department; and costs of registering and issuing debt and equity securities. Acquisition-related costs, other than those associated with the issuance of debt or equity securities, are expensed in the periods in which the costs are incurred and the services are received. The costs to issue debt or equity securities are recognized in accordance with K-IFRS No.1032 *Financial Instruments: Presentation* and K-IFRS No.1039 *Financial Instruments: Recognition and Measurement*.

### (ii) Goodwill

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognized amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss.

As part of its transition to K-IFRS, the Group elected to restate only those business combinations which occurred on or after January 1, 2010 in accordance with K-IFRS. In respect of acquisitions prior to January 1, 2010, goodwill is included on the basis of its deemed cost, which represents the amount recorded under previous GAAP, K-GAAP.

## (d) Associates and Jointly Controlled Entities

An associate is an entity in which the Group has significant influence, but not control, over the entity's financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity.

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement, and require unanimous consent for strategic financial and operating decisions.

The investment in an associate is initially recognized at cost and the carrying amount is increased or decreased to recognize the Group's share of the profit or loss and changes in equity of the associate after the date of acquisition. Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Intra-group losses recognized as expense if intra-group losses indicate an impairment that requires recognition in the consolidated financial statements.

If an associate uses accounting policies different from those of the Company for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in applying the equity method.

When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has to make payments on behalf of the investee for further losses.

## (e) Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand, demand deposits, and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and are used by the Group in management of its short-term commitments. Generally equity investments are excluded from cash and cash equivalents. However, redeemable preference shares, for which the period from the acquisition to redemption is short, are classified as cash and cash equivalents.

## (f) Inventories

The cost of inventories is based on the first-in first-out principle, and includes expenditures for acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

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 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, are recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

## (g) 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 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. When a



financial asset is derecognized or impairment losses are recognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. Dividends on an available-for-sale equity instrument are recognized in profit or loss when the Group's right to receive payment is established.

**(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.

**(h) 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 either recognized in profit or loss or, when the derivatives are designated in a hedging relationship and the hedge is determined to be an effective hedge, other comprehensive income.

**(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 instrument(s) and hedged item(s), 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. The Group makes an assessment, both at the inception of the hedge relationship as well as on a quarterly basis, whether the hedging instruments are expected to be "highly effective" in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80%-125%. For a cash flow hedge of a forecasted transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported net income.

**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.

**(i) 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.

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.

If financial assets have objective evidence that they are impaired, impairment losses should be 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. If it is not practicable to obtain the instrument's estimated future cash flows, impairment losses would be measured by using prices from any observable current market transactions. The Group can recognize impairment losses directly or establish a provision to cover impairment losses. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss shall be reversed either directly or by adjusting an allowance account.

**(ii) Financial assets carried at cost**

If there is objective evidence that an impairment loss has occurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed.

**(iii) Available-for-sale financial assets**

When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income shall be reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized. Impairment losses recognized in profit or loss for an investment in an equity instrument classified as available-for-sale shall not be reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognized in profit or loss.

**(j) 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. In addition, in the preparation of the opening K-IFRS consolidated statement of financial position on the date of transition to K-IFRS, the Group measures certain property, plant and equipment except for buildings at fair value at the date of transition, which is deemed cost, in accordance with K-IFRS No.1101.

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 on a straight-line basis over estimated useful lives that appropriately reflect the pattern in which the asset's future economic benefits are expected to be consumed. A component that is significant compared to the total cost of property, 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 assets are as follows:

|  | Useful lives (years) |
|--|----------------------|
| Buildings  | 10 ~ 50              |
| Structures   | 5 ~ 48               |
| Machinery  | 2 ~ 30               |
| Vehicles   | 3 ~ 9                |
| Display fixtures                                   | 4 ~ 10               |
| Other property, plant and equipment ("Other PP&E") | 2 ~ 20               |

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) Intangible Assets**

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

Amortization of intangible assets except for goodwill is calculated on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The residual value of



intangible assets is zero. However, as there are no foreseeable limits to the periods over which club memberships are expected to be available for use, this intangible asset is determined as having indefinite useful lives and not amortized.

|                            | Useful lives (years)                       |
|----------------------------|--|
| Industrial property rights | 5 ~ 10                                     |
| Rights to use facility     | 4 ~ 20                                     |
| Film copyrights            | Duration of related revenue to be realized |
| Other intangible assets    | 2 ~ 10                                     |

Amortization periods 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.

Goodwill recognized on business combination is included in intangible assets. The Group retroactively restated amounts related to business combinations that occurred after January 1, 2010, in accordance with K-IFRS. Goodwill related to business combinations that occurred before January 1, 2010 is included on the basis of its deemed cost, which represents the amount recognized under K-GAAP. Goodwill acquired after January 1, 2010 is recognized as the fair value of the consideration transferred, including the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the Group's interest in the fair value of the acquiree's net identifiable assets acquired and liabilities assumed exceeds consideration, the difference is immediately recognized in the statement of income for the period.

Goodwill is measured at cost less accumulated impairment losses. The acquisition of additional non-controlling interest while retaining control is accounted for as shareholder transaction and as a result no goodwill is recognized.

#### (l) Investment Property

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

Subsequent costs are recognized in the carrying amount of investment property at cost or, if appropriate, as separate items if it is probable that future economic benefits associated with the item will flow to the 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 properties, except for land, are depreciated on a straight-line basis over 10 to 50 years, the estimated useful lives. Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate. The change is accounted for as a change in an accounting estimate.

#### (m) 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.

The Group estimates the recoverable amount of an individual asset, if it is impossible to measure the individual recoverable amount of an asset, then the Group estimates the recoverable amount of cash-generating unit ("CGU"). A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. 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 if the carrying amount of an asset or a CGU exceeds its recoverable amount. Impairment losses are recognized in profit or loss.

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.

#### (n) 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.

#### (o) 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. The Group immediately recognizes other borrowing costs as an expense. 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.

#### (p) 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).

#### (q) Employee Benefits

##### (i) Short-term employee benefits

Short-term employee benefits are employee benefits that are due to be settled within 12 months after the end of the period in which the employees render the related service. When an employee has rendered service to the 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 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 corporate bonds that have maturity dates approximating the terms of the

Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. Any actuarial gains and losses are recognized in profit or loss in the period in which they arise.

**(iii) Retirement benefits: defined contribution plans**

When an employee has rendered service to the 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 (pre-paid expense) to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

**(iv) Retirement benefits: defined benefit plans**

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of plan assets is deducted. The calculation is performed annually by an independent actuary using the projected unit credit method.

The discount rate is the yield at the reporting date on corporate bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The Group recognizes all actuarial gains and losses arising from actuarial assumption changes and experiential adjustments in other comprehensive income when incurred.

When the fair value of plan assets exceeds the present value of the defined benefit obligation, the Group recognizes an asset, to the extent of the total of cumulative unrecognized past service cost and the present value of any economic benefits available in the form of refunds from the plan or reduction in the future contributions to the plan.

Past service costs which are the change in the present value of the defined benefits obligation for employee service in prior periods, resulting in the current period from the introduction of, or change to post-employment benefits, is recognized as an expense on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits are already vested immediately following the introduction of, or changes to, a defined benefit plan, the Group recognizes the past service cost immediately.

**(r) 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 shall be recognized when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset.

The Group provides an allowance for credit card assets at the amount that equals the product of the following:

- unused credit commitment multiplied by credit conversion factor and
- provision rate per BASEL discounted by the effective interest rate.

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.

**(s) 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.

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.

**(t) Equity 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.

Preference share capital is classified as equity if it is non-redeemable, or redeemable only at the Company's option, and any dividends are discretionary. Dividends thereon are recognized as distributions within equity upon approval by the Company's shareholders.

Preference share capital is classified as a liability if it is redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary. Dividends thereon are recognized as interest expense in profit or loss as accrued.

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.

**(u) 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 and are recognized as a reduction of revenue.

**Goods sold**

Revenue is recognized when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

The Company, Lotte Midopa Co., Ltd. and Lotte Square Co., Ltd. recognize sales on a gross basis for merchandise of which the Company, Lotte Midopa Co., Ltd. and Lotte Square Co., Ltd. bear 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.

**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.

**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.

**Rental income**

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

**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.

**(v) 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.

#### (w) 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

Deferred tax is recognized, using the asset-liability method, in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. A deferred tax liability is recognized for all taxable temporary differences. A deferred tax asset is recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which they can be utilized. However, deferred tax is not recognized for the following temporary differences: taxable temporary differences arising on the initial recognition of goodwill, or the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting profit or loss nor taxable income.

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.

#### (x) 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.

#### (y) Discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative consolidated statement of comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative period.

#### (z) New Standards and Interpretations not yet adopted

The following new standards, interpretations and amendments to existing standards have been published and are mandatory for the Group for annual periods beginning after January 1, 2011, and the Group has not early adopted them. Management believes the impacts of these new pronouncements on the Group's consolidated financial statements are not significant.

(i) **Amendments to K-IFRS No.1107 *Financial Instruments: Disclosures***  
The amendments require disclosing the nature of the transferred assets, their carrying amount, and the description of risks and rewards for each class of transferred financial assets that are not derecognized in their entirety. If the Group derecognizes transferred financial assets but still has their specific risks and rewards, the amendments require additional disclosures on their effect of risks. The amendments will be applied prospectively for the Group's annual periods beginning on or after July 1, 2011.

#### (ii) **Amendments to K-IFRS No.1019 *Employee Benefits***

The standard requires recognition of actuarial gains and losses immediately in other comprehensive income and to calculate expected return on plan assets based on the rate used to discount the defined benefit obligation. The standard will be applied retrospectively for the Group's annual periods beginning on or after January 1, 2013.

#### (iii) **K-IFRS No.1113 *Fair Value Measurement***

The standard defines fair value and a single framework for fair value, and requires disclosures about fair value measurements. The standard will be applied prospectively for the Group's annual periods beginning on or after January 1, 2013.

### 4 Business Combination and Additional Acquisitions from Entities Under Common Control

#### (a) Business combination

Significant business combinations of the Group are as follows:

#### (i) Acquisition of department stores and discount stores

The Group entered into an agreement to acquire department stores and discount stores from GS Retail Co., Ltd on February 9, 2010. On May 31, 2010, the related department stores business was acquired by a subsidiary of the Group, Lotte Square., Ltd, established in 2010, and the related discount stores business was acquired by the Company. There was no contingent consideration. Goodwill arising from the acquisition primarily results from synergies the Company and its subsidiaries expect to be realized. The amounts of sales and net profit of department stores from GS Retail Co., Ltd since the acquisition date to December 31, 2010 in consolidated sales and net profit amounted to ₩311,672 million and ₩9,877 million, respectively. The amounts of sales and net profit of discount stores from GS Retail Co., Ltd since the acquisition date to December 31, 2010 in consolidated sales and net profit amounted to ₩388,446 million and ₩9,880 million, respectively.

#### (ii) **Stock Acquisition of Lucky Pai Limited**

The Group obtained control of Lucky Pai Limited by acquiring 63.22% of its capital stock for September 30, 2010 in order to expand the Group's home shopping business in China. There was no contingent consideration. Goodwill arising from the acquisition primarily results from synergies the Company and its subsidiaries expect to be realized.

The amounts of sales and net profit of department stores since the acquisition date to December 31, 2010 in consolidated sales and net loss amounted to ₩15,542 million and ₩3,085 million, respectively.

#### (iii) **Acquisition of eB Card Co., Ltd and its subsidiaries**

The Group obtained control of eB Card Co., Ltd. by acquiring 95% of its capital stock for ₩35,508 million in cash on July 27, 2010. In addition, as part of the acquisition, the Group also participated in the share offering by eB Card Co., Ltd. for ₩61,163 million. On July 30, 2010, separate from the above acquisition, eB Card Co., Ltd acquired 100% of the capital stock of Gyeonggi Smartcard Co., Ltd., Incheon Smartcard Co., Ltd., and Chungnam Smartcard Co., Ltd. for ₩52,155 million. The eB Card Co., Ltd and its subsidiaries are engaged in issuing transportation card and managing related services. There was no contingent consideration. Goodwill arising from the acquisition primarily results from synergies the Company and its subsidiaries expect to be realized. The amounts of sales and net profit of department stores since the acquisition date to December 31, 2010 in consolidated sales and net loss amounted to ₩21,065 million and ₩2,643 million, respectively.

#### (iv) **Acquisition of NCF Co., Ltd**

The Group acquired 94.5% and control of the capital stock of a fashion company, NCF Co., Ltd on December 31, 2010 in order to expand the Group's fashion business. There was no contingent consideration.

#### (v) **Acquisition of Buy the way Inc.**

The Group acquired 100% of the capital stock of a private entity, Buy the way Inc., specializing in the convenience store business on April 20, 2010 in order to increase the Group's market share of convenience stores business. There was no contingent consideration. Goodwill arising from the acquisition primarily results from synergies the Company and its subsidiaries expect to be realized. The amounts of sales and net profit since the acquisition date to December 31, 2010 in consolidated sales and net profit amounted to ₩335,379 million and ₩8,958 million, respectively.

The following summarized pro-forma consolidated statement of comprehensive income information assumes that all the above acquisitions occurred as of January 1, 2010. The pro-forma results reflect certain adjustments related to the acquisition, such as increased depreciation and amortization expense on assets acquired resulting from the fair valuation of assets acquired in place on acquisition dates. The pro-forma results do not include any anticipated cost synergies or other effects of the planned integration of the acquirees.

If the Group had acquired the above businesses as of January 1, 2010, pro-forma consolidated sales and pro-forma consolidated net profit for the year ended December 31, 2010 would have been ₩19,717,601 million and ₩1,108,088 million, respectively.

The following summarizes major classes of consideration transferred at the acquisition dates.

| Description                            | GS Retail Co.,Ltd<br>Department store<br>business | GS Retail Co.,Ltd<br>discount store<br>business | Lucky Pai<br>Limited | eB Card Co.,Ltd<br>and its<br>subsidiaries | NCF Co., Ltd    | Buy the way Inc.<br>In KRW millions |
|--|---|---|----------------------|--|-----------------|-------------------------------------|
| <b>Total consideration transferred</b> | <b>₩ 520,843</b>                                  | <b>₩ 826,543</b>                                | <b>₩ 135,695</b>     | <b>₩ 96,671</b>                            | <b>₩ 18,876</b> | <b>₩ 274,000</b>                    |

The following summarizes the recognized amounts of assets acquired and liabilities assumed at the acquisition dates.

| Accounts                             | GS Retail Co.,Ltd<br>Department store<br>business | GS Retail Co.,Ltd<br>discount store<br>business | Lucky Pai<br>Limited | eB Card Co.,Ltd<br>and its<br>subsidiaries | NCF Co., Ltd    | Buy the way Inc.<br>In KRW millions |
|--------------------------------------|---|---|----------------------|--|-----------------|-------------------------------------|
| Cash and cash equivalents            | ₩ -   | ₩ -   | ₩ 12,714             | ₩ 35,502                                   | ₩ 3,066         | ₩ 10,287                            |
| Property, plant and equipment        | 367,924   | 428,401   | 10,935               | 4,429                                      | 1,428           | 45,131                              |
| Investment property                  | -   | -   | 26                   | -  | -               | -                                   |
| Intangible assets                    | 5,237   | 18  | 6,484                | 28,932                                     | 33              | 42,596                              |
| Inventories                          | 2,118   | 18,434  | 10,817               | 653  | 8,060           | 15,229                              |
| Trade and other receivables          | 10,997  | 7,815   | 1,951                | 30,159                                     | 6,109           | 8,836                               |
| Other financial assets               | -   | -   | -                    | -  | 7,500           | -                                   |
| Tax assets                           | -   | -   | -                    | -  | 2,255           | -                                   |
| Other assets (deposits, etc)         | 706   | 86,934  | 5,737                | 43,424                                     | 879             | 77,375                              |
| <b>Total assets</b>                  | <b>₩ 386,982</b>                                  | <b>₩ 541,602</b>                                | <b>₩ 48,664</b>      | <b>₩ 143,099</b>                           | <b>₩ 29,330</b> | <b>₩ 199,454</b>                    |
| Trade and other payables             | 77,641  | 44,450  | 21,846               | -  | 12,311          | 78,697                              |
| Other financial liabilities          | -   | -   | 3,355                | 67,355                                     | -               | -                                   |
| Tax liabilities                      | -   | -   | -                    | 10,004                                     | -               | 8,687                               |
| Other liabilities                    | 5,626   | 6,359   | 1,718                | 48,313                                     | 2,870           | 45,379                              |
| <b>Total liabilities</b>             | <b>₩ 83,267</b>                                   | <b>₩ 50,809</b>                                 | <b>₩ 26,919</b>      | <b>₩ 125,672</b>                           | <b>₩ 15,181</b> | <b>₩ 132,763</b>                    |
| <b>Total identifiable net assets</b> | <b>₩ 303,715</b>                                  | <b>₩ 490,793</b>                                | <b>₩ 21,745</b>      | <b>₩ 17,427</b>                            | <b>₩ 14,149</b> | <b>₩ 66,691</b>                     |

Goodwill recognized as a result of business combinations is as follows:

| Accounts                                       | GS Retail Co.,Ltd<br>Department store<br>business | GS Retail Co.,Ltd<br>discount store<br>business | Lucky Pai<br>Limited | eB Card Co.,Ltd<br>and its<br>subsidiaries | NCF Co., Ltd    | Buy the way Inc.<br>In KRW millions |
|--|---|---|----------------------|--|-----------------|-------------------------------------|
| <b>Total consideration transferred</b>         | <b>₩ 520,843</b>                                  | <b>₩ 826,543</b>                                | <b>₩ 135,695</b>     | <b>₩ 96,671</b>                            | <b>₩ 18,876</b> | <b>₩ 274,000</b>                    |
| Non-controlling interests                      | -   | -   | 6,866                | 871  | 778             | -                                   |
| <b>Subtotal</b>                                | <b>520,843</b>                                    | <b>826,543</b>                                  | <b>142,561</b>       | <b>97,542</b>                              | <b>19,654</b>   | <b>274,000</b>                      |
| Less: Fair value of<br>identifiable net assets | 303,715   | 490,793   | 21,745               | 17,426                                     | 14,149          | 66,691                              |
| <b>Goodwill</b>                                | <b>₩ 217,128</b>                                  | <b>₩ 335,750</b>                                | <b>₩ 120,816</b>     | <b>₩ 80,116</b>                            | <b>₩ 5,505</b>  | <b>₩ 207,309</b>                    |

For each of the business combinations above, non-controlling interests at the acquisition date were measured using their proportionate share in the recognized amounts of the acquirees' identifiable net assets.

#### (b) Additional acquisition of subsidiaries' shares

During 2011, the Group acquired additional shares of its subsidiaries as follows:

| Subsidiaries                                  | Additional<br>acquisition<br>In KRW millions | Before<br>additional<br>acquisition<br>Percentage of ownership (%) | After<br>additional<br>acquisition<br>Percentage of ownership (%) | Book Value<br>of the<br>net assets<br>In KRW millions |
|---|--|--|---|---|
| Lotte Suwon Station Shopping Town Co., Ltd.   | ₩ 14,250                                     | 95.00  | 95.00   | ₩ 14,638  |
| Liaoning Lotte Mart Co., Ltd.                 | 13,387                                       | 100.00   | 100.00  | 18,020  |
| Lotte Business Management (Tianjin) Co., Ltd. | 21,578                                       | 100.00   | 100.00  | 22,257  |
| PT. Lotte Mart Indonesia                      | 21,652                                       | 100.00   | 100.00  | 76,349  |
| Lotte Cinema Vietnam Co., Ltd                 | 3,851  | 90.00  | 90.00   | 3,342   |
| Lucky Pai Limited                             | 19,699                                       | 63.22  | 73.80   | 12,586  |
| Qingdao Lotte Mart Commercial Co., Ltd        | 18,360                                       | 100.00   | 100.00  | 49,125  |
| Lotte Vietnam Shopping Co., Ltd.              | 47,666                                       | 80.00  | 94.55   | 8,124   |
| <b>Total</b>                                  | <b>₩ 160,443</b>                             |  |   |   |

## 5 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, 2011, 2010 and January 1, 2010 are as follows:

| Account                                 | December 31, 2011   | December 31, 2010  | January 1, 2010<br>In KRW millions |
|---|---------------------|--------------------|------------------------------------|
| Cash and cash equivalent (*1)           | ₩ 1,895,258         | ₩ 1,157,526        | ₩ 923,634                          |
| Trade and other receivables             | 636,502             | 461,341            | 359,373                            |
| Current other financial assets (*2)     | 7,732,819           | 6,484,423          | 4,604,040                          |
| Non-current other financial assets (*2) | 947,313             | 958,125            | 929,359                            |
| <b>Total</b>                            | <b>₩ 11,211,892</b> | <b>₩ 9,061,415</b> | <b>₩ 6,816,406</b>                 |

(\*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.

#### 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, 2011, 2010 and January 1, 2010, are summarized as follows:

| Description                          | December 31, 2011                                  |  |                          |                          |
|--------------------------------------|--|--|--------------------------|--------------------------|
|                                      | 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<br>In KRW millions |
| Trade and other receivables          | ₩ 618,088  | ₩ 18,414   | ₩ 11,928                 | ₩ 648,430                |
| Other financial assets (current)     | 7,661,463  | 64,511   | 17,569                   | 7,743,543                |
| Other financial assets (non-current) | 947,313  | -  | -                        | 947,313                  |
| <b>Total</b>                         | <b>₩ 9,226,864</b>                                 | <b>₩ 82,925</b>  | <b>₩ 29,497</b>          | <b>₩ 9,339,286</b>       |

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

| Description                          | December 31, 2010                                  |  |                          |                          |
|--------------------------------------|--|--|--------------------------|--------------------------|
|                                      | 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<br>In KRW millions |
| Trade and other receivables          | ₩ 439,384  | ₩ 14,560   | ₩ 16,042                 | ₩ 469,986                |
| Other financial assets (current)     | 6,433,203  | 49,816   | 32,513                   | 6,515,532                |
| Other financial assets (non-current) | 958,125  | -  | -                        | 958,125                  |
| <b>Total</b>                         | <b>₩ 7,830,712</b>                                 | <b>₩ 64,376</b>  | <b>₩ 48,555</b>          | <b>₩ 7,943,643</b>       |

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

| Description                          | January 1, 2010                                    |  |                          |                          |
|--------------------------------------|--|--|--------------------------|--------------------------|
|                                      | 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<br>In KRW millions |
| Trade and other receivables          | ₩ 347,544  | ₩ 11,587   | ₩ 5,951                  | ₩ 365,082                |
| Other financial assets (current)     | 4,572,370  | 27,666   | 20,054                   | 4,620,090                |
| Other financial assets (non-current) | 929,359  | -  | -                        | 929,359                  |
| <b>Total</b>                         | <b>₩ 5,849,273</b>                                 | <b>₩ 39,253</b>  | <b>₩ 26,005</b>          | <b>₩ 5,914,531</b>       |

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

#### 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, 2011 and 2010 are summarized as follow:

|                                | 2011     | 2010<br>In KRW millions |
|--------------------------------|----------|-------------------------|
| Balance at beginning of period | ₩ 8,645  | ₩ 5,709                 |
| Impairment loss                | 3,283    | 2,936                   |
| Balance at end of period       | ₩ 11,928 | ₩ 8,645                 |

The movement in the allowance for doubtful other financial assets (current) for the years ended December 31, 2011 and 2010 are summarized as follow:

|                                | 2011      | 2010<br>In KRW millions |
|--------------------------------|-----------|-------------------------|
| Balance at beginning of period | ₩ 190,459 | ₩ 126,896               |
| Recognition of impairment loss | 32,844    | 63,563                  |
| Balance at end of period       | ₩ 223,303 | ₩ 190,459               |



#### 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:

| Description                          | December 31, 2011 |                  |                |                |                  |
|--------------------------------------|-------------------|------------------|----------------|----------------|------------------|
|                                      | Carrying amount   | 3 months or less | 3 ~ 6 months   | 6 ~ 12 months  | More than 1 year |
|                                      |                   |                  |                |                | In KRW millions  |
| Trade and other receivables          | ₩ 18,414          | ₩ 6,104          | ₩ 2,284        | ₩ 2,200        | ₩ 7,826          |
| Other financial assets (current)     | 64,511            | 64,511           | -              | -              | -                |
| Other financial assets (non-current) | -                 | -                | -              | -              | -                |
| <b>Total</b>                         | <b>₩ 82,925</b>   | <b>₩ 70,615</b>  | <b>₩ 2,284</b> | <b>₩ 2,200</b> | <b>₩ 7,826</b>   |

| Description                          | December 31, 2010 |                  |              |                |                  |
|--------------------------------------|-------------------|------------------|--------------|----------------|------------------|
|                                      | Carrying amount   | 3 months or less | 3 ~ 6 months | 6 ~ 12 months  | More than 1 year |
|                                      |                   |                  |              |                | In KRW millions  |
| Trade and other receivables          | ₩ 14,560          | ₩ 4,737          | ₩ 966        | ₩ 1,147        | ₩ 7,710          |
| Other financial assets (current)     | 49,816            | 49,816           | -            | -              | -                |
| Other financial assets (non-current) | -                 | -                | -            | -              | -                |
| <b>Total</b>                         | <b>₩ 64,376</b>   | <b>₩ 54,553</b>  | <b>₩ 966</b> | <b>₩ 1,147</b> | <b>₩ 7,710</b>   |

| Description                          | January 1, 2010 |                  |              |                |                  |
|--------------------------------------|-----------------|------------------|--------------|----------------|------------------|
|                                      | Carrying amount | 3 months or less | 3 ~ 6 months | 6 ~ 12 months  | More than 1 year |
|                                      |                 |                  |              |                | In KRW millions  |
| Trade and other receivables          | ₩ 11,587        | ₩ 8,450          | ₩ 231        | ₩ 1,098        | ₩ 1,808          |
| Other financial assets (current)     | 27,666          | 27,666           | -            | -              | -                |
| Other financial assets (non-current) | -               | -                | -            | -              | -                |
| <b>Total</b>                         | <b>₩ 39,253</b> | <b>₩ 36,116</b>  | <b>₩ 231</b> | <b>₩ 1,098</b> | <b>₩ 1,808</b>   |

#### 5) Guarantees

The Group has provided guarantees to its related companies as discussed in note 33 to the consolidated financial statements.

#### 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 non-derivative financial liabilities, including estimated interest, as of December 31, 2011 are as follows:

| Account                                      | Carrying amount     | Contractual cash flows | Within 1 year      | 1~5 years          |
|--|---------------------|------------------------|--------------------|--------------------|
|  |                     |                        |                    | In KRW millions    |
| Current portion of borrowings and debentures | ₩ 3,447,284         | ₩ 3,481,363            | ₩ 3,481,363        | ₩ -                |
| Trade and other payables                     | 4,724,017           | 4,724,017              | 4,724,017          | -                  |
| Current other financial liabilities (*)      | 456,433             | 473,618                | 473,618            | -                  |
| Borrowings and debentures                    | 6,738,647           | 6,986,730              | -                  | 6,986,730          |
| Non-current other financial liabilities (*)  | 152,587             | 161,731                | -                  | 161,731            |
| <b>Total</b>                                 | <b>₩ 15,518,968</b> | <b>₩ 15,827,459</b>    | <b>₩ 8,678,998</b> | <b>₩ 7,148,461</b> |

(\*) Derivative financial liabilities are excluded in the maturity analysis.

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.

The closing rates as of December 31, 2011, 2010 and January 1, 2010 and the average rates for the years ended December 31, 2011 and 2010 are as follows:

|     | Average rate |            | Closing rate      |                   |                 |
|-----|--------------|------------|-------------------|-------------------|-----------------|
|     | 2011         | 2010       | December 31, 2011 | December 31, 2010 | January 1, 2010 |
| USD | ₩ 1,108.11   | ₩ 1,156.26 | ₩ 1,153.30        | ₩ 1,138.90        | ₩ 1,167.60      |
| EUR | 1,541.42     | 1,532.94   | 1,494.10          | 1,513.60          | 1,674.28        |
| JPY | 13.9131      | 13.2056    | 14.8516           | 13.9708           | 12.6282         |

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, 2011, 2010 and January 1, 2010 are summarized as follows:

|              | December 31, 2011 |                 | December 31, 2010 |                 | January 1, 2010   |                 |
|--------------|-------------------|-----------------|-------------------|-----------------|-------------------|-----------------|
|              | 10% increase      | 10% decrease    | 10% increase      | 10% decrease    | 10% increase      | 10% decrease    |
|              | In KRW millions   |                 |                   |                 |                   |                 |
| USD          | ₩ (45,944)        | ₩ 45,944        | ₩ 709             | ₩ (709)         | ₩ 6,604           | ₩ (6,604)       |
| EUR          | (18)              | 18              | (74)              | 74              | (99)              | 99              |
| JPY          | (44,576)          | 44,576          | (41,891)          | 41,891          | (37,870)          | 37,870          |
| <b>Total</b> | <b>₩ (90,538)</b> | <b>₩ 90,538</b> | <b>₩ (41,256)</b> | <b>₩ 41,256</b> | <b>₩ (31,365)</b> | <b>₩ 31,365</b> |

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, 2011, 2010 and January 1, 2010 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:

|                            | December 31, 2011 | December 31, 2010 | January 1, 2010 |
|----------------------------|-------------------|-------------------|-----------------|
|                            | In KRW millions   |                   |                 |
| Variable rate instruments: |                   |                   |                 |
| Financial assets           | ₩ 378,997         | ₩ 381,632         | ₩ 447,155       |
| Financial liabilities      | 2,925,941         | 3,917,048         | 2,016,950       |

Sensitivity analysis of interest income and expenses from changes in interest rates as of December 31, 2011, 2010 and January 1, 2010 are summarized as follows:

|                  | December 31, 2011 |             | December 31, 2010 |             | January 1, 2010 |             |
|------------------|-------------------|-------------|-------------------|-------------|-----------------|-------------|
|                  | 100bps up         | 100bps down | 100bps up         | 100bps down | 100bps up       | 100bps down |
|                  | In KRW millions   |             |                   |             |                 |             |
| Interest income  | ₩ 4,116           | ₩ (4,116)   | ₩ 3,981           | ₩ (3,981)   | ₩ 4,472         | ₩ (4,472)   |
| Interest expense | 7,865             | (7,865)     | 7,237             | (7,237)     | 2,316           | (2,316)     |

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

## (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, 2011, 2010 and January 1, 2010 are as follows:

|  | December 31, 2011 | December 31, 2010 | January 1, 2010 |
|--|-------------------|-------------------|-----------------|
|  | In KRW millions   |                   |                 |
| Liabilities (a)                          | ₩ 18,382,115      | ₩ 15,549,532      | ₩ 11,197,724    |
| Equity (b)                               | 14,679,005        | 13,641,998        | 12,549,025      |
| Financial instruments (*) (c)            | 2,640,760         | 1,570,178         | 1,380,833       |
| Borrowings (d)                           | 10,185,931        | 8,395,425         | 5,336,618       |
| Liabilities to equity ratio (a/b)        | 125.23%           | 113.98%           | 89.23%          |
| Net borrowings to equity ratio ((d-c)/b) | 51.40%            | 50.03%            | 31.52%          |

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

## 6 Trade and Other Receivables

Trade and other receivables as of December 31, 2011, 2010 and January 1, 2010 are summarized as follows:

|                                    | December 31, 2011 | December 31, 2010 | January 1, 2010  |
|------------------------------------|-------------------|-------------------|------------------|
|                                    | In KRW millions   |                   |                  |
| Trade receivables                  | ₩ 444,143         | ₩ 324,302         | ₩ 267,194        |
| Other receivables                  | 204,287           | 145,684           | 97,888           |
| Allowance for doubtful accounts    | (11,928)          | (8,645)           | (5,709)          |
| <b>Trade and other receivables</b> | <b>₩ 636,502</b>  | <b>₩ 461,341</b>  | <b>₩ 359,373</b> |

## 7 Restricted Deposits

Restricted deposits included in short-term and long-term financial instruments as of December 31, 2011, 2010 and January 1, 2010 are summarized as follows:

| Description                         | Depository  | December 31, 2011 | December 31, 2010 | January 1, 2010 |
|-------------------------------------|---|-------------------|-------------------|-----------------|
|                                     |   | In KRW millions   |                   |                 |
| <b>Current:</b>                     |   |                   |                   |                 |
| Time deposits                       | Woori Bank and others                               | ₩ 23,320          | ₩ 27,891          | ₩ 20,375        |
| Special deposits                    | Industrial Bank of Korea                            | 74,500            | 55,000            | -               |
| <b>Non-current:</b>                 |   |                   |                   |                 |
| Time deposits                       | Shinhan Bank  | 8                 | -                 | 12,508          |
| Special deposits                    | Shinhan Bank and others                             | 81                | 86                | 92              |
| Available-for-sale financial assets | Gyeongsangnam-do Metropolitan Government and others | 32,211            | 49,033            | 37,099          |
| Money Market Fund                   | Citibank and others                                 | 22,415            | 15,285            | 10,164          |
| <b>Total</b>                        |   | <b>₩ 152,535</b>  | <b>₩ 147,295</b>  | <b>₩ 80,238</b> |

## 8 Fair Value of Financial Instruments

(a) Other financial assets as of December 31, 2011, 2010 and January 1, 2010 are summarized as follows:

| Account   | December 31, 2011  |                    |                    | December 31, 2010 |  |  | January 1, 2010 |  |  |
|---|--------------------|--------------------|--------------------|-------------------|--|--|-----------------|--|--|
|   | In KRW millions    |                    |                    | In KRW millions   |  |  | In KRW millions |  |  |
| <b>Current:</b>   |                    |                    |                    |                   |  |  |                 |  |  |
| Short-term financial instruments                              | ₩ 745,294          | ₩ 412,452          | ₩ 444,696          |                   |  |  |                 |  |  |
| Short-term loans  | 7,702              | 2,118              | 5,898              |                   |  |  |                 |  |  |
| Available-for-sale financial assets                           | 9,762              | 7,698              | 10,917             |                   |  |  |                 |  |  |
| Current derivative assets held for the purpose of hedging     | 27,545             | 126,755            | -                  |                   |  |  |                 |  |  |
| Other financial assets  | 20                 | -                  | -                  |                   |  |  |                 |  |  |
| Accrued income  | 48,980             | 41,387             | 29,010             |                   |  |  |                 |  |  |
| Short-term deposits   | 91,121             | 76,375             | 70,373             |                   |  |  |                 |  |  |
| Card business financial assets                                | 6,802,395          | 5,820,509          | 4,045,905          |                   |  |  |                 |  |  |
| <b>Subtotal</b>   | <b>7,732,819</b>   | <b>6,487,294</b>   | <b>4,606,799</b>   |                   |  |  |                 |  |  |
| <b>Non-current:</b>   |                    |                    |                    |                   |  |  |                 |  |  |
| Long-term financial instruments                               | 209                | 200                | 12,503             |                   |  |  |                 |  |  |
| Guarantee deposits  | 81                 | 86                 | 92                 |                   |  |  |                 |  |  |
| Available-for-sale financial assets                           | 631,045            | 614,930            | 504,844            |                   |  |  |                 |  |  |
| Held-to-maturity investment                                   | 10                 | -                  | 1,000              |                   |  |  |                 |  |  |
| Long-term loans   | 76,399             | 77,936             | 50,604             |                   |  |  |                 |  |  |
| Long-term deposits  | 923,433            | 811,776            | 617,269            |                   |  |  |                 |  |  |
| Non-current derivative assets held for the purpose of hedging | 12,283             | 63,818             | 195,330            |                   |  |  |                 |  |  |
| Non-current derivative assets held for the purpose of trading | 1,697              | 34,879             | 31,817             |                   |  |  |                 |  |  |
| Long-term trade receivables                                   | 6,080              | 5,993              | -                  |                   |  |  |                 |  |  |
| Long-term other receivables                                   | -                  | 257                | 53                 |                   |  |  |                 |  |  |
| <b>Subtotal</b>   | <b>1,651,237</b>   | <b>1,609,875</b>   | <b>1,413,512</b>   |                   |  |  |                 |  |  |
| <b>Total</b>  | <b>₩ 9,384,056</b> | <b>₩ 8,097,169</b> | <b>₩ 6,020,311</b> |                   |  |  |                 |  |  |

(b) The carrying amount and the fair value of financial instruments as of December 31, 2011, 2010 and January 1, 2010 are summarized as follows:

|   |   | December 31, 2011   |                     | December 31, 2010  |                    | January 1, 2010    |                    |
|---|---|---------------------|---------------------|--------------------|--------------------|--------------------|--------------------|
|   |   | Carrying amount     | Fair value          | Carrying amount    | Fair value         | Carrying amount    | Fair value         |
| In KRW millions                                       |   |                     |                     |                    |                    |                    |                    |
| Cash and cash equivalents                             | Cash and cash equivalents                                     | ₩ 1,958,204         | ₩ 1,958,204         | ₩ 1,242,426        | ₩ 1,242,426        | ₩ 998,865          | ₩ 998,865          |
| Financial assets at fair value through profit or loss | Non-current derivative assets held for the purpose of trading | 1,697               | 1,697               | 34,879             | 34,879             | 31,817             | 31,817             |
| Loans and receivables (*1)                            | Trade and other receivables                                   | 636,502             | 636,502             | 461,341            | 461,341            | 359,373            | 359,373            |
|   | Short-term financial instruments                              | 745,294             | 745,294             | 412,452            | 412,452            | 444,696            | 444,696            |
|   | Short-term loans  | 7,702               | 7,702               | 2,118              | 2,118              | 5,898              | 5,898              |
|   | Other financial assets  | 20                  | 20                  | -                  | -                  | -                  | -                  |
|   | Accrued income  | 48,980              | 48,980              | 41,387             | 41,387             | 29,010             | 29,010             |
|   | Short-term deposits   | 91,121              | 91,121              | 76,375             | 76,375             | 70,373             | 70,373             |
|   | Long-term financial instruments                               | 209                 | 209                 | 200                | 200                | 12,503             | 12,503             |
|   | Guarantee deposits  | 81                  | 81                  | 86                 | 86                 | 92                 | 92                 |
|   | Long-term loans   | 76,399              | 76,399              | 77,936             | 77,936             | 50,604             | 50,604             |
|   | Long-term deposits  | 923,433             | 923,433             | 811,776            | 811,776            | 617,269            | 617,269            |
|   | Long-term trade accounts receivable                           | 6,080               | 6,080               | 5,993              | 5,993              | -                  | -                  |
|   | Long-term other accounts receivable                           | -                   | -                   | 257                | 257                | 53                 | 53                 |
|   | Card financial assets   | 6,802,395           | 6,802,395           | 5,820,509          | 5,820,509          | 4,045,905          | 4,045,905          |
|   | <b>Subtotal</b>   | <b>9,338,216</b>    | <b>9,338,216</b>    | <b>7,710,430</b>   | <b>7,710,430</b>   | <b>5,635,776</b>   | <b>5,635,776</b>   |
| Available-for-sale financial assets                   | Marketable available-for-sale financial assets (*2)           | 316,070             | 316,070             | 301,096            | 301,096            | 260,297            | 260,297            |
|   | Non-marketable available-for-sale financial assets (*3)       | 324,737             | 324,737             | 321,532            | 321,532            | 255,464            | 255,464            |
|   | <b>Subtotal</b>   | <b>640,807</b>      | <b>640,807</b>      | <b>622,628</b>     | <b>622,628</b>     | <b>515,761</b>     | <b>515,761</b>     |
| Held-to-maturity investment                           | Held-to-maturity investment                                   | 10                  | 10                  | -                  | -                  | 1,000              | 1,000              |
| Derivative assets held for the purpose of hedging     | Current derivative assets-hedge                               | 27,545              | 27,545              | 126,755            | 126,755            | -                  | -                  |
|   | Non-current derivative assets-hedge                           | 12,283              | 12,283              | 63,818             | 63,818             | 195,330            | 195,330            |
|   | <b>Subtotal</b>   | <b>39,828</b>       | <b>39,828</b>       | <b>190,573</b>     | <b>190,573</b>     | <b>195,330</b>     | <b>195,330</b>     |
| <b>Total</b>  |   | <b>₩ 11,978,762</b> | <b>₩ 11,978,762</b> | <b>₩ 9,800,936</b> | <b>₩ 9,800,936</b> | <b>₩ 7,378,549</b> | <b>₩ 7,378,549</b> |

(\*1) Book value is considered as a fairly reasonable approximate value of fair value.

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

(\*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 fair value cannot be reliably measured and difference between fair value and acquisition cost is immaterial.

(c) The carrying amount and the fair value of financial liabilities as of December 31, 2011, 2010 and January 1, 2010 are summarized as follows:

|  | December 31, 2011   |                     | December 31, 2010   |                     | January 1, 2010    |                    |
|--|---------------------|---------------------|---------------------|---------------------|--------------------|--------------------|
|  | Carrying amount     | Fair value          | Carrying amount     | Fair value          | Carrying amount    | Fair value         |
| In KRW millions  |                     |                     |                     |                     |                    |                    |
| Financial liabilities at fair value through profit or loss |                     |                     |                     |                     |                    |                    |
| Overseas convertible bonds                                 | ₩ 1,007,219         | ₩ 1,007,219         | ₩ -                 | ₩ -                 | ₩ -                | ₩ -                |
| Financial liabilities based on amortized cost (*)          |                     |                     |                     |                     |                    |                    |
| Trade and other payables                                   | 4,724,017           | 4,724,017           | 4,036,750           | 4,036,750           | 3,269,020          | 3,269,020          |
| Short-term borrowings                                      | 1,176,921           | 1,176,921           | 1,298,597           | 1,298,597           | 974,720            | 974,720            |
| Current portion of long-term borrowings                    | 762,793             | 762,793             | 98,184              | 98,184              | 70,532             | 70,532             |
| Current portion of debentures                              | 1,507,570           | 1,507,570           | 1,940,098           | 1,940,098           | 833,525            | 833,525            |
| Current finance lease liabilities                          | 7                   | 7                   | -                   | -                   | 538                | 538                |
| Accrued expenses   | 217,483             | 217,483             | 135,463             | 135,463             | 42,081             | 42,081             |
| Current withholding deposit                                | 238,789             | 238,789             | 249,799             | 249,799             | 254,288            | 254,288            |
| Long-term borrowings                                       | 348,619             | 348,619             | 765,346             | 765,346             | 434,308            | 434,308            |
| Long-term debentures                                       | 5,382,809           | 5,382,809           | 4,293,200           | 4,293,200           | 3,023,533          | 3,023,533          |
| Withholding deposit  | 152,342             | 152,342             | 106,216             | 106,216             | 34,825             | 34,825             |
| Rental guarantee deposits                                  | 118                 | 118                 | -                   | -                   | 9                  | 9                  |
| Other current liabilities                                  | 153                 | 153                 | 829                 | 829                 | 321                | 321                |
| Other non-current liabilities                              | 127                 | 127                 | 42                  | 42                  | 591                | 591                |
| <b>Subtotal</b>  | <b>14,511,748</b>   | <b>14,511,748</b>   | <b>12,924,524</b>   | <b>12,924,524</b>   | <b>8,938,291</b>   | <b>8,938,291</b>   |
| Derivative liabilities held for the purpose of hedging     |                     |                     |                     |                     |                    |                    |
| Current derivative liabilities-hedge                       | 15,075              | 15,075              | 43,492              | 43,492              | 3,220              | 3,220              |
| Non-current derivative liabilities-hedge                   | 12,689              | 12,689              | 13,227              | 13,227              | -                  | -                  |
| <b>Subtotal</b>  | <b>27,764</b>       | <b>27,764</b>       | <b>56,719</b>       | <b>56,719</b>       | <b>3,220</b>       | <b>3,220</b>       |
| <b>Total</b>   | <b>₩ 15,546,731</b> | <b>₩ 15,546,731</b> | <b>₩ 12,981,243</b> | <b>₩ 12,981,243</b> | <b>₩ 8,941,511</b> | <b>₩ 8,941,511</b> |

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

#### (d) The fair value hierarchy

The Group classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within 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 asset or liability that are not based on observable market data (unobservable inputs).

The fair value measurements classified by fair value hierarchy as of December 31, 2011 are as follows:

| Description  | 2011             |                    |                  | Total<br>In KRW millions |
|--|------------------|--------------------|------------------|--------------------------|
|  | Level I          | Level II           | Level III        |                          |
| Available-for-sale financial assets                        | ₩ 316,070        | ₩ 44,467           | ₩ 218,009        | ₩ 578,546                |
| Derivative assets  | -                | 41,525             | -                | 41,525                   |
| <b>Total financial assets</b>                              | <b>₩ 316,070</b> | <b>₩ 85,992</b>    | <b>₩ 218,009</b> | <b>₩ 620,071</b>         |
| Financial liabilities at fair value through profit or loss | -                | 1,007,219          | -                | 1,007,219                |
| Derivative liabilities                                     | -                | 27,763             | -                | 27,763                   |
| <b>Total financial liabilities</b>                         | <b>₩ -</b>       | <b>₩ 1,034,982</b> | <b>₩ -</b>       | <b>₩ 1,034,982</b>       |

#### 9 Inventories

(a) Inventories as of December 31, 2011, 2010 and January 1, 2010 are summarized as follows:

|  | December 31, 2011  | December 31, 2010  | January 1, 2010    |
|--|--------------------|--------------------|--------------------|
| In KRW millions                                    |                    |                    |                    |
| Merchandise, net of allowance for valuation losses | ₩ 2,008,138        | ₩ 1,657,158        | ₩ 1,343,722        |
| Finished goods                                     | 7,438              | 5,405              | 25                 |
| Goods in process                                   | 1,576              | 564                | 160                |
| Raw materials                                      | 1,444              | 1,145              | 1,820              |
| Subsidiary materials                               | 353                | 188                | 165                |
| Supplies   | 3,723              | 2,613              | 4,334              |
| Materials-in-transit                               | 158                | 115                | 559                |
| Finished apartment units                           | 879                | 2,610              | 1,757              |
| Unfinished apartment units                         | 18,576             | -                  | 7,584              |
| <b>Total</b>                                       | <b>₩ 2,042,285</b> | <b>₩ 1,669,798</b> | <b>₩ 1,360,126</b> |

(b) During 2011 and 2010, loss from valuation of inventory and reversal of loss on valuation of inventories are recognized as follows:

|                                    | 2011     | 2010     |
|------------------------------------|----------|----------|
| In KRW millions                    |          |          |
| Cost of goods sold:                |          |          |
| - Loss on valuation of inventories | ₩ 12,001 | ₩ 12,987 |

## 10 Other Non-financial Assets

(a) Other current non-financial assets as of December 31, 2011, 2010 and January 1, 2010 are summarized as follows:

| Description             | December 31, 2011 |                   |                  |
|-------------------------|-------------------|-------------------|------------------|
|                         | December 31, 2011 | December 31, 2010 | January 1, 2010  |
|                         |                   |                   | In KRW millions  |
| Advance payments        | ₩ 115,199         | ₩ 70,528          | ₩ 42,512         |
| Prepaid expenses        | 186,450           | 95,038            | 61,786           |
| Prepaid value added tax | 55,694            | -                 | 17,300           |
| Other                   | 24                | 2,329             | 1,920            |
| <b>Total</b>            | <b>₩ 357,367</b>  | <b>₩ 167,895</b>  | <b>₩ 123,518</b> |

(b) Other non-current non-financial assets as of December 31, 2011, 2010 and January 1, 2010 are summarized as follows:

| Description                    | December 31, 2011  |                    |                  |
|--------------------------------|--------------------|--------------------|------------------|
|                                | December 31, 2011  | December 31, 2010  | January 1, 2010  |
|                                |                    |                    | In KRW millions  |
| Long-term advance payments     | ₩ 126,007          | ₩ 105,996          | ₩ 78,916         |
| Long-term prepaid expenses (*) | 1,051,315          | 960,073            | 820,483          |
| Other                          | 5,676              | 756                | 4,394            |
| <b>Total</b>                   | <b>₩ 1,182,998</b> | <b>₩ 1,066,825</b> | <b>₩ 903,793</b> |

(\*) Long-term prepaid expenses mainly consist of lease prepayments.

## 11 Investments in Associates

(a) The details of associates as of December 31, 2011, 2010 and January 1, 2010 are summarized as follows:

| Company                                      | December 31, 2011 |                         |                             |                              |
|--|-------------------|-------------------------|-----------------------------|------------------------------|
|  | Location          | Principal business      | Percentage of Ownership (%) | Balance at December 31, 2011 |
|  |                   |                         |                             | In KRW millions              |
| Lotte Station Building Co., Ltd.             | Korea             | Distribution            | 25.00                       | ₩ 192,645                    |
| Daehong Communications Co., Ltd.             | Korea             | Advertisement agency    | 30.00                       | 93,806                       |
| Lotte.Com Inc.                               | Korea             | Distribution            | 34.39                       | 9,686                        |
| Lotte Capital Co., Ltd.                      | Korea             | Capital                 | 22.36                       | 111,280                      |
| Lotteria Co., Ltd.                           | Korea             | Restaurant chain        | 38.68                       | 210,427                      |
| FRL Korea Co., Ltd.                          | Korea             | Retail                  | 49.00                       | 71,433                       |
| Lakepark Co., Ltd.                           | Korea             | Real estate development | 23.90                       | 4,564                        |
| Lotte Asset Development Co., Ltd.            | Korea             | Real estate development | 39.14                       | 50,492                       |
| Zara Retail Korea Co., Ltd.                  | Korea             | Retail                  | 20.00                       | 16,617                       |
| Lotte Buyeo Resort Co., Ltd.                 | Korea             | Real estate development | 22.22                       | 13,381                       |
| Lotte Giants                                 | Korea             | Baseball club           | 30.00                       | 2,220                        |
| Lakepark AMC                                 | Korea             | Real estate development | 23.90                       | 73                           |
| Lotte Europe Holdings B.V.                   | Netherlands       | Holding company         | 30.81                       | 63,619                       |
| Intime Lotte Department Store Co., Ltd. (*1) | China             | Distribution            | 50.00                       | -                            |
| Coralis S.A.                                 | Luxembourg        | Holding company         | 45.00                       | ₩ 49,178                     |

Continued

| Company   | December 31, 2011 |                        |                             |                              |
|---|-------------------|------------------------|-----------------------------|------------------------------|
|   | Location          | Principal business     | Percentage of Ownership (%) | Balance at December 31, 2011 |
|   |                   |                        |                             | In KRW millions              |
| Bliss Co., Ltd.   | Korea             | Food manufacturing     | 30.00                       | ₩ -                          |
| D-Cinema of Korea Co., Ltd. (*1)                        | Korea             | Film equipment         | 50.00                       | -                            |
| M-Venture Culture Investment L.P.                       | Korea             | Film producing company | 25.00                       | 2,667                        |
| Capital One Diversity Cinema Fund                       | Korea             | Film producing company | 20.00                       | 905                          |
| Capital One Middle-Low Budget Cinema Fund               | Korea             | Film producing company | 25.00                       | 2,912                        |
| Shenyang SL Cinema Investment Management Co., Ltd. (*1) | China             | Cinema                 | 49.00                       | 1,219                        |
| So Big 5 Contents Investment Union                      | Korea             | Film producing company | 26.67                       | 3,985                        |
| Shandong Luckypai TV Shopping                           | China             | Distribution           | 49.00                       | 6,075                        |
| Hubei XL Cinema Co., Ltd.                               | China             | Cinema                 | 49.00                       | 5,317                        |
| STL Co., Limited (*1)                                   | Korea             | Retail                 | 50.00                       | 577                          |
| Hemisphere Film Investors II LLC (*2)                   | America           | Film producing company | 100.00                      | 21,633                       |
| CJ Venture Investment No.14 Culture Contents Fund       | Korea             | Film producing company | 30.00                       | 6,009                        |
| <b>Total</b>  |                   |                        |                             | <b>₩ 940,720</b>             |

(\*1) Intime Lotte Department Store Co., Ltd., D-Cinema of Korea Co., Ltd., Shenyang SL Cinema Investment Management Co., Ltd. and STL Co., Limited are jointly controlled entities.

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

| Company                                 | December 31, 2010 |                         |                             |                              |
|---|-------------------|-------------------------|-----------------------------|------------------------------|
|   | Location          | Principal business      | Percentage of Ownership (%) | Balance at December 31, 2010 |
|   |                   |                         |                             | In KRW millions              |
| Lotte Station Building Co., Ltd.        | Korea             | Distribution            | 25.00                       | ₩ 172,984                    |
| Daehong Communications Co., Ltd.        | Korea             | Advertisement agency    | 30.00                       | 100,454                      |
| Lotte.Com Inc.                          | Korea             | Distribution            | 34.39                       | 10,444                       |
| Lotte Capital Co., Ltd.                 | Korea             | Capital                 | 22.36                       | 93,557                       |
| Lotteria Co., Ltd.                      | Korea             | Restaurant chain        | 40.39                       | 218,042                      |
| FRL Korea Co., Ltd.                     | Korea             | Retail                  | 49.00                       | 47,191                       |
| Lakepark Co., Ltd.                      | Korea             | Real estate development | 23.90                       | 4,034                        |
| Lotte Asset Development Co., Ltd.       | Korea             | Real estate development | 38.35                       | 40,342                       |
| Zara Retail Korea Co., Ltd.             | Korea             | Retail                  | 20.00                       | 17,759                       |
| Lotte Buyeo Resort Co., Ltd.            | Korea             | Real estate development | 22.22                       | 15,155                       |
| Lotte Giants                            | Korea             | Baseball club           | 30.00                       | 1,130                        |
| Lakepark AMC                            | Korea             | Real estate development | 23.90                       | 72                           |
| Lotte Europe Holdings B.V.              | Netherlands       | Holding company         | 30.81                       | 100,380                      |
| Intime Lotte Department Store Co., Ltd. | China             | Distribution            | 50.00                       | -                            |
| Coralis S.A.                            | Luxembourg        | Holding company         | 45.00                       | 39,156                       |
| Bliss Co., Ltd.                         | Korea             | Food manufacturing      | 30.00                       | 150                          |
| D-Cinema of Korea Co., Ltd.             | Korea             | Film equipment          | 50.00                       | -                            |
| M-Venture Culture Investment L.P.       | Korea             | Film producing company  | 25.00                       | 2,524                        |
| Capital One Diversity Cinema Fund       | Korea             | Film producing company  | 20.00                       | ₩ 966                        |

Continued



| Company  | December 31, 2010 |                        |                             |   |
|--|-------------------|------------------------|-----------------------------|---|
|  | Location          | Principal business     | Percentage of Ownership (%) | Balance at December 31, 2010<br>In KRW millions |
| Shenyang SL Cinema Investment Management Co., Ltd. | China             | Cinema                 | 49.14                       | ₩ 699   |
| Isu Entertainment Investment Union                 | Korea             | Film producing company | 37.50                       | 2,023   |
| Shandong Luckypai TV Shopping                      | China             | Distribution           | 49.00                       | 2,443   |
| <b>Total</b>                                       |                   |                        |                             | <b>₩ 869,505</b>                                |

| Company                                 | January 1, 2010 |                         |                             |   |
|---|-----------------|-------------------------|-----------------------------|---|
|   | Location        | Principal business      | Percentage of Ownership (%) | Balance at January 1, 2010<br>In KRW millions |
| Lotte Station Building Co., Ltd.        | Korea           | Distribution            | 25.00                       | ₩ 152,526                                     |
| Daehong Communications Co., Ltd.        | Korea           | Advertisement agency    | 30.00                       | 84,640  |
| Lotte.Com Inc.                          | Korea           | Distribution            | 34.39                       | 11,169  |
| Lotte Capital Co., Ltd.                 | Korea           | Capital                 | 22.36                       | 78,419  |
| Lotteria Co., Ltd.                      | Korea           | Restaurant chain        | 30.75                       | 123,976                                       |
| FRL Korea Co., Ltd.                     | Korea           | Retail                  | 49.00                       | 26,215  |
| Lakepark Co., Ltd.                      | Korea           | Real estate development | 23.90                       | 5,636   |
| Lotte Asset Development Co., Ltd.       | Korea           | Real estate development | 38.35                       | 44,356  |
| Zara Retail Korea Co., Ltd.             | Korea           | Retail                  | 20.00                       | 16,106  |
| Lotte Buyeo Resort Co., Ltd.            | Korea           | Real estate development | 22.22                       | 10,006  |
| Lotte Giants                            | Korea           | Baseball club           | 30.00                       | 774   |
| Lakepark AMC                            | Korea           | Real estate development | 23.90                       | 72  |
| Lotte Europe Holdings B.V.              | Netherlands     | Holding company         | 30.81                       | 95,194  |
| Intime Lotte Department Store Co., Ltd. | China           | Distribution            | 50.00                       | -   |
| Coralis S.A.                            | Luxembourg      | Holding company         | 24.99                       | 17,418  |
| D-Cinema of Korea Co., Ltd.             | Korea           | Film equipment          | 50.00                       | -   |
| M-Venture Culture Investment L.P.       | Korea           | Film producing company  | 25.00                       | 2,500   |
| Isu Entertainment Investment Union      | Korea           | Film producing company  | 37.50                       | 1,962   |
| KTB Media Investment Union              | Korea           | Film producing company  | 30.00                       | 977   |
| <b>Total</b>                            |                 |                         |                             | <b>₩ 671,946</b>                              |

(b) Changes in investments in associates for the years ended December 31, 2011 and 2010 are as follows:

| Company                          | 2011              |               |                   |                    |          |        | Balance at December 31, 2011<br>In KRW millions |
|----------------------------------|-------------------|---------------|-------------------|--------------------|----------|--------|---|
|                                  | Beginning balance | Adjustment to |                   |                    |          |        |   |
|                                  | Acquisition       | Dividends     | Net income (loss) | Capital adjustment | Other    |        |   |
| Lotte Station Building Co., Ltd. | ₩ 172,984         | ₩ -           | ₩ (1,350)         | ₩ 18,907           | ₩ 2,103  | ₩ 1    | ₩ 192,645                                       |
| Daehong Communications Co., Ltd. | 100,454           | -             | (6)               | 11,257             | (19,438) | 1,539  | 93,806  |
| Lotte.Com Inc.                   | 10,444            | -             | -                 | (900)              | 242      | (100)  | 9,686   |
| Lotte Capital Co., Ltd.          | ₩ 93,557          | ₩ -           | ₩ (1,683)         | ₩ 18,777           | ₩ 678    | ₩ (49) | ₩ 111,280                                       |

Continued

| Company  | 2011              |                 |                   |                    |                   |                | Balance at December 31, 2011<br>In KRW millions |
|--|-------------------|-----------------|-------------------|--------------------|-------------------|----------------|---|
|  | Beginning balance | Adjustment to   |                   |                    |                   |                |   |
|  | Acquisition       | Dividends       | Net income (loss) | Capital adjustment | Other             |                |   |
| Lotteria Co., Ltd.                                 | ₩ 218,042         | ₩ -             | ₩ -               | ₩ 7,666            | ₩ (14,812)        | ₩ (469)        | ₩ 210,427                                       |
| FRL Korea Co., Ltd.                                | 47,191            | -               | (3,528)           | 27,770             | -                 | -              | 71,433  |
| Lakepark Co., Ltd.                                 | 4,034             | -               | -                 | 530                | -                 | -              | 4,564   |
| Lotte Asset Development Co., Ltd.                  | 40,342            | 8,877           | -                 | (1,529)            | 2,922             | (120)          | 50,492  |
| Zara Retail Korea Co., Ltd.                        | 17,759            | -               | -                 | (1,142)            | -                 | -              | 16,617  |
| Lotte Buyeo Resort Co., Ltd.                       | 15,155            | -               | -                 | (1,773)            | -                 | (1)            | 13,381  |
| Lotte Giants                                       | 1,130             | -               | -                 | 1,121              | -                 | (31)           | 2,220   |
| Lakepark AMC                                       | 72                | -               | -                 | 1                  | -                 | -              | 73  |
| Lotte Europe Holdings B.V.                         | 100,380           | -               | -                 | (16,155)           | (20,606)          | -              | 63,619  |
| Intime Lotte Department Store Co., Ltd.            | -                 | -               | -                 | -                  | -                 | -              | -   |
| Coralis S.A.                                       | 39,157            | 11,323          | -                 | 654                | (1,956)           | -              | 49,178  |
| Bliss Co., Ltd.                                    | 150               | -               | -                 | (148)              | (2)               | -              | -   |
| D-Cinema of Korea Co., Ltd.                        | -                 | -               | -                 | -                  | -                 | -              | -   |
| M-Venture Culture Investment L.P.                  | 2,524             | -               | -                 | 143                | -                 | -              | 2,667   |
| Capital One Diversity Cinema Fund                  | 966               | -               | -                 | (61)               | -                 | -              | 905   |
| Capital One Middle-Low Budget Cinema Fund          | -                 | 3,000           | -                 | (88)               | -                 | -              | 2,912   |
| Shenyang SL Cinema Investment Management Co., Ltd. | 699               | 744             | -                 | (302)              | 78                | -              | 1,219   |
| Isu Entertainment Investment Union                 | 2,023             | -               | -                 | -                  | -                 | (2,023)        | -   |
| So Big 5 Contents Investment Union                 | -                 | 4,000           | -                 | (15)               | -                 | -              | 3,985   |
| Shandong Luckypai TV Shopping                      | 2,442             | -               | -                 | 499                | 174               | 2,960          | 6,075   |
| Hubei XL Cinema Co., Ltd.                          | -                 | 5,530           | -                 | (469)              | 257               | -              | 5,318   |
| STL Co., Limited                                   | -                 | 1,000           | -                 | (424)              | -                 | -              | 576   |
| Hemisphere Film Investors II LLC                   | -                 | 23,261          | -                 | (2,595)            | 967               | -              | 21,633  |
| CJ Venture Investment No.14 Culture Contents Fund  | -                 | 6,000           | -                 | 9                  | -                 | -              | 6,009   |
| <b>Total</b>                                       | <b>₩ 869,505</b>  | <b>₩ 63,735</b> | <b>₩ (6,567)</b>  | <b>₩ 61,733</b>    | <b>₩ (49,393)</b> | <b>₩ 1,707</b> | <b>₩ 940,720</b>                                |

| Company                           | 2010              |               |                   |                    |        |       | Balance at December 31, 2010<br>In KRW millions |
|-----------------------------------|-------------------|---------------|-------------------|--------------------|--------|-------|---|
|                                   | Beginning balance | Adjustment to |                   |                    |        |       |   |
|                                   | Acquisition       | Dividends     | Net income (loss) | Capital adjustment | Other  |       |   |
| Lotte Station Building Co., Ltd.  | ₩ 152,526         | ₩ -           | ₩ (1,350)         | ₩ 21,625           | ₩ 183  | ₩ -   | ₩ 172,984                                       |
| Daehong Communications Co., Ltd.  | 84,640            | -             | (6)               | 3,317              | 12,211 | 292   | 100,454   |
| Lotte.Com Inc.                    | 11,169            | -             | (400)             | 10                 | (192)  | (143) | 10,444  |
| Lotte Capital Co., Ltd.           | 78,419            | -             | (1,683)           | 16,290             | 531    | -     | 93,557  |
| Lotteria Co., Ltd.                | 123,976           | 48,156        | -                 | 27,460             | 18,687 | (237) | 218,042   |
| FRL Korea Co., Ltd.               | 26,215            | -             | -                 | 20,976             | -      | -     | 47,191  |
| Lakepark Co., Ltd.                | 5,636             | -             | (1,669)           | 67                 | -      | -     | 4,034   |
| Lotte Asset Development Co., Ltd. | 44,356            | -             | -                 | (4,508)            | 494    | -     | 40,342  |
| Zara Retail Korea Co., Ltd.       | 16,106            | -             | -                 | 1,655              | (2)    | -     | 17,759  |
| Lotte Buyeo Resort Co., Ltd.      | ₩ 10,006          | ₩ 6,667       | ₩ -               | ₩ (1,486)          | ₩ (32) | ₩ -   | ₩ 15,155  |

Continued

| Company   | 2010                 |                  |                  |                      |                       |              | Balance at<br>December 31, 2010<br>In KRW millions |
|---|----------------------|------------------|------------------|----------------------|-----------------------|--------------|--|
|   | Beginning<br>balance | Adjustment to    |                  |                      |                       | Other        |  |
|   |                      | Acquisition      | Dividends        | Net income<br>(loss) | Capital<br>adjustment |              |  |
| Lotte Giants  | ₩ 774                | ₩ -              | ₩ -              | ₩ 356                | ₩ -                   | ₩ -          | ₩ 1,130  |
| Lakepark AMC  | 72                   | -                | -                | -                    | -                     | -            | 72   |
| Lotte Europe Holdings B.V.                            | 95,194               | 22,341           | -                | (12,127)             | (5,028)               | -            | 100,380  |
| Intime Lotte Department Store Co., Ltd.               | -                    | -                | -                | -                    | -                     | -            | -  |
| Coralis S.A.  | 17,418               | 26,390           | -                | (258)                | (4,393)               | -            | 39,157   |
| Bliss Co., Ltd.                                       | -                    | 150              | -                | -                    | -                     | -            | 150  |
| D-Cinema of Korea Co., Ltd.                           | -                    | -                | -                | -                    | -                     | -            | -  |
| M-Venture Culture Investment L.P.                     | 2,500                | -                | -                | 24                   | -                     | -            | 2,524  |
| Capital One Diversity Cinema Fund                     | -                    | 1,000            | -                | (34)                 | -                     | -            | 966  |
| Shenyang SL Cinema<br>Investment Management Co., Ltd. | -                    | 752              | -                | (65)                 | 12                    | -            | 699  |
| Isu Entertainment Investment Union                    | 1,962                | -                | -                | 61                   | -                     | -            | 2,023  |
| KTB Media Investment Union                            | 977                  | -                | -                | (207)                | -                     | (770)        | -  |
| Bongil Logis  | -                    | -                | -                | (50)                 | -                     | 50           | -  |
| Shandong Luckypai TV Shopping                         | -                    | -                | -                | 1,137                | -                     | 1,305        | 2,442  |
| <b>Total</b>  | <b>₩ 671,946</b>     | <b>₩ 105,456</b> | <b>₩ (5,108)</b> | <b>₩ 74,243</b>      | <b>₩ 22,471</b>       | <b>₩ 497</b> | <b>₩ 869,505</b>                                   |

(c) Financial information of associates as of December 31, 2011, 2010 and January 1, 2010 are summarized as follows:

| Company  | December 31, 2011 |                   |           |                                      |
|--|-------------------|-------------------|-----------|--------------------------------------|
|  | Total assets      | Total liabilities | Sales     | Net income (loss)<br>In KRW millions |
| Lotte Station Building Co., Ltd.                   | ₩ 1,007,921       | ₩ 237,340         | ₩ 713,653 | ₩ 75,615                             |
| Daehong Communications Co., Ltd.                   | 541,317           | 228,709           | 235,353   | 7,539                                |
| Lotte.Com Inc.                                     | 147,376           | 119,216           | 176,523   | (4,121)                              |
| Lotte Capital Co., Ltd.                            | 4,157,778         | 3,660,292         | 501,505   | 84,923                               |
| Lotteria Co., Ltd.                                 | 911,058           | 391,061           | 810,112   | 23,879                               |
| FRL Korea Co., Ltd.                                | 265,861           | 120,079           | 414,231   | 56,674                               |
| Lakepark Co., Ltd.                                 | 41,090            | 21,995            | 64,038    | 2,214                                |
| Lotte Asset Development Co., Ltd.                  | 202,199           | 74,079            | 21,202    | (4,389)                              |
| Zara Retail Korea Co., Ltd.                        | 138,992           | 55,908            | 149,480   | 776                                  |
| Lotte Buyeo Resort Co., Ltd.                       | 177,117           | 116,901           | 8,893     | (8,061)                              |
| Lotte Giants                                       | 12,682            | 5,282             | 40,060    | 3,669                                |
| Lakepark AMC                                       | 1,593             | 1,288             | 1,744     | 4                                    |
| Lotte Europe Holdings B.V.                         | 641,643           | 461,546           | 128,607   | (59,508)                             |
| Intime Lotte Department Store Co., Ltd.            | 36,820            | 129,842           | 91,119    | (28,149)                             |
| Coralis S.A.                                       | 205,094           | 130,326           | -         | 1,471                                |
| Bliss Co., Ltd.                                    | 2,726             | 4,491             | 5,042     | (2,215)                              |
| D-Cinema of Korea Co., Ltd.                        | 77,645            | 82,541            | 17,513    | (2,071)                              |
| M-Venture Culture Investment L.P.                  | 10,721            | 53                | 1,210     | 584                                  |
| Capital One Diversity Cinema Fund                  | 4,600             | 75                | 147       | (305)                                |
| Capital One Middle-Low Budget Cinema Fund          | 11,828            | 180               | 161       | (352)                                |
| Shenyang SL Cinema Investment Management Co., Ltd. | ₩ 2,807           | ₩ 324             | ₩ 903     | ₩ (620)                              |

Continued

| Company   | December 31, 2011 |                   |        |                                      |
|---|-------------------|-------------------|--------|--------------------------------------|
|   | Total assets      | Total liabilities | Sales  | Net income (loss)<br>In KRW millions |
| So Big 5 Contents Investment Union                | ₩ 14,943          | ₩ -               | ₩ 248  | ₩ (57)                               |
| Shandong Luckypai TV Shopping                     | 22,832            | 13,236            | 29,337 | 1,198                                |
| Hubei XL Cinema Co., Ltd.                         | 12,173            | 1,322             | 651    | (958)                                |
| STL Co., Limited                                  | 2,666             | 1,514             | 422    | (848)                                |
| Hemisphere Film Investors II LLC                  | 21,633            | -                 | -      | (2,595)                              |
| CJ Venture Investment No.14 Culture Contents Fund | ₩ 20,085          | ₩ 54              | ₩ 87   | ₩ 31                                 |

| Company  | December 31, 2010 |                   |           |                                      |
|--|-------------------|-------------------|-----------|--------------------------------------|
|  | Total assets      | Total liabilities | Sales     | Net income (loss)<br>In KRW millions |
| Lotte Station Building Co., Ltd.                   | ₩ 936,947         | ₩ 245,013         | ₩ 674,601 | ₩ 86,446                             |
| Daehong Communications Co., Ltd.                   | 518,558           | 183,844           | 200,222   | 11,047                               |
| Lotte.Com Inc.                                     | 103,424           | 73,058            | 135,010   | 123                                  |
| Lotte Capital Co., Ltd.                            | 3,351,938         | 2,933,514         | 412,930   | 73,653                               |
| Lotteria Co., Ltd.                                 | 861,953           | 338,459           | 615,919   | 14,468                               |
| FRL Korea Co., Ltd.                                | 159,070           | 62,761            | 267,796   | 42,810                               |
| Lakepark Co., Ltd.                                 | 35,939            | 19,059            | 13,354    | (1,783)                              |
| Lotte Asset Development Co., Ltd.                  | 172,426           | 67,220            | 12,735    | (11,792)                             |
| Zara Retail Korea Co., Ltd.                        | 114,237           | 25,444            | 129,242   | 8,272                                |
| Lotte Buyeo Resort Co., Ltd.                       | 162,620           | 94,422            | 1,964     | (6,685)                              |
| Lotte Giants                                       | 6,806             | 3,041             | 33,128    | 1,186                                |
| Lakepark AMC                                       | 1,552             | 1,250             | 1,630     | -                                    |
| Lotte Europe Holdings B.V.                         | 830,626           | 530,316           | 71,761    | (40,532)                             |
| Intime Lotte Department Store Co., Ltd.            | 44,231            | 103,837           | 69,764    | (33,626)                             |
| Coralis S.A.                                       | 88,113            | 35,614            | -         | (710)                                |
| Bliss Co., Ltd.                                    | 500               | -                 | -         | -                                    |
| D-Cinema of Korea Co., Ltd.                        | 68,139            | 70,964            | 9,944     | (2,530)                              |
| M-Venture Culture Investment L.P.                  | 10,100            | 3                 | 283       | 77                                   |
| Capital One Diversity Cinema Fund                  | 4,868             | 38                | 121       | (169)                                |
| Shenyang SL Cinema Investment Management Co., Ltd. | 3,735             | 2,312             | -         | (133)                                |
| Isu Entertainment Investment Union                 | 5,395             | -                 | 166       | 162                                  |
| Shandong Luckypai TV Shopping                      | ₩ 23,064          | ₩ 14,365          | ₩ 51,951  | ₩ 2,113                              |

| Company                          | January 1, 2010 |                   |                                  |
|----------------------------------|-----------------|-------------------|----------------------------------|
|                                  | Total assets    | Total liabilities | Total Capital<br>In KRW millions |
| Lotte Station Building Co., Ltd. | ₩ 826,719       | ₩ 216,614         | ₩ 610,105                        |
| Daehong Communications Co., Ltd. | 437,682         | 155,680           | 282,002                          |
| Lotte.Com Inc.                   | 102,684         | 70,304            | 32,380                           |
| Lotte Capital Co., Ltd.          | 2,960,415       | 2,609,694         | 350,721                          |
| Lotteria Co., Ltd.               | 610,673         | 231,974           | 378,699                          |
| FRL Korea Co., Ltd.              | 92,430          | 38,931            | 53,499                           |
| Lakepark Co., Ltd.               | ₩ 43,750        | ₩ 20,170          | ₩ 23,580                         |

Continued

| Company                                 | January 1, 2010 |                   |                 |
|---|-----------------|-------------------|-----------------|
|   | Total assets    | Total liabilities | Total Capital   |
|   |                 |                   | In KRW millions |
| Lotte Asset Development Co., Ltd.       | ₩ 127,635       | ₩ 11,960          | ₩ 115,675       |
| Zara Retail Korea Co., Ltd.             | 94,594          | 14,065            | 80,529          |
| Lotte Buyeo Resort Co., Ltd.            | 98,702          | 53,675            | 45,027          |
| Lotte Giants                            | 8,506           | 5,927             | 2,579           |
| Lakepark AMC                            | 1,538           | 1,237             | 301             |
| Lotte Europe Holdings B.V.              | 701,604         | 416,865           | 284,739         |
| Intime Lotte Department Store Co., Ltd. | 55,409          | 80,847            | (25,438)        |
| Coralis S.A.                            | 29,931          | 38                | 29,893          |
| D-Cinema of Korea Co., Ltd.             | 33,699          | 33,994            | (295)           |
| M-Venture Culture Investment L.P.       | 10,014          | 45                | 9,969           |
| Isu Entertainment Investment Union      | 5,233           | -                 | 5,233           |
| KTB Media Investment Union              | ₩ 3,347         | ₩ 86              | ₩ 3,261         |

## 12 Property, Plant and Equipment

(a) Changes in acquisition cost of property, plant and equipment for the years ended December 31, 2011 and 2010 are as follows:

|                          | 2011                                   |                    |                    |                    |  |
|--------------------------|--|--------------------|--------------------|--------------------|--|
|                          | Acquisition cost as of January 1, 2011 | Acquisition        | Disposals          | Others (*)         | Acquisition cost as of December 31, 2011 |
|                          |  |                    |                    |                    | In KRW millions                          |
| Land                     | ₩ 6,783,903                            | ₩ 128,627          | ₩ (99,387)         | ₩ 153,565          | ₩ 6,966,708                              |
| Buildings                | 5,152,408                              | 65,708             | (47,848)           | 197,186            | 5,367,454                                |
| Structures               | 258,180                                | 8,638              | (3,291)            | 5,258              | 268,785                                  |
| Machinery                | 232,507                                | 28,029             | (1,544)            | (15,994)           | 242,998                                  |
| Vehicles                 | 7,946                                  | 804                | (386)              | 227                | 8,591                                    |
| Display fixtures         | 353,139                                | 54,107             | (68,377)           | 29,636             | 368,505                                  |
| Furniture and fixtures   | 2,009,631                              | 174,669            | (212,001)          | 151,355            | 2,123,654                                |
| Tools and equipment      | 140,390                                | 31,357             | (3,806)            | 25,809             | 193,750                                  |
| Other PP&E               | 126,062                                | 60,779             | (2,962)            | 18,314             | 202,193                                  |
| Construction-in-progress | 860,049                                | 1,039,430          | (346)              | (1,013,400)        | 885,733                                  |
| <b>Total</b>             | <b>₩ 15,924,215</b>                    | <b>₩ 1,592,148</b> | <b>₩ (439,948)</b> | <b>₩ (448,044)</b> | <b>₩ 16,628,371</b>                      |

(\*) Others include reclassifications of construction-in-progress to intangible assets and others.

|                          | 2010                                   |                    |                                     |                    |                  |  |
|--------------------------|--|--------------------|-------------------------------------|--------------------|------------------|--|
|                          | Acquisition cost as of January 1, 2010 | Acquisition        | Increase from acquisition of stores | Disposals          | Others (*)       | Acquisition cost as of December 31, 2010 |
|                          |  |                    |                                     |                    |                  | In KRW millions                          |
| Land                     | ₩ 6,592,233                            | ₩ 18,067           | ₩ 313,006                           | ₩ (320,988)        | ₩ 181,585        | ₩ 6,783,903                              |
| Buildings                | 4,523,325                              | 76,127             | 322,979                             | (214,847)          | 444,824          | 5,152,408                                |
| Structures               | 266,139                                | 684                | 17,976                              | (11,582)           | (15,037)         | 258,180                                  |
| Machinery                | 132,328                                | 12,621             | 59,078                              | (9,879)            | 38,359           | 232,507                                  |
| Vehicles                 | 5,960                                  | 1,425              | 686                                 | (586)              | 461              | 7,946                                    |
| Display fixtures         | 291,113                                | 34,073             | -                                   | (3,557)            | 31,510           | 353,139                                  |
| Furniture and fixtures   | 1,538,526                              | 165,093            | 128,254                             | (30,300)           | 208,058          | 2,009,631                                |
| Tools and equipment      | 98,046                                 | 6,482              | 9,461                               | (366)              | 26,767           | 140,390                                  |
| Other PP&E               | 102,633                                | 10,819             | 359                                 | (686)              | 12,937           | 126,062                                  |
| Construction-in-progress | 751,341                                | 840,194            | 2,427                               | (372)              | (733,541)        | 860,049                                  |
| <b>Total</b>             | <b>₩ 14,301,644</b>                    | <b>₩ 1,165,585</b> | <b>₩ 854,226</b>                    | <b>₩ (593,163)</b> | <b>₩ 195,923</b> | <b>₩ 15,924,215</b>                      |

(\*) Others include reclassifications of construction-in-progress to intangible assets and others.

(b) Changes in accumulated depreciation of property, plant and equipment for the years ended December 31, 2011 and 2010 are as follows:

|                        | 2011   |                    |                  |                 |  |
|------------------------|--|--------------------|------------------|-----------------|--|
|                        | Accumulated depreciation as of January 1, 2011 | Disposals          | Depreciation     | Others          | Accumulated depreciation as of December 31, 2011 |
|                        |  |                    |                  |                 | In KRW millions                                  |
| Buildings              | ₩ 1,374,263                                    | ₩ (12,465)         | ₩ 150,345        | ₩ 4,847         | ₩ 1,516,990                                      |
| Structures             | 45,083   | (441)              | 12,154           | (463)           | 56,333   |
| Machinery              | 106,249  | (1,388)            | 25,733           | (14,834)        | 115,760  |
| Vehicles               | 4,466  | (314)              | 965              | 346             | 5,463  |
| Display fixtures       | 257,354  | (66,690)           | 33,234           | 2,118           | 226,016  |
| Furniture and fixtures | 1,385,025                                      | (202,832)          | 222,708          | 6,815           | 1,411,716  |
| Tools and equipment    | 58,673   | (902)              | 17,328           | 11,613          | 86,712   |
| Other PP&E             | 41,488   | -                  | 10,010           | 4,270           | 55,768   |
| <b>Total</b>           | <b>₩ 3,272,601</b>                             | <b>₩ (285,032)</b> | <b>₩ 472,477</b> | <b>₩ 14,712</b> | <b>₩ 3,474,758</b>                               |

|                        | 2010   |                    |                  |                 | Accumulated depreciation as of December 31, 2010<br>In KRW millions |
|------------------------|--|--------------------|------------------|-----------------|---|
|                        | Accumulated depreciation as of January 1, 2010 | Disposals          | Depreciation     | Others          |   |
| Buildings              | ₩ 1,292,481                                    | ₩ (84,356)         | ₩ 156,569        | ₩ 9,569         | ₩ 1,374,263   |
| Structures             | 37,293   | (2,494)            | 12,809           | (2,525)         | 45,083  |
| Machinery              | 68,385   | (9,441)            | 20,874           | 26,431          | 106,249   |
| Vehicles               | 3,189  | (428)              | 1,184            | 521             | 4,466   |
| Display fixtures       | 234,604  | (2,468)            | 20,399           | 4,819           | 257,354   |
| Furniture and fixtures | 1,202,622                                      | (29,155)           | 175,420          | 36,138          | 1,385,025   |
| Tools and equipment    | 38,515   | (228)              | 3,307            | 17,079          | 58,673  |
| Other PP&E             | 28,287   | (239)              | 5,853            | 7,587           | 41,488  |
| <b>Total</b>           | <b>₩ 2,905,376</b>                             | <b>₩ (128,809)</b> | <b>₩ 396,415</b> | <b>₩ 99,619</b> | <b>₩ 3,272,601</b>  |

(c) There are no impairment losses and reversals of impairment losses for the years ended December 31, 2011 and 2010.

(d) Pledged property, plant and equipment provided by the Group as of December 31, 2011 are as follows:

|                    | Book value | Guaranteed amount | Type of borrowings      | Amount of borrowings | Guarantee recipient<br>In KRW millions |
|--------------------|------------|-------------------|-------------------------|----------------------|--|
| Land and buildings | ₩ 294,249  | ₩ 169,671         | Secured Loan and others | ₩ 129,975            | Kookmin Bank and others                |

(e) During 2011 and 2010, capitalized borrowing costs and capitalization interest rates are as follows:

|                                   | 2011          | 2010            | 2011                      |
|-----------------------------------|---------------|-----------------|---------------------------|
|                                   |               | In KRW millions | In USD thousands (note 4) |
| Capitalized borrowing costs       | ₩ 2,801       | ₩ 18            | \$ 2,429                  |
| Capitalization interest rates (%) | 4.73% ~ 5.98% | 4.42%           | 4.73% ~ 5.98%             |

### 13 Investment Property

(a) Changes in acquisition cost of investment property for the years ended December 31, 2011 and 2010 are as follows:

|              | 2011                                   |                |              |                 | Acquisition cost as of December 31, 2011<br>In KRW millions |
|--------------|--|----------------|--------------|-----------------|---|
|              | Acquisition cost as of January 1, 2011 | Acquisition    | Disposal     | Others (*)      |   |
| Land         | ₩ 426,252                              | ₩ 665          | ₩ (6)        | ₩ (22,816)      | ₩ 404,095   |
| Buildings    | 288,800                                | 2,685          | -            | 37,896          | 329,381   |
| <b>Total</b> | <b>₩ 715,052</b>                       | <b>₩ 3,350</b> | <b>₩ (6)</b> | <b>₩ 15,080</b> | <b>₩ 733,476</b>  |

(\*) Others include reclassification between property, plant and equipment and investment property.

|              | 2010                                   |                 |                                     |                    | Acquisition cost as of December 31, 2010<br>In KRW millions |
|--------------|--|-----------------|-------------------------------------|--------------------|---|
|              | Acquisition cost as of January 1, 2010 | Acquisition     | Increase from acquisition of stores | Others (*)         |   |
| Land         | ₩ 515,350                              | ₩ 11,938        | ₩ 17                                | ₩ (101,053)        | ₩ 426,252   |
| Buildings    | 317,466                                | 24,471          | -                                   | (53,137)           | 288,800   |
| <b>Total</b> | <b>₩ 832,816</b>                       | <b>₩ 36,409</b> | <b>₩ 17</b>                         | <b>₩ (154,190)</b> | <b>₩ 715,052</b>  |

(\*) Others include reclassification between property, plant and equipment and investment property.

(b) Changes in accumulated depreciation of investment property for the years ended December 31, 2011 and 2010 are as follows:

|           | 2011   |              |        | Accumulated depreciation as of December 31, 2011<br>In KRW millions |
|-----------|--|--------------|--------|---|
|           | Accumulated depreciation as of January 1, 2011 | Depreciation | Others |   |
| Buildings | ₩ 82,254                                       | ₩ 9,525      | ₩ 801  | ₩ 92,580  |

|           | 2010   |              |            | Accumulated depreciation as of December 31, 2010<br>In KRW millions |
|-----------|--|--------------|------------|---|
|           | Accumulated depreciation as of January 1, 2010 | Depreciation | Others     |   |
| Buildings | ₩ 89,244                                       | ₩ 11,834     | ₩ (18,824) | ₩ 82,254  |

(c) Income and expense from investment property

The details of income and expense from investment property during 2011 and 2010 are as follows:

| Description   | 2011            | 2010     |
|---|-----------------|----------|
|   | In KRW millions |          |
| Rent income   | ₩ 97,078        | ₩ 83,948 |
| Direct operating expense<br>(including maintenance and repair expenses) | ₩ 24,532        | ₩ 19,704 |

(d) Fair value of investment property as of December 31, 2011 was as follows:

| Description        | Book value      | Fair value (*) |
|--------------------|-----------------|----------------|
|                    | In KRW millions |                |
| Land and buildings | ₩ 640,896       | ₩ 1,223,319    |

(\*) The Group measured fair value by using direct capitalization method and cost method.

(e) During 2011, the Group recognized impairment loss of ₩ 549 million on investment property.



#### 14 Intangible Assets

(a) Changes in intangible assets for the year ended December 31, 2011 are as follows:

|                            | 2011                                   |                 |                   |                |                  |                  | Book value<br>as of<br>December 31, 2011<br>In KRW millions |
|----------------------------|--|-----------------|-------------------|----------------|------------------|------------------|---|
|                            | Book value<br>as of<br>January 1, 2011 | Acquisition     | Amortization      | Disposals      | Impairment       | Others (*)       |   |
| Goodwill                   | ₩ 2,050,139                            | ₩ 765           | ₩ -               | ₩ -            | ₩ (609)          | ₩ 16,910         | ₩ 2,067,205   |
| Industrial property rights | 1,039                                  | 662             | (476)             | (153)          | -                | 1,056            | 2,128   |
| Rights to use facility     | 83,942                                 | -               | (8,395)           | (199)          | -                | 415,621          | 490,969   |
| Membership                 | 18,912                                 | 1,296           | -                 | -              | (719)            | -                | 19,489  |
| Other intangible assets    | 113,111                                | 79,303          | (69,031)          | (214)          | (8)              | 4,065            | 127,226   |
| <b>Total</b>               | <b>₩ 2,267,143</b>                     | <b>₩ 82,026</b> | <b>₩ (77,902)</b> | <b>₩ (566)</b> | <b>₩ (1,336)</b> | <b>₩ 437,652</b> | <b>₩ 2,707,017</b>  |

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

(b) Changes in intangible assets for the year ended December 31, 2010 are as follows:

|                            | 2010                                   |                  |   |                   |                |                   | Book value<br>as of<br>December 31, 2010<br>In KRW millions |
|----------------------------|--|------------------|---|-------------------|----------------|-------------------|---|
|                            | Book value<br>as of<br>January 1, 2010 | Acquisition      | Increase from<br>acquisition of<br>stores | Amortization      | Disposals      | Others            |   |
| Goodwill                   | ₩ 999,009                              | ₩ 95,139         | ₩ 966,624                                 | ₩ -               | ₩ (9)          | ₩ (10,624)        | ₩ 2,050,139   |
| Industrial property rights | 752                                    | 608              | -   | (322)             | -              | 1                 | 1,039   |
| Rights to use facility     | 89,220                                 | 1                | 5,206                                     | (6,644)           | (437)          | (3,404)           | 83,942  |
| Membership                 | 9,204                                  | 7,321            | 958                                       | -                 | -              | 1,429             | 18,912  |
| Other intangible assets    | 20,607                                 | 34,411           | 95,406                                    | (32,377)          | -              | (4,936)           | 113,111   |
| <b>Total</b>               | <b>₩ 1,118,792</b>                     | <b>₩ 137,480</b> | <b>₩ 1,068,194</b>                        | <b>₩ (39,343)</b> | <b>₩ (446)</b> | <b>₩ (17,534)</b> | <b>₩ 2,267,143</b>  |

#### (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 by note 66.

Details of the goodwill allocated to the groups of cash-generating units as of December 31, 2011, 2010 and January 1, 2010 are as follows:

| Cash-generating units | December 31, 2011  | December 31, 2010  | January 1, 2010  |
|-----------------------|--------------------|--------------------|------------------|
|                       | In KRW millions    |                    |                  |
| Department stores     | ₩ 237,284          | ₩ 237,284          | ₩ 20,156         |
| Discount store        | 1,059,150          | 1,053,430          | 630,631          |
| Finance business      | 118,733            | 118,733            | 38,617           |
| Others                | 652,038            | 640,692            | 309,605          |
| <b>Total</b>          | <b>₩ 2,067,205</b> | <b>₩ 2,050,139</b> | <b>₩ 999,009</b> |

As of December 31, 2010, recoverable amount of the cash-generating units in others was less than its book value, including goodwill, therefore an impairment loss of ₩609 million was recognized.

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, 2011 was consistent with those used in 2010. 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.

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, value in use is higher than the carrying amount as of December 31, 2011 and 2010, except for the other cash-generating unit as of December 31, 2010.

#### (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, 2011, 2010 and January 1, 2010 are as follows:

| Cash-generating units | December 31, 2011 | December 31, 2010 | January 1, 2010 |
|-----------------------|-------------------|-------------------|-----------------|
|                       | In KRW millions   |                   |                 |
| Department stores     | ₩ 6,780           | ₩ 6,762           | ₩ 4,396         |
| Discount store        | 1,531             | 1,525             | 613             |
| Finance business      | 3,765             | 3,456             | 3,367           |
| Others                | 7,413             | 7,169             | 828             |
| <b>Total</b>          | <b>₩ 19,489</b>   | <b>₩ 18,912</b>   | <b>₩ 9,204</b>  |

As a result of the Group's impairment test on indefinite intangible assets, discounted future cash flows of memberships declined to an amount less than the book value of memberships, therefore an impairment loss of ₩719 million was recognized in 2011.

#### 15 Trade and Other Payables

Trade and other payables as of December 31, 2011, 2010 and January 1, 2010 are summarized as follows:

|                | December 31, 2011  | December 31, 2010  | January 1, 2010    |
|----------------|--------------------|--------------------|--------------------|
|                | In KRW millions    |                    |                    |
| Trade payables | ₩ 3,188,569        | ₩ 2,730,302        | ₩ 2,175,955        |
| Other payables | 1,535,448          | 1,306,448          | 1,093,065          |
| <b>Total</b>   | <b>₩ 4,724,017</b> | <b>₩ 4,036,750</b> | <b>₩ 3,269,020</b> |

## 16 Other Financial Liabilities

Other financial liabilities as of December 31, 2011, 2010 and January 1, 2010 are summarized as follows:

|  | December 31, 2011 | December 31, 2010 | January 1, 2010  |
|--|-------------------|-------------------|------------------|
|  | In KRW millions   |                   |                  |
| <b>Current:</b>  |                   |                   |                  |
| Current derivative liabilities held for the purpose of hedging | ₩ 15,075          | ₩ 43,492          | ₩ 3,220          |
| Current finance lease liabilities                              | 7                 | -                 | 538              |
| Financial guarantee liabilities                                | 153               | 829               | 321              |
| Accrued expenses   | 217,483           | 135,463           | 42,081           |
| Current deposit received                                       | 238,789           | 249,799           | 254,288          |
| <b>Subtotal</b>  | <b>471,507</b>    | <b>429,583</b>    | <b>300,448</b>   |
| <b>Non-current:</b>  |                   |                   |                  |
| Derivative liabilities   | 12,689            | 13,227            | -                |
| Non-current finance lease liabilities                          | 118               | -                 | 9                |
| Deposit received   | 152,342           | 106,216           | 34,825           |
| Other non-current financial liabilities                        | 127               | 42                | 591              |
| <b>Subtotal</b>  | <b>165,276</b>    | <b>119,485</b>    | <b>35,425</b>    |
| <b>Total</b>   | <b>₩ 636,783</b>  | <b>₩ 549,068</b>  | <b>₩ 335,873</b> |

## 17 Borrowings and Debentures

(a) Borrowings and debentures as of December 31, 2011, 2010 and January 1, 2010 are summarized as follows:

|   | December 31, 2011   | December 31, 2010  | January 1, 2010    |
|---|---------------------|--------------------|--------------------|
|   | In KRW millions     |                    |                    |
| <b>Current:</b>                         |                     |                    |                    |
| Short-term borrowings                   | ₩ 1,176,921         | ₩ 1,298,597        | ₩ 974,720          |
| Current portion of long-term borrowings | 762,793             | 98,184             | 70,532             |
| Current portion of long-term debentures | 1,508,055           | 1,944,215          | 833,859            |
| Discount on debentures                  | (485)               | (4,117)            | (334)              |
| <b>Subtotal</b>                         | <b>3,447,284</b>    | <b>3,336,879</b>   | <b>1,878,777</b>   |
| <b>Non-current:</b>                     |                     |                    |                    |
| Long-term borrowings                    | 348,619             | 765,346            | 434,308            |
| Long-term debentures                    | 6,406,009           | 4,300,280          | 3,031,740          |
| Discount on debentures                  | (15,981)            | (7,080)            | (8,207)            |
| <b>Subtotal</b>                         | <b>6,738,647</b>    | <b>5,058,546</b>   | <b>3,457,841</b>   |
| <b>Total</b>                            | <b>₩ 10,185,931</b> | <b>₩ 8,395,425</b> | <b>₩ 5,336,618</b> |

(b) Short-term borrowings as of December 31, 2011, 2010 and January 1, 2010 are summarized as follows:

| Lender                         | Details         | Annual interest rate (%) | December 31, 2011  | December 31, 2010  | January 1, 2010  |
|--------------------------------|-----------------|--------------------------|--------------------|--------------------|------------------|
| In KRW millions                |                 |                          |                    |                    |                  |
| Kookmin Bank and others        | General         | 1.69 ~ 7.44              | ₩ 627,557          | ₩ 338,597          | ₩ 563,420        |
| Korea Exchange Bank and others | Financial notes | 3.51 ~ 6.20              | 544,500            | 960,000            | 411,300          |
| Others                         | Other           | 4.99                     | 4,864              | -                  | -                |
| <b>Total</b>                   |                 |                          | <b>₩ 1,176,921</b> | <b>₩ 1,298,597</b> | <b>₩ 974,720</b> |

(c) Long-term borrowings as of December 31, 2011, and January 1, 2010 are summarized as follows:

| Lender                             | Details          | Annual interest rate (%) | December 31, 2011 | December 31, 2010 | January 1, 2010  |
|------------------------------------|------------------|--------------------------|-------------------|-------------------|------------------|
| In KRW millions                    |                  |                          |                   |                   |                  |
| Korea Development Bank and others  | Local currency   | 3.51 ~ 7.12              | ₩ 414,301         | ₩ 261,050         | ₩ 414,570        |
| Lotte Co., Ltd. (Japan) and others | Foreign currency | 3.40 ~ 6.98              | 697,111           | 602,480           | 90,270           |
| <b>Subtotal</b>                    |                  |                          | <b>1,111,412</b>  | <b>863,530</b>    | <b>504,840</b>   |
| Less current portion               |                  |                          | (762,793)         | (98,184)          | (70,532)         |
| <b>Total</b>                       |                  |                          | <b>₩ 348,619</b>  | <b>₩ 765,346</b>  | <b>₩ 434,308</b> |

(d) Debentures as of December 31, 2011, 2010 and January 1, 2010 are summarized as follows:

| Description                      | Maturity      | Interest rate (%)      | December 31, 2011 | December 31, 2010 | January 1, 2010 |
|----------------------------------|---------------|------------------------|-------------------|-------------------|-----------------|
| In KRW millions                  |               |                        |                   |                   |                 |
| 52nd placed (foreign currency)   | Sep. 30, 2010 | 3M Euro Yen Libor+1.60 | ₩ -               | ₩ -               | ₩ 126,28        |
| 46th placed (foreign currency)   | Apr. 29, 2011 | 6M USD Libor+1.00      | -                 | 113,890           | 116,760         |
| 47th placed (foreign currency)   | May 29, 2011  | 6M Euro Yen Tibor+1.20 | -                 | 251,474           | 227,308         |
| 48th placed (foreign currency)   | Sep. 29, 2011 | 3M Euro Yen Libor+1.60 | -                 | 153,679           | 138,910         |
| 49th placed (foreign currency)   | Oct. 17, 2011 | 3M USD Libor+1.75      | -                 | 341,670           | 350,280         |
| 50th placed                      | Feb. 05, 2012 | 5.10                   | 200,000           | 200,000           | 200,000         |
| 51st placed (foreign currency)   | Jun. 26, 2012 | 3M Euro Yen Libor+1.50 | 148,516           | 139,709           | 126,282         |
| 53rd placed                      | Dec. 03, 2014 | 5.30                   | 250,000           | 250,000           | 250,000         |
| 54-1st placed                    | Mar. 12, 2013 | 4.44                   | 200,000           | 200,000           | -               |
| 54-2nd placed                    | Mar. 12, 2015 | 4.82                   | 400,000           | 400,000           | -               |
| 55th placed (foreign currency)   | May 20, 2013  | 3M USD Libor+0.80      | 115,330           | 113,890           | -               |
| 56th placed (foreign currency)   | Sep. 30, 2011 | 3M USD Libor+1.05      | -                 | 113,890           | -               |
| 57th placed (foreign currency)   | Mar. 17, 2014 | 3M USD Libor+0.80      | 230,660           | -                 | -               |
| 1st placed (Global bond)         | Apr. 07, 2016 | 3.88                   | 461,320           | -                 | -               |
| 58-1st placed (foreign currency) | Dec. 05, 2014 | 3M JPY Libor+0.60      | ₩ 222,774         | ₩ -               | ₩ -             |

Continued

| Description  | Maturity      | Interest rate (%) | December 31, 2011  | December 31, 2010  | January 1, 2010<br>In KRW millions |
|--|---------------|-------------------|--------------------|--------------------|------------------------------------|
| 58-2nd placed (foreign currency)                     | Nov. 28, 2014 | 3M USD Libor+1.50 | ₩ 115,330          | ₩ -                | ₩ -                                |
| USD convertible bonds (*)                            | Jul. 05, 2016 | -                 | 539,613            | -                  | -                                  |
| JPY convertible bonds (*)                            | Jul. 05, 2016 | -                 | 467,605            | -                  | -                                  |
| Korea Seven Co., Ltd.                                | Mar. 19, 2013 | 5.35              | 100,000            | 100,000            | -                                  |
| Korea Seven Co., Ltd.                                | Mar. 05, 2011 | 5.75              | -                  | 10,000             | -                                  |
| Lotte Boulangerie Co., Ltd.                          | Jul. 07, 2012 | 5.80              | 5,000              | -                  | -                                  |
| Lotte Card Co., Ltd.                                 | Multiple      | 2.13~8.59         | 4,457,915          | 3,856,293          | 2,329,777                          |
| <b>Subtotal</b>                                      |               |                   | <b>7,914,063</b>   | <b>6,244,495</b>   | <b>3,865,599</b>                   |
| Less: Discount on debentures                         |               |                   | (16,465)           | (11,197)           | (8,541)                            |
| <b>Total book value</b>                              |               |                   | <b>₩ 7,897,598</b> | <b>₩ 6,233,298</b> | <b>₩ 3,857,058</b>                 |
| Less: Current portion of debentures, net of discount |               |                   | (1,507,570)        | (1,940,098)        | (833,525)                          |
| <b>Total</b>   |               |                   | <b>₩ 6,390,028</b> | <b>₩ 4,293,200</b> | <b>₩ 3,023,533</b>                 |

(\*) USD convertible bonds and JPY convertible bonds have been designated as financial liabilities at fair value through profit or loss as of December 31, 2011. The terms and conditions are summarized as follows:

**(a) Type of bonds: Registered overseas unsecured convertible bonds**

**(b) Total face value of bonds:**

- USD Bonds: 500,000,000
- JPY Bonds: 32,500,000,000
- Total (in won): 978,969,250,000

**(c) Exchange Rate**

- USD Fixed Exchange Rate: exchange rate of KRW 1,083.50/USD 1.00
- JPY Fixed Exchange Rate: exchange rate of KRW 13.4529/JPY 1.00

**(d) Bond interest rate**

- Coupon rate (%): -
- Yield to maturity (%): 0 (overseas convertible bonds without guarantee in U.S. dollars)  
0.25 (overseas convertible bonds without guarantee in Japanese yen)

**(e) Date of bond maturity: July 5, 2016**

**(f) Principal redemption method:**

(i) Redemption on the 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 conversion right has not been exercised.

(ii) Early redemption: The Group has a call option, whereas bond holders have a put option.

**(g) 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 (July 5, 2014);

**(i) If any change of control occurs in the company; or**

(ii) The issued stocks of the company is unlisted from the stock exchange or their transaction is suspended for 30 consecutive transaction days or longer.

**(h) Call option by the company:**

- the call option can be exercised if any of the following conditions occurs:

(i) If the closing price for 20 transactional days in 30 consecutive transaction days reaches 130% or more of the conversion price between 3 years from the issuance date 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.

**(i) Matters relating to conversion:**

(i) Conversion ratio (%): 100

(ii) Conversion price (KRW per share): 650,000

(iii) Method to decide conversion price: While following Article 5-22 of the Regulations on Issuance, Public Disclosure, etc. of Securities, 23.8% conversion premium was applied to the closing price of the shares listed on the Korea Exchange on the day of conversion price determination

(iv) Type of shares to be issued following conversion: Registered common shares

(v) Period to apply for conversion:

- Start date: July 5, 2012
- End date: 7 business days prior to the maturity date

(vi) Matters for the adjustment of conversion price:

In the case where a condition for re-adjustment of the conversion price has occurred, such as share dilution, the conversion 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, 2011 are scheduled as follows:**

|                   | Borrowings         | Debentures         | Total<br>In KRW millions |
|-------------------|--------------------|--------------------|--------------------------|
| Within 1 year     | ₩ 762,793          | ₩ 1,490,539        | ₩ 2,253,332              |
| 1 ~ 2 years       | 89,319             | 1,884,624          | 1,973,943                |
| 2 ~ 3 years       | 259,300            | 2,400,890          | 2,660,190                |
| 3 ~ 4 years       | -                  | 641,462            | 641,462                  |
| More than 4 years | -                  | 1,394,203          | 1,394,203                |
| <b>Total</b>      | <b>₩ 1,111,412</b> | <b>₩ 7,811,718</b> | <b>₩ 8,923,130</b>       |

**18 Unearned Revenues**

The details of unearned revenues as of December 31, 2011, 2010, and January 1, 2010 are as follows:

|                                    | December 31, 2011 | December 31, 2010 | January 1, 2010<br>In KRW millions |
|------------------------------------|-------------------|-------------------|------------------------------------|
| <b>Current:</b>                    |                   |                   |                                    |
| Membership point                   | ₩ 34,999          | ₩ 33,228          | ₩ 32,080                           |
| Other points                       | 115,016           | 102,951           | 88,828                             |
| Current unearned rental income     | 7,760             | 6,990             | 7,979                              |
| Others                             | 26,590            | 20,735            | 18,025                             |
| <b>Subtotal</b>                    | <b>184,365</b>    | <b>163,904</b>    | <b>146,912</b>                     |
| <b>Non-current:</b>                |                   |                   |                                    |
| Non-current unearned rental income | 21,411            | 21,906            | 19,587                             |
| <b>Total</b>                       | <b>₩ 205,776</b>  | <b>₩ 185,810</b>  | <b>₩ 166,499</b>                   |

## 19 Provisions

Changes in provisions for the years ended December 31, 2011 and 2010 are as follows:

|   | 2011                                |                          |  |
|---|-------------------------------------|--------------------------|--|
|   | Book value as of<br>January 1, 2011 | Increase (decrease), net | Book value as of<br>December 31, 2011<br>In KRW millions |
| <b>Current:</b>                           |                                     |                          |  |
| Provision for bonus points reward program | ₩ 11,492                            | ₩ 3,104                  | ₩ 14,596   |
| Provision for bonus payable               | 6,413                               | (307)                    | 6,106  |
| Provision for sales return                | 6,901                               | 27                       | 6,928  |
| Other provisions                          | 8,524                               | 1,862                    | 10,386   |
| <b>Subtotal</b>                           | <b>33,330</b>                       | <b>4,686</b>             | <b>38,016</b>  |
| <b>Non-current:</b>                       |                                     |                          |  |
| Provision for unused credit card limits   | 32,991                              | 1,720                    | 34,711   |
| Other provisions                          | 4,166                               | (3,485)                  | 681  |
| <b>Subtotal</b>                           | <b>37,157</b>                       | <b>(1,765)</b>           | <b>35,392</b>  |
| <b>Total</b>                              | <b>₩ 70,487</b>                     | <b>₩ 2,921</b>           | <b>₩ 73,408</b>  |

|   | 2010                                |                          |  |
|---|-------------------------------------|--------------------------|--|
|   | Book value as of<br>January 1, 2010 | Increase (decrease), net | Book value as of<br>December 31, 2010<br>In KRW millions |
| <b>Current:</b>                           |                                     |                          |  |
| Provision for bonus points reward program | ₩ 8,313                             | ₩ 3,179                  | ₩ 11,492   |
| Provision for bonus payable               | 5,146                               | 1,267                    | 6,413  |
| Provision for sales return                | 4,344                               | 2,557                    | 6,901  |
| Other provisions                          | 6,619                               | 1,905                    | 8,524  |
| <b>Subtotal</b>                           | <b>24,422</b>                       | <b>8,908</b>             | <b>33,330</b>  |
| <b>Non-current:</b>                       |                                     |                          |  |
| Provision for unused credit card limits   | 21,524                              | 11,467                   | 32,991   |
| Other provisions                          | 8,721                               | (4,555)                  | 4,166  |
| <b>Subtotal</b>                           | <b>30,245</b>                       | <b>6,912</b>             | <b>37,157</b>  |
| <b>Total</b>                              | <b>₩ 54,667</b>                     | <b>₩ 15,820</b>          | <b>₩ 70,487</b>  |

## 20 Other Non-financial Liabilities

Other non-financial liabilities as of December 31, 2011, 2010 and January 1, 2010 are summarized as follows:

|                                 | December 31, 2011 | December 31, 2010 | January 1, 2010<br>In KRW millions |
|---------------------------------|-------------------|-------------------|------------------------------------|
| <b>Current:</b>                 |                   |                   |                                    |
| Withholdings                    | ₩ 78,150          | ₩ 55,638          | ₩ 94,851                           |
| Withholdings of value added tax | 52,346            | 39,070            | 30,617                             |
| Advances received               | 730,129           | 621,421           | 522,089                            |
| Other current liabilities       | 1,041             | 573               | 3,858                              |
| <b>Subtotal</b>                 | <b>861,666</b>    | <b>716,702</b>    | <b>651,415</b>                     |
| <b>Non-current:</b>             |                   |                   |                                    |
| Other non-current liabilities   | 16,518            | 62                | 1,471                              |
| <b>Total</b>                    | <b>₩ 878,184</b>  | <b>₩ 716,764</b>  | <b>₩ 652,886</b>                   |

## 21 Employee Benefits

(a) Details of defined benefit liabilities as of December 31, 2011, 2010 and January 1, 2010 are summarized as follows:

|  | December 31, 2011 | December 31, 2010 | January 1, 2010<br>In KRW millions |
|--|-------------------|-------------------|------------------------------------|
| Present value of defined benefit obligations | ₩ 291,927         | ₩ 237,555         | ₩ 198,259                          |
| Fair value of plan assets                    | (181,411)         | (133,189)         | (122,543)                          |
| <b>Total</b>                                 | <b>₩ 110,516</b>  | <b>₩ 104,366</b>  | <b>₩ 75,716</b>                    |

(b) Details of present value of other long-term employee benefits as of December 31, 2011, 2010 and January 1, 2010 are summarized as follows:

|  | December 31, 2011 | December 31, 2010 | January 1, 2010<br>In KRW millions |
|--|-------------------|-------------------|------------------------------------|
| Present value of other long-term employee benefits | ₩ 46,751          | ₩ 39,156          | ₩ 25,545                           |

(c) Changes in employee benefits for the years ended December 31, 2011 and 2010 are as follows:

|                                       | 2011             | 2010<br>In KRW millions |
|---------------------------------------|------------------|-------------------------|
| Beginning of the year                 | ₩ 237,555        | ₩ 198,259               |
| Current service costs                 | 68,068           | 49,833                  |
| Interest costs                        | 15,754           | 13,956                  |
| Defined benefit plan actuarial losses | 10,093           | 37,194                  |
| Payments                              | (48,194)         | (90,563)                |
| Others                                | 8,651            | 28,876                  |
| <b>End of the year</b>                | <b>₩ 291,927</b> | <b>₩ 237,555</b>        |



(d) During 2011 and 2010, the changes on plan assets of an employee benefit plan are as follows:

|                                | 2011             | 2010             |
|--------------------------------|------------------|------------------|
|                                | In KRW millions  |                  |
| Beginning of period            | ₩ 133,189        | ₩ 122,543        |
| Expected return on plan assets | 6,549            | 5,522            |
| Actuarial gain (loss)          | (900)            | 9,429            |
| Employer contribution          | 63,764           | 36,443           |
| Payments                       | (21,568)         | (44,087)         |
| Others                         | 377              | 3,339            |
| <b>End of period</b>           | <b>₩ 181,411</b> | <b>₩ 133,189</b> |

(e) The components of plan assets as of December 31, 2011, 2010 and January 1, 2010 are summarized as follows:

|                       | December 31, 2011 | December 31, 2010 | January 1, 2010  |
|-----------------------|-------------------|-------------------|------------------|
|                       | In KRW millions   |                   |                  |
| Short-term funds      | ₩ 17,872          | ₩ 23,026          | ₩ 56,103         |
| Fixed time deposits   | 52,177            | 88,509            | 11,044           |
| CP, ABCP              | 12,605            | 19,698            | 7,774            |
| Bonds                 | 98,662            | 1,863             | 47,547           |
| National Pension Fund | 95                | 93                | 75               |
| <b>Total</b>          | <b>₩ 181,411</b>  | <b>₩ 133,189</b>  | <b>₩ 122,543</b> |

(f) Expenses recognized for the years ended December 31, 2011 and 2010 are as follows:

|                                | 2011            | 2010            |
|--------------------------------|-----------------|-----------------|
|                                | In KRW millions |                 |
| Current service costs          | ₩ 68,068        | ₩ 49,833        |
| Interest costs                 | 15,754          | 13,956          |
| Expected return on plan assets | (6,549)         | (5,522)         |
| Long-term employee benefits    | 7,587           | 17,700          |
| <b>Total</b>                   | <b>₩ 84,860</b> | <b>₩ 75,967</b> |

(g) The principal actuarial assumptions used as of December 31, 2011, 2010 and January 1, 2010 are summarized as follows:

|  | December 31, 2011 | December 31, 2010 | January 1, 2010 |
|--|-------------------|-------------------|-----------------|
| Discount rate                          | 4.62% ~ 7.00%     | 5.18% ~ 8.00%     | 5.95% ~ 10.00%  |
| Expected rate of return on plan assets | 4.50% ~ 7.00%     | 4.51% ~ 7.00%     | 4.51% ~ 7.00%   |
| Expected rate of promotion             | 1.89% ~ 2.96%     | 0.86% ~ 3.86%     | 0.96% ~ 3.42%   |
| Expected rate of increase in salaries  | 3.50% ~ 7.00%     | 3.47% ~ 7.00%     | 3.00% ~ 6.00%   |

## 22 Derivative Instruments and Hedge Accounting

(a) Details of derivatives outstanding as of December 31, 2011 are as follows:

| Type            | Description   | Description  |
|-----------------|---------------|--|
| Trade           | Put option    | Right to exercise selling common stock in KIBNET at a specified price  |
| Cash flow hedge | Currency swap | At the maturity of the swap, the principal amounts of the debentures in USD and JPY and borrowings in USD are exchanged back |

(b) Fair value of derivatives outstanding as of December 31, 2011, 2010 and January 1, 2010 are summarized as follows:

| Type            | Description   | December 31, 2011 |                 | December 31, 2010 |                 | January 1, 2010  |                |
|-----------------|---------------|-------------------|-----------------|-------------------|-----------------|------------------|----------------|
|                 |               | Assets            | Liabilities     | Assets            | Liabilities     | Assets           | Liabilities    |
| In KRW millions |               |                   |                 |                   |                 |                  |                |
| Trade           | Put option    | ₩ 1,697           | ₩ -             | ₩ 34,879          | ₩ -             | ₩ 31,817         | ₩ -            |
| Cash flow hedge | Currency swap | 47,814            | 23,164          | 203,248           | 48,042          | 195,330          | 3,220          |
|                 | Interest swap | 312               | 12,898          | -                 | 21,354          | -                | -              |
| <b>Total</b>    |               | <b>₩ 49,823</b>   | <b>₩ 36,062</b> | <b>₩ 238,127</b>  | <b>₩ 69,396</b> | <b>₩ 227,147</b> | <b>₩ 3,220</b> |

(c) Changes in the fair value of derivative instruments for the year ended December 31, 2011 are as follows:

| Type of derivatives | Description   | Related accounts  | In KRW millions |
|---------------------|---------------|---|-----------------|
| Trade               | Put option    | Loss on valuation of derivative instruments                               | ₩ (34,879)      |
|                     |               | Gain on valuation of derivatives instruments (card business)              | 201             |
| Cash flow hedge     | Currency swap | Gain on valuation of derivative instruments                               | 18,978          |
|                     |               | Loss on valuation of derivative instruments                               | (426)           |
|                     |               | Gain on valuation of derivatives instruments (card business)              | 20,661          |
|                     | Interest swap | Unrealized gain on valuation of derivative instruments, net of tax effect | ₩ 25,460        |

## 23 Capital Stock and Capital Surplus

(a) Pursuant to its amended Articles of Incorporation, the Company's authorized capital stock is 60,000,000 shares, which consist of common shares and preferred shares each with a par value of ₩5,000 per share. The Company is authorized to issue non-voting preferred shares of up to one-fourth of the Company's total issued and outstanding capital stock. Holders of preferred shares may, upon a resolution of the board of directors at the time of the issuance of the preferred shares, be entitled to receive dividends prior to the holders of common shares. The preferred shares will be automatically converted to common shares within ten years of issuance as determined by the Company's board of directors. However, if the holders of preferred shares do not receive the minimum dividends as prescribed, the prescribed conversion date will be extended to the time when all such minimum dividend amount is paid to the holders of preferred shares. As of December 31, 2011, the Company has not issued any preferred stock and 29,043,374 shares of common stock were issued and outstanding as of December 31, 2011.

(b) Capital surplus as of December 31, 2011, 2010 and January 1, 2010 consists of the following:

|                            | December 31, 2011  | December 31, 2010  | January 1, 2010<br>In KRW millions |
|----------------------------|--------------------|--------------------|------------------------------------|
| Additional paid-in capital | ₩ 3,605,117        | ₩ 3,605,117        | ₩ 3,605,117                        |
| Gain on capital reduction  | 1,793              | 1,793              | 1,793                              |
| Gain on merger             | 15,273             | 15,273             | 15,273                             |
|                            | <b>₩ 3,622,183</b> | <b>₩ 3,622,183</b> | <b>₩ 3,622,183</b>                 |

#### Gain on capital reduction

The Company retired 745,470 shares of treasury stock (₩1,934 million) in 1995, which were acquired in connection with the merger with Lotte Foods Co., Ltd. and ChungBon Industry Co., Ltd. on December 31, 1994. As a result, capital stock decreased by ₩3,727 million and a gain on capital reduction amounting to ₩1,793 million was recorded as a capital surplus.

#### Gain on merger

In 1997, SongGok Trading Co., Ltd. was merged into the Company resulting in a gain on merger of ₩15,273 million which was recorded as a component of other capital surplus.

## 24 Retained Earnings

(a) Details of retained earnings as of December 31, 2011, 2010 and January 1, 2010 are as follows:

|                                  | December 31, 2011   | December 31, 2010  | January 1, 2010<br>In KRW millions |
|----------------------------------|---------------------|--------------------|------------------------------------|
| Legal reserve                    | ₩ 170,950           | ₩ 166,594          | ₩ 162,963                          |
| Voluntary reserve                | 5,420,052           | 4,460,052          | 3,790,052                          |
| Unappropriated retained earnings | 4,500,894           | 4,584,880          | 4,282,300                          |
|                                  | <b>₩ 10,091,896</b> | <b>₩ 9,211,526</b> | <b>₩ 8,235,315</b>                 |

(b) Changes in retained earnings for the years ended December 31, 2011 and 2010 were as follows:

|   | 2011                | 2010<br>In KRW millions |
|---|---------------------|-------------------------|
| Beginning of the year                             | ₩ 9,211,526         | ₩ 8,235,315             |
| Profit for the year                               | 931,815             | 1,034,705               |
| Dividends   | (43,565)            | (36,304)                |
| Actuarial losses on defined benefit pension plans | (6,724)             | (20,881)                |
| Adjustment on retained earnings of associates     | (1,156)             | (1,309)                 |
| <b>End of the year</b>                            | <b>₩ 10,091,896</b> | <b>₩ 9,211,526</b>      |

## 25 Accumulated Other Comprehensive Income

Changes in accumulated other comprehensive income (loss) for the years ended December 31, 2011 and 2010 were as follows:

|   | 2011                 |                           |                               | Balance as of<br>December 31, 2011<br>In KRW millions |
|---|----------------------|---------------------------|-------------------------------|---|
|   | Beginning<br>balance | Changes<br>for the period | Tax effects<br>for the period |   |
| Change in fair value of<br>available-for-sale financial assets    | ₩ 102,685            | ₩ (4,454)                 | ₩ (15,869)                    | ₩ 82,362  |
| Exchange differences on<br>translating foreign operations         | (7,310)              | 37,540                    | (146)                         | 30,084  |
| Effective portion of changes<br>in fair value of cash flow hedges | (28,870)             | 24,327                    | (7,597)                       | (12,140)  |
| Change in equity of equity<br>method investments                  | 80,076               | (51,156)                  | 8,580                         | 37,500  |
| <b>Total</b>  | <b>₩ 146,581</b>     | <b>₩ 6,257</b>            | <b>₩ (15,032)</b>             | <b>₩ 137,806</b>                                      |

|   | 2010                 |                           |                               | Balance as of<br>December 31, 2010<br>In KRW millions |
|---|----------------------|---------------------------|-------------------------------|---|
|   | Beginning<br>balance | Changes<br>for the period | Tax effects<br>for the period |   |
| Change in fair value of<br>available-for-sale financial assets    | ₩ 52,697             | ₩ 68,693                  | ₩ (18,705)                    | ₩ 102,685   |
| Exchange differences on<br>translating foreign operations         | -                    | (7,310)                   | -                             | (7,310)   |
| Effective portion of changes<br>in fair value of cash flow hedges | (16,075)             | (19,488)                  | 6,693                         | (28,870)  |
| Change in equity of equity<br>method investments                  | 65,030               | 21,562                    | (6,516)                       | 80,076  |
| <b>Total</b>  | <b>₩ 101,652</b>     | <b>₩ 63,457</b>           | <b>₩ (18,528)</b>             | <b>₩ 146,581</b>                                      |

## 26 Earnings per Share

(a) Basic earnings per share for the years ended December 31, 2011 and 2010 are as follows:

|   | 2011                                      | 2010               |
|---|---|--------------------|
|   | In KRW millions (except per share amount) |                    |
| <b>Profit for the period</b>                                |   |                    |
| Profit from continuing operations                           | ₩ 931,815                                 | ₩ 1,067,106        |
| Loss from discontinued operations, net of tax               | -   | (32,401)           |
|   | <b>₩ 931,815</b>                          | <b>₩ 1,034,705</b> |
| <b>Weighted-average number of common shares outstanding</b> | <b>29,043,374</b>                         | <b>29,043,374</b>  |
| <b>Earnings per share</b>                                   |   |                    |
| Basic and diluted earnings per share                        |   |                    |
| - Continuing operations in won and U.S. dollars (*)         | ₩ 32,084                                  | ₩ 36,742           |
| Basic and diluted loss per share                            |   |                    |
| - Discontinued operations in won and U.S. dollars (*)       | -   | (1,116)            |
|   | <b>₩ 32,084</b>                           | <b>₩ 35,626</b>    |

(\*) Diluted earnings per share are not calculated as there is no dilution effect.

(b) Potential ordinary shares from conversion of convertible bonds as of December 31, 2011 are as follows:

|                                     | USD Bonds                                     | JPY Bonds        |
|-------------------------------------|---|------------------|
|                                     | In KRW millions (except for conversion price) |                  |
| Principal amount (*)                | ₩ 541,750                                     | ₩ 437,219        |
| Conversion price (in won)           | 650,000                                       | 650,000          |
| Number of potential ordinary shares | <b>₩ 833,462</b>                              | <b>₩ 672,645</b> |

(\*) Principal amount of convertible bonds are the amount of USD 500 million and JPY 32,500 million multiplied by fixed exchange rate of 1,083.50/USD and 13.4529/JPY, respectively.

## 27 Sales and Cost of Sales

(a) Details of sales for the years ended December 31, 2011 and 2010 are as follows:

|                          | 2011                | 2010                |
|--------------------------|---------------------|---------------------|
|                          | In KRW millions     |                     |
| Sales of merchandise     | ₩ 18,948,555        | ₩ 16,194,017        |
| Sales of products        | 82,452              | 71,575              |
| Other operating revenue  | 1,978,499           | 1,628,005           |
| Revenue of card business | 1,243,582           | 1,124,147           |
| <b>Total</b>             | <b>₩ 22,253,088</b> | <b>₩ 19,017,744</b> |

(b) Details of cost of sales for the years ended December 31, 2011 and 2010 are as follows:

|                                 | 2011                | 2010                |
|---------------------------------|---------------------|---------------------|
|                                 | In KRW millions     |                     |
| Cost of merchandise sold        | ₩ 14,505,515        | ₩ 12,387,636        |
| Cost of products sold           | 76,820              | 51,777              |
| Cost of other operating revenue | 109,506             | 110,985             |
| Cost of card business           | 559,553             | 538,240             |
| <b>Total</b>                    | <b>₩ 15,251,394</b> | <b>₩ 13,088,638</b> |

## 28 Profit from Operations

(a) Details of selling, general and administrative expenses for the years ended December 31, 2011 and 2010 are as follows:

|  | 2011               | 2010               |
|--|--------------------|--------------------|
|  | In KRW millions    |                    |
| <b>Selling, general and administrative expenses:</b> |                    |                    |
| Salaries   | ₩ 937,830          | ₩ 818,185          |
| Retirement and termination benefits                  | 76,267             | 57,571             |
| Other employee benefits                              | 7,584              | 17,700             |
| Employee welfare                                     | 194,411            | 160,540            |
| Education and training                               | 17,826             | 14,812             |
| Travel   | 32,555             | 25,191             |
| Maintenance fee for car                              | 3,887              | 1,969              |
| Insurance premium                                    | 10,078             | 8,793              |
| Taxes and dues                                       | 121,555            | 107,102            |
| Entertainment expense                                | 8,885              | 7,395              |
| Supplies and stationery                              | 74,248             | 68,202             |
| Communications                                       | 43,115             | 38,988             |
| Utilities  | 252,644            | 221,642            |
| Maintenance  | 63,289             | 59,082             |
| Rent   | 512,097            | 367,646            |
| Depreciation   | 470,752            | 392,792            |
| Amortization of intangible assets                    | 22,553             | 13,082             |
| Commissions and fees                                 | 797,369            | 598,119            |
| Service commission expenses                          | 689,433            | 549,995            |
| Advertising  | 296,569            | 267,758            |
| Sales promotion expenses                             | 434,911            | 341,895            |
| Decoration   | 16,570             | 18,510             |
| Bad debt expenses                                    | 1,041              | 589                |
| Transportation                                       | 78,574             | 55,858             |
| Provisions   | 1,727              | 37,078             |
| Others   | 17,082             | 20,601             |
| <b>Total</b>   | <b>₩ 5,182,852</b> | <b>₩ 4,271,095</b> |

(b) Details of other operating income and expenses for the years ended December 31, 2011 and 2010 are as follows:

|   | 2011             | 2010             |
|---|------------------|------------------|
|   | In KRW millions  |                  |
| <b>Other operating income:</b>                    |                  |                  |
| Gain on foreign currency transactions             | ₩ 484            | ₩ 326            |
| Gain on foreign currency translation              | 205              | 2                |
| Reversal of allowance for bad debt                | 308              | -                |
| Gain on disposal of property, plant and equipment | 10,303           | 55,792           |
| Gain on disposal of intangible assets             | 478              | 92               |
| Reversal of provisions                            | -                | 858              |
| Others  | 47,442           | 40,290           |
| <b>Total</b>                                      | <b>₩ 59,220</b>  | <b>₩ 97,360</b>  |
| <b>Other operating expense:</b>                   |                  |                  |
| Loss on foreign currency transactions             | 1,606            | 600              |
| Loss on foreign currency translation              | 109              | 3,877            |
| Loss on disposal of investment property           | 2                | -                |
| Loss on disposal of property, plant and equipment | 24,148           | 36,501           |
| Loss on disposal of intangible assets             | 3                | 2                |
| Impairment of investment property                 | 549              | -                |
| Impairment of intangible assets                   | 1,336            | -                |
| Impairment of other non-current assets            | 204              | 784              |
| Donation  | 20,022           | 19,620           |
| Other bad debt expenses                           | 127,466          | 70,215           |
| Others  | 39,717           | 26,038           |
| <b>Total</b>                                      | <b>₩ 215,162</b> | <b>₩ 157,637</b> |

## 29 Nature of Expenses

Details of nature of expenses for the years ended December 31, 2011 and 2010 are as follows:

|  | 2011                | 2010                |
|--|---------------------|---------------------|
|  | In KRW millions     |                     |
| Purchase of inventories                      | ₩ 14,801,836        | ₩ 12,663,303        |
| Changes in inventories                       | (347,558)           | (303,099)           |
| Employee benefits expense                    | 1,218,825           | 1,053,996           |
| Rent   | 512,340             | 375,906             |
| Depreciation and amortization and impairment | 550,887             | 437,208             |
| Commissions                                  | 290,546             | 193,462             |
| Sales promotion expenses                     | 434,911             | 341,895             |
| Decoration                                   | 16,570              | 18,510              |
| Transportation                               | 78,593              | 55,858              |
| Others                                       | 2,877,296           | 2,522,694           |
| <b>Total</b>                                 | <b>₩ 20,434,246</b> | <b>₩ 17,359,733</b> |

## 30 Changes in Classification for Operating Income

The effect of the differences in classification for operating income between K-GAAP and K-IFRS are as follows:

|   | 2011               | 2010               |
|---|--------------------|--------------------|
|   | In KRW millions    |                    |
| <b>Operating income under K-GAAP</b>              | <b>₩ 1,818,842</b> | <b>₩ 1,658,011</b> |
| Included items:                                   |                    |                    |
| Gain on foreign currency transactions             | 484                | 326                |
| Gain on foreign currency translation              | 205                | 2                  |
| Reversal of allowance for bad debt                | 308                | -                  |
| Gain on disposal of property, plant and equipment | 10,303             | 55,792             |
| Gain on disposal of intangible assets             | 478                | 92                 |
| Reversal of provisions                            | -                  | 858                |
| Loss on foreign currency transactions             | (1,606)            | (600)              |
| Loss on foreign currency translation              | (109)              | (3,877)            |
| Loss on disposal of investment property           | (2)                | -                  |
| Loss on disposal of property, plant and equipment | (24,148)           | (36,501)           |
| Loss on disposal of intangible assets             | (3)                | (2)                |
| Impairment of investment property                 | (549)              | -                  |
| Impairment of intangible assets                   | (1,336)            | -                  |
| Impairment loss on other non-current asset        | (204)              | (784)              |
| Donation  | (20,022)           | (19,620)           |
| Other bad debt expenses                           | (127,466)          | (70,215)           |
| Others  | 7,725              | 14,252             |
| Excluded items:                                   | -                  | -                  |
| <b>Total difference</b>                           | <b>₩ (155,942)</b> | <b>₩ (60,277)</b>  |
| <b>Operating income under K-IFRS</b>              | <b>₩ 1,662,900</b> | <b>₩ 1,597,734</b> |

## 31 Finance Income and Finance Expenses

(a) Details of finance income and finance expenses for the years ended December 31, 2011 and 2010 are as follows:

|   | 2011             | 2010             |
|---|------------------|------------------|
|   | In KRW millions  |                  |
| <b>Finance income:</b>  |                  |                  |
| Interest income   | ₩ 105,673        | ₩ 79,222         |
| Dividend income   | 6,448            | 3,318            |
| Gain on foreign currency transactions   | 34,096           | 1,163            |
| Gain on foreign currency translation  | 803              | 24,617           |
| Gain on disposal of available-for-sale financial assets                       | 64,572           | 3,096            |
| Gain on valuation of derivative instruments held for the purpose of hedging   | 18,978           | 54,594           |
| Gain on valuation of derivative instruments held for the purpose of trading   | -                | 3,062            |
| Gain on transaction of derivative instruments held for the purpose of hedging | 25,917           | 10,052           |
| Gain on transaction of derivative instruments held for the purpose of trading | 575              | -                |
| Reversal of other bad debt expenses   | -                | 52               |
| Gain on disposal of investments in associates                                 | 203              | 1,105            |
| <b>Total</b>  | <b>₩ 257,265</b> | <b>₩ 180,281</b> |

Continued



|   | 2011             | 2010             |
|---|------------------|------------------|
|   |                  | In KRW millions  |
| <b>Finance expenses:</b>  |                  |                  |
| Interest expense  | ₩ 191,325        | ₩ 178,794        |
| Loss on foreign currency transactions   | 29,760           | 13,933           |
| Loss on foreign currency translation  | 84,084           | 95,944           |
| Loss on valuation of financial liabilities at fair value through profit or loss | 54,544           | -                |
| Loss on disposal of short-term financial assets                                 | 6                | 242              |
| Impairment loss of available-for-sale financial assets                          | 9,506            | -                |
| Loss on disposal of available-for-sale financial assets                         | 913              | -                |
| Loss on valuation of derivative instruments held for the purpose of hedging     | 426              | 22,600           |
| Loss on valuation of derivative instruments held for the purpose of trading     | 34,879           | -                |
| Loss on transaction of derivative instruments held for the purpose of hedging   | 16,504           | -                |
| Loss on transaction of derivative instruments held for the purpose of trading   | 3,400            | 27               |
| Other bad debt losses   | 1,310            | 102              |
| Loss on disposal of investments in associates                                   | -                | 393              |
| <b>Total</b>  | <b>₩ 426,657</b> | <b>₩ 312,035</b> |

(b) Details of finance income and finance expenses by financial instruments category for the years ended December 31, 2011 and 2010 are as follows:

| Category  | Details  | 2011     | 2010            |
|---|--|----------|-----------------|
|   |  |          | In KRW millions |
| <b>Cash and cash equivalents:</b>                     | Cash and cash equivalents:                               |          |                 |
|   | Interest income  | ₩ 53,884 | ₩ 44,527        |
| <b>Loans and receivables:</b>                         | Short-term financial instruments:                        |          |                 |
|   | Interest income  | 12,395   | 2,688           |
|   | Loans:   |          |                 |
|   | Interest income  | 2,385    | 2,980           |
|   | Guarantee deposits:                                      |          |                 |
|   | Interest income  | 35,590   | 27,622          |
| <b>Available-for-sale financial assets:</b>           | Available-for-sale financial assets:                     |          |                 |
|   | Interest income  | 1,419    | 1,405           |
|   | Dividend income  | 6,448    | 3,318           |
|   | Gain on valuation of available-for-sale financial assets | 11,929   | 75,095          |
|   | Gain on disposal of available-for-sale financial assets  | 63,653   | 2,854           |
|   | Impairment loss  | 9,506    | -               |
| <b>Financial liabilities based on amortized cost:</b> | Borrowings:  |          |                 |
|   | Interest expense   | 60,301   | 61,953          |
|   | Debentures:  |          |                 |
|   | Interest expense   | 120,829  | 106,543         |
|   | Rental guarantee deposits:                               |          |                 |
|   | Interest expense   | ₩ 10,195 | ₩ 10,298        |

Continued

| Category  | Details                     | 2011       | 2010            |
|---|-----------------------------|------------|-----------------|
|   |                             |            | In KRW millions |
| <b>Financial assets and liabilities at fair value through profit or loss:</b> | Derivatives:                |            |                 |
|   | Gain (loss) on valuation    | ₩ (34,879) | ₩ 57,614        |
|   | Gain (loss) on transaction  | (2,825)    | 10,025          |
|   | Overseas convertible bonds: |            |                 |
|   | Gain (loss) on valuation    | (54,544)   | -               |
| <b>Derivative assets and liabilities held for the purpose of hedging:</b>     | Derivatives:                |            |                 |
|   | Gain (loss) on valuation    | 18,552     | (22,557)        |
|   | Gain (loss) on transaction  | ₩ 9,413    | ₩ -             |

### 32 Income Taxes

(a) The components of income tax expense for the years ended December 31, 2011 and 2010 are as follows:

|   | 2011             | 2010             |
|---|------------------|------------------|
|   |                  | In KRW millions  |
| Current tax                             | ₩ 380,326        | ₩ 393,746        |
| Deferred tax                            | 178,484          | 24,114           |
| Income taxes directly charged to equity | (16,169)         | (13,687)         |
| <b>Income tax expense</b>               | <b>₩ 542,641</b> | <b>₩ 404,173</b> |

(b) During 2011 and 2010, the details of income tax expense recognized directly to equity are as follows:

|  | 2011              | 2010              |
|--|-------------------|-------------------|
|  |                   | In KRW millions   |
| Change in fair value of available-for-sale financial assets    | ₩ (19,915)        | ₩ (20,117)        |
| Exchange differences on translating foreign operations         | (146)             | -                 |
| Effective portion of changes in fair value of cash flow hedges | (7,834)           | 6,913             |
| Defined benefit plan actuarial losses                          | 3,155             | 6,033             |
| Change in equity of equity method investments                  | 8,571             | (6,516)           |
| <b>Income tax directly charged to equity</b>                   | <b>₩ (16,169)</b> | <b>₩ (13,687)</b> |

Income tax related to actuarial losses (gains) was recognized directly in equity and income tax related to 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.

(c) During 2011 and 2010, statutory to actual effective tax rates are reconciled as follows:

|  | 2011             |  | 2010             |  |
|--|------------------|--|------------------|--|
|  | In KRW millions  |  | In KRW millions  |  |
| Profit before income tax                           | ₩ 1,555,241      |  | ₩ 1,540,223      |  |
| Tax rates (%)                                      | 25.68%           |  | 23.41%           |  |
| Income tax using statutory tax rates               | 399,365          |  | 360,567          |  |
| <b>Adjustment:</b>                                 |                  |  |                  |  |
| Tax effects on non-taxable income                  | (3,668)          |  | (3,302)          |  |
| Tax effects on non-deductible income               | 6,170            |  | 3,169            |  |
| Tax credit   | (2,889)          |  | (5,310)          |  |
| Adjustments for prior periods                      | (936)            |  | 672              |  |
| Effect of change in tax rate                       | 112,605          |  | 4,913            |  |
| Tax effects on share of net income of subsidiaries | 33,257           |  | 30,836           |  |
| Others   | (1,263)          |  | 12,628           |  |
| <b>Income tax expenses</b>                         | <b>₩ 542,641</b> |  | <b>₩ 404,173</b> |  |
| <b>Effective tax rate (%)</b>                      | <b>34.89%</b>    |  | <b>26.24%</b>    |  |

In December 2011, the Korean government changed the corporate income tax rate for taxable income exceeding ₩20 billion from 22.0% to 24.2% prospectively from 2012.

(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 realized.

(e) During 2011 and 2010, the changes on deferred tax assets (liabilities) are as follows:

|   | 2011              |                |                            |                                 |
|---|-------------------|----------------|----------------------------|---------------------------------|
|   | Beginning balance | Profit or loss | Other comprehensive income | Balance as of December 31, 2011 |
| In KRW millions   |                   |                |                            |                                 |
| Impairment loss on available-for-sale financial assets            | ₩ 460             | ₩ 46           | ₩ -                        | ₩ 506                           |
| Investments in subsidiaries and associates                        | (188,297)         | (56,567)       | 8,571                      | (236,293)                       |
| Buildings   | (10,979)          | 314            | -                          | (10,665)                        |
| Depreciation expense  | 42,813            | (1,971)        | -                          | 40,842                          |
| Allowance for doubtful accounts                                   | 17,464            | (13,825)       | -                          | 3,639                           |
| Accrued revenues  | (3,335)           | (1,141)        | -                          | (4,476)                         |
| Unearned revenue  | -                 | 2,646          | -                          | 2,646                           |
| Non-current prepaid expenses                                      | (10,137)          | 253            | -                          | (9,884)                         |
| Losses on valuation of inventories                                | 3,304             | (939)          | -                          | 2,365                           |
| Provision for sales return  | 1,653             | (277)          | -                          | 1,376                           |
| Property, plant and equipment (capitalization of borrowing costs) | (12,976)          | (331)          | -                          | (13,307)                        |
| Land (asset revaluation)  | (953,020)         | (78,186)       | -                          | (1,031,206)                     |
| Unearned revenues   | 16,596            | 3,736          | -                          | 20,332                          |
| Provision for mileage program                                     | 13,000            | (1,562)        | -                          | 11,438                          |
| Accrued expense   | ₩ 12,765          | ₩ 65           | ₩ -                        | ₩ 12,830                        |

Continued

|  | 2011                 |                    |                            |                                 |
|--|----------------------|--------------------|----------------------------|---------------------------------|
|  | Beginning balance    | Profit or loss     | Other comprehensive income | Balance as of December 31, 2011 |
| In KRW millions  |                      |                    |                            |                                 |
| Losses (gains) on valuation of available-for-sale financial assets | ₩ (33,212)           | ₩ 120              | ₩ (19,915)                 | ₩ (53,007)                      |
| Losses (gains) on valuation of derivatives                         | (19,485)             | 31,001             | (7,834)                    | 3,682                           |
| Foreign currency translation gains (losses)                        | 37,840               | (33,801)           | -                          | 4,039                           |
| Losses on valuation of convertible bonds                           | -                    | (11,502)           | -                          | (11,502)                        |
| Construction-in-progress   | 403                  | 40                 | -                          | 443                             |
| Other intangible assets  | (4,538)              | 3,414              | -                          | (1,124)                         |
| Rental guarantee deposits  | 7,097                | 1,543              | -                          | 8,640                           |
| Salaries and retirement benefits                                   | 24,270               | 174                | 3,154                      | 27,598                          |
| Goodwill   | (9,462)              | (12,366)           | -                          | (21,828)                        |
| Translation difference of foreign subsidiaries                     | 546                  | -                  | (146)                      | 400                             |
| Others   | (34,403)             | 6,802              | -                          | (27,601)                        |
| <b>Total</b>   | <b>₩ (1,101,633)</b> | <b>₩ (162,314)</b> | <b>₩ (16,170)</b>          | <b>₩ (1,280,117)</b>            |

|  | 2010              |                      |                |                            |
|--|-------------------|----------------------|----------------|----------------------------|
|  | Beginning balance | Business Combination | Profit or loss | Other comprehensive income |
| In KRW millions  |                   |                      |                |                            |
| Impairment loss on available-for-sale financial assets             | ₩ 460             | ₩ -                  | ₩ -            | ₩ -                        |
| Investments in subsidiaries and associates                         | (161,610)         | -                    | (20,170)       | (6,517)                    |
| Buildings  | (11,307)          | -                    | 328            | -                          |
| Depreciation expense   | 49,377            | (93)                 | (6,471)        | -                          |
| Allowance for doubtful accounts                                    | 8,742             | (13)                 | 8,735          | -                          |
| Accrued revenues   | (2,293)           | (4)                  | (1,038)        | -                          |
| Non-current prepaid expenses                                       | (10,401)          | -                    | 264            | -                          |
| Losses on valuation of inventories                                 | 2,479             | 488                  | 337            | -                          |
| Provision for sales return   | 1,026             | -                    | 627            | -                          |
| Property, plant and equipment (capitalization of borrowing costs)  | (13,177)          | -                    | 201            | -                          |
| Land (asset revaluation)   | (997,069)         | -                    | 44,049         | -                          |
| Unearned revenues  | 14,029            | -                    | 2,567          | -                          |
| Provision for mileage program                                      | 11,986            | -                    | 1,014          | -                          |
| Accrued expense  | 9,064             | 8                    | 3,693          | -                          |
| Losses (gains) on valuation of available-for-sale financial assets | (13,094)          | -                    | (1)            | (20,117)                   |
| Losses (gains) on valuation of derivatives                         | (29,824)          | -                    | 3,426          | 6,913                      |
| Foreign currency translation gains (losses)                        | 33,870            | -                    | 3,970          | -                          |
| Construction-in-progress   | 403               | -                    | -              | -                          |
| Other intangible assets  | 3,579             | (8,187)              | 70             | -                          |
| Rental guarantee deposits  | ₩ 6,310           | ₩ -                  | ₩ 787          | ₩ -                        |

Continued

|   | 2010                 |                         |                   |                               | Balance as of<br>December 31, 2010<br>In KRW millions |
|---|----------------------|-------------------------|-------------------|-------------------------------|---|
|   | Beginning<br>balance | Business<br>Combination | Profit or loss    | Other<br>comprehensive income |   |
| Salaries and retirement benefits                  | ₩ 14,340             | ₩ 166                   | ₩ 3,730           | ₩ 6,034                       | ₩ 24,270  |
| Goodwill  | 1,241                | -                       | (10,703)          | -                             | (9,462)   |
| Translation difference of<br>foreign subsidiaries | 546                  | -                       | -                 | -                             | 546   |
| Others  | 11,617               | (178)                   | (45,842)          | -                             | (34,403)  |
| <b>Total</b>                                      | <b>₩ (1,069,706)</b> | <b>₩ (7,813)</b>        | <b>₩ (10,427)</b> | <b>₩ (13,687)</b>             | <b>₩ (1,101,633)</b>                                  |

(f) As of December 31, 2011, 2010 and January 1, 2010, the amounts of total temporary differences related to investments of subsidiaries and associates which deferred tax assets were not recognized are as follows:

|                             | December 31, 2011 | December 31, 2010 | January 1, 2010<br>In KRW millions |
|-----------------------------|-------------------|-------------------|------------------------------------|
| Investments in associates   | ₩ 114,549         | ₩ 133,339         | ₩ 47,776                           |
| Investments in subsidiaries | 187,498           | 74,144            | 141,446                            |
| <b>Total</b>                | <b>₩ 302,047</b>  | <b>₩ 207,483</b>  | <b>₩ 189,222</b>                   |

### 33 Consolidated Statements of Cash Flows

(a) As of December 31, 2011, 2010 and January 1, 2010, the details of cash and cash equivalents are as follows:

|                        | December 31, 2011  | December 31, 2010  | January 1, 2010<br>In KRW millions |
|------------------------|--------------------|--------------------|------------------------------------|
| Cash                   | ₩ 62,946           | ₩ 84,900           | ₩ 75,231                           |
| Deposits               | 206,972            | 229,437            | 340,431                            |
| Other cash equivalents | 1,688,286          | 928,089            | 583,203                            |
| <b>Total</b>           | <b>₩ 1,958,204</b> | <b>₩ 1,242,426</b> | <b>₩ 998,865</b>                   |

(b) During 2011 and 2010, the details of the significant transactions without cash inflows and outflows in investing activities and financing activities are as follows:

|   | 2011      | 2010<br>In KRW millions |
|---|-----------|-------------------------|
| Change in fair value of available-for-sale financial assets | ₩ 11,929  | ₩ 75,095                |
| Reclassification of construction-in-process                 | 1,013,400 | 733,541                 |

### 34 Operating Leases

#### (a) Lessee

The Group has entered into the operating leases for buildings, furniture and fixtures and vehicles. Future lease payments under operation leases as of December 31, 2011 and 2010 are as follows:

|               | 2011               | 2010<br>In KRW millions |
|---------------|--------------------|-------------------------|
| Within 1 year | ₩ 273,389          | ₩ 276,639               |
| 1 ~ 5 years   | 1,018,329          | 1,081,627               |
| Thereafter    | 1,674,593          | 1,885,210               |
| <b>Total</b>  | <b>₩ 2,966,311</b> | <b>₩ 3,243,476</b>      |

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 ₩30,761 million and ₩35,590 million during 2011 and ₩26,928 million and ₩27,622 million during 2010, respectively. The related deposit balances amount to ₩1,375,955 million, ₩1,207,036 million and ₩1,092,758 million as of December 31, 2011, 2010 and January 1, 2010, respectively. Such amounts were calculated on the fixed interest rate for time deposits with similar maturities.

#### (b) Lessor

1) The Group has entered into operating leases of certain of its properties and equipments. Future lease payments receivable under operating leases as of December 31, 2011 and 2010 are as follows:

|               | 2011             | 2010<br>In KRW millions |
|---------------|------------------|-------------------------|
| Within 1 year | ₩ 110,448        | ₩ 91,847                |
| 1 ~ 5 years   | 34,286           | 14,827                  |
| Thereafter    | 29,775           | 450                     |
| <b>Total</b>  | <b>₩ 174,509</b> | <b>₩ 107,124</b>        |

### 35 Operating Segments and Geographic Information

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

|                            | Department stores                                   | Discount Stores  | Card business                 | 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     | Others                                   |
| Major products or services | Sales of merchandise and leasing                    | Sales of merchandise and leasing   | Credit card and loan services | Sales of merchandise, leasing and others |

(b) Information about reportable segments as December 31, 2011, 2010 and January 1, 2010 are as follows:

|  | December 31, 2011  |                    |                    |                    |                     |
|--|--------------------|--------------------|--------------------|--------------------|---------------------|
|  | Department stores  | Discount stores    | Card business      | Others             | Total               |
|  | In KRW millions    |                    |                    |                    |                     |
| External sales   | ₩ 7,891,573        | ₩ 8,473,862        | ₩ 1,289,463        | ₩ 4,598,190        | ₩ 22,253,088        |
| Internal sales   | 29,432             | 882                | 195,531            | 132,417            | 358,262             |
| <b>Total sales</b>                                       | <b>₩ 7,921,005</b> | <b>₩ 8,474,744</b> | <b>₩ 1,484,994</b> | <b>₩ 4,730,607</b> | <b>₩ 22,611,350</b> |
| Interest income  | 56,937             | 8,500              | 1,098              | 40,342             | 106,877             |
| Interest expenses  | 99,837             | 63,466             | 2,117              | 27,110             | 192,530             |
| Depreciation and amortization                            | 166,940            | 177,423            | 25,775             | 119,387            | 489,525             |
| Other bad debt expenses                                  | -                  | 38                 | 124,082            | 4,658              | 128,778             |
| Equity method income (loss) of investments in associates | (273)              | -                  | -                  | (711)              | (984)               |
| Income tax expense                                       | 273,596            | 112,790            | 57,820             | 65,744             | 509,950             |
| Segment profit   | 604,863            | 86,656             | 182,189            | 152,767            | 1,026,475           |
| Segment assets   | 15,848,109         | 9,315,146          | 7,655,660          | 4,092,747          | 36,911,662          |
| Acquisition of non-current assets                        | 756,045            | 406,155            | 27,671             | 497,682            | 1,687,553           |
| Segment liabilities                                      | ₩ 8,968,413        | ₩ 1,983,088        | ₩ 6,148,110        | ₩ 1,481,021        | ₩ 18,580,632        |

|  | December 31, 2010  |                    |                    |                    |                     |
|--|--------------------|--------------------|--------------------|--------------------|---------------------|
|  | Department stores  | Discount stores    | Card business      | Others             | Total               |
|  | In KRW millions    |                    |                    |                    |                     |
| External sales   | ₩ 7,146,411        | ₩ 7,354,540        | ₩ 1,132,163        | ₩ 3,384,630        | ₩ 19,017,744        |
| Internal sales   | 28,741             | 388                | 182,615            | 85,914             | 297,658             |
| <b>Total sales</b>                                       | <b>₩ 7,175,152</b> | <b>₩ 7,354,928</b> | <b>₩ 1,314,778</b> | <b>₩ 3,470,544</b> | <b>₩ 19,315,402</b> |
| Interest income  | 43,129             | 8,225              | 94                 | 28,948             | 80,396              |
| Interest expenses  | 97,181             | 60,862             | 1,167              | 20,757             | 179,967             |
| Depreciation and amortization                            | 143,654            | 157,041            | 25,645             | 78,024             | 404,364             |
| Other bad debt expenses                                  | (11)               | 11,805             | 69,676             | 652                | 82,122              |
| Equity method income (loss) of investments in associates | -                  | (1,547)            | -                  | (50)               | (1,597)             |
| Income tax expense                                       | 190,871            | 79,846             | 59,650             | 42,970             | 373,337             |
| Segment profit   | 678,086            | 107,042            | 162,483            | 117,049            | 1,064,660           |
| Segment assets   | 14,227,127         | 8,647,977          | 6,670,129          | 3,250,176          | 32,795,409          |
| Acquisition of non-current assets                        | 715,189            | 1,696,790          | 115,202            | 225,120            | 2,752,301           |
| Segment liabilities                                      | ₩ 7,618,151        | ₩ 1,682,878        | ₩ 5,367,154        | ₩ 1,178,274        | ₩ 15,846,457        |

|                     | January 1, 2010   |                 |               |             |              |
|---------------------|-------------------|-----------------|---------------|-------------|--------------|
|                     | Department stores | Discount stores | Card business | Others      | Total        |
|                     | In KRW millions   |                 |               |             |              |
| Segment assets      | ₩ 12,844,768      | ₩ 6,802,262     | ₩ 4,588,796   | ₩ 2,267,620 | ₩ 26,503,446 |
| Segment liabilities | ₩ 5,870,327       | ₩ 1,467,180     | ₩ 3,441,539   | ₩ 687,648   | ₩ 11,466,694 |

(c) Reconciliations of total segment sales and profit to their respective consolidated financial statements line items for the years ended December 31, 2011 and 2010 are summarized as follows:

|                                       | 2011                |                     |
|---------------------------------------|---------------------|---------------------|
|                                       | Sales               | Profit for the year |
|                                       | In KRW millions     |                     |
| Department stores                     | ₩ 7,921,005         | ₩ 604,863           |
| Discount store                        | 8,474,744           | 86,656              |
| Card business                         | 1,484,994           | 182,189             |
| Others                                | 4,730,607           | 152,767             |
| <b>Segment totals</b>                 | <b>22,611,350</b>   | <b>1,026,475</b>    |
| Elimination of inter-segment amounts  | (358,262)           | (13,875)            |
| <b>After consolidated adjustments</b> | <b>₩ 22,253,088</b> | <b>₩ 1,012,600</b>  |

|                                       | 2010                |                     |
|---------------------------------------|---------------------|---------------------|
|                                       | Sales               | Profit for the year |
|                                       | In KRW millions     |                     |
| Department stores                     | ₩ 7,175,152         | ₩ 678,086           |
| Discount store                        | 7,354,928           | 107,042             |
| Card business                         | 1,314,778           | 162,483             |
| Others                                | 3,470,544           | 117,049             |
| <b>Segment totals</b>                 | <b>19,315,402</b>   | <b>1,064,660</b>    |
| Elimination of inter-segment amounts  | (297,658)           | 38,989              |
| <b>After consolidated adjustments</b> | <b>₩ 19,017,744</b> | <b>₩ 1,103,649</b>  |

(d) Reconciliation of segment assets and liabilities to their respective consolidated financial statement line items as of December 31, 2011, 2010 and January 1, 2010 are summarized as follows:

|   | December 31, 2011   |                     |
|---|---------------------|---------------------|
|   | Assets              | Liabilities         |
|   | In KRW millions     |                     |
| Department stores                                   | ₩ 15,848,109        | ₩ 8,968,413         |
| Discount store                                      | 9,315,146           | 1,983,088           |
| Card business                                       | 7,655,660           | 6,148,110           |
| Others  | 4,092,747           | 1,481,021           |
| <b>Segment totals</b>                               | <b>36,911,662</b>   | <b>18,580,632</b>   |
| Elimination of inter-segment assets and liabilities | (198,517)           | (198,517)           |
| Adjustments of business combinations                | 1,089,021           | -                   |
| Investments in subsidiaries and associates          | (4,741,046)         | -                   |
| <b>Subtotal</b>                                     | <b>(3,850,542)</b>  | <b>(198,517)</b>    |
| <b>After consolidated adjustments</b>               | <b>₩ 33,061,120</b> | <b>₩ 18,382,115</b> |



|   | December 31, 2010   |                                |
|---|---------------------|--------------------------------|
|   | Assets              | Liabilities<br>In KRW millions |
| Department stores                                   | ₩ 14,227,127        | ₩ 7,618,151                    |
| Discount store                                      | 8,647,977           | 1,682,878                      |
| Card business                                       | 6,670,129           | 5,367,154                      |
| Others  | 3,250,176           | 1,178,274                      |
| <b>Segment totals</b>                               | <b>32,795,409</b>   | <b>15,846,457</b>              |
| Elimination of inter-segment assets and liabilities | (296,925)           | (296,925)                      |
| Adjustments of business combinations                | 932,030             | -                              |
| Investments in subsidiaries and associates          | (4,238,984)         | -                              |
| <b>Subtotal</b>                                     | <b>(3,603,879)</b>  | <b>(296,925)</b>               |
| <b>After consolidated adjustments</b>               | <b>₩ 29,191,530</b> | <b>₩ 15,549,532</b>            |

|   | January 1, 2010     |                                |
|---|---------------------|--------------------------------|
|   | Assets              | Liabilities<br>In KRW millions |
| Department stores                                   | ₩ 12,844,768        | ₩ 5,870,327                    |
| Discount store                                      | 6,802,262           | 1,467,180                      |
| Card business                                       | 4,588,796           | 3,441,539                      |
| Others  | 2,267,620           | 687,648                        |
| <b>Segment totals</b>                               | <b>26,503,446</b>   | <b>11,466,694</b>              |
| Elimination of inter-segment assets and liabilities | (268,970)           | (268,970)                      |
| Adjustments of business combinations                | 922,321             | -                              |
| Investments in subsidiaries and associates          | (3,410,048)         | -                              |
| <b>Subtotal</b>                                     | <b>(2,756,697)</b>  | <b>(268,970)</b>               |
| <b>After consolidated adjustments</b>               | <b>₩ 23,746,749</b> | <b>₩ 11,197,724</b>            |

(e) Sales by geographical areas for the years ended December 31, 2011 and 2010 are summarized as follows:

| Region       | 2011                |  | 2010                |  |
|--------------|---------------------|--|---------------------|--|
|              | In KRW millions     |  | In KRW millions     |  |
| Domestic     | ₩ 19,937,519        |  | ₩ 16,977,209        |  |
| China        | 1,370,842           |  | 1,216,544           |  |
| Vietnam      | 64,216              |  | 49,161              |  |
| Indonesia    | 880,511             |  | 774,830             |  |
| <b>Total</b> | <b>₩ 22,253,088</b> |  | <b>₩ 19,017,744</b> |  |

In presenting information on the basis of geographical areas, geographic sales is based on the physical location of customers.

(f) Sales by types of products and services for each operating segment for the years ended December 31, 2011 and 2010 are summarized as follows:

|                            | December 31, 2011  |                    |                    |                    |                          |
|----------------------------|--------------------|--------------------|--------------------|--------------------|--------------------------|
|                            | Department stores  | Discount stores    | Card business      | Others (*)         | Total<br>In KRW millions |
| Sales of merchandise       | ₩ 7,407,165        | ₩ 8,034,281        | ₩ 4,950            | ₩ 3,530,392        | ₩ 18,976,788             |
| Sales of products          | -                  | -                  | -                  | 131,701            | 131,701                  |
| Financial income           | -                  | -                  | 1,438,316          | -                  | 1,438,316                |
| Commissions                | -                  | -                  | -                  | 757,926            | 757,926                  |
| Rental income              | 459,998            | 120,650            | -                  | 17,111             | 597,759                  |
| Others                     | 53,842             | 319,813            | 41,728             | 293,477            | 708,860                  |
| <b>Total segment sales</b> | <b>₩ 7,921,005</b> | <b>₩ 8,474,744</b> | <b>₩ 1,484,994</b> | <b>₩ 4,730,607</b> | <b>₩ 22,611,350</b>      |

|                            | December 31, 2010  |                    |                    |                    |                          |
|----------------------------|--------------------|--------------------|--------------------|--------------------|--------------------------|
|                            | Department stores  | Discount stores    | Card business      | Others (*)         | Total<br>In KRW millions |
| Sales of merchandise       | ₩ 6,724,028        | ₩ 6,980,307        | ₩ 2,055            | ₩ 2,533,230        | ₩ 16,239,620             |
| Sales of products          | -                  | -                  | -                  | 77,020             | 77,020                   |
| Financial income           | -                  | -                  | 1,299,101          | -                  | 1,299,101                |
| Commissions                | -                  | -                  | -                  | 590,018            | 590,018                  |
| Rental income              | 401,311            | 103,731            | -                  | 14,853             | 519,895                  |
| Others                     | 49,813             | 270,890            | 13,622             | 255,423            | 589,748                  |
| <b>Total segment sales</b> | <b>₩ 7,175,152</b> | <b>₩ 7,354,928</b> | <b>₩ 1,314,778</b> | <b>₩ 3,470,544</b> | <b>₩ 19,315,402</b>      |

(\*) Others represent convenience stores, television home shopping, supermarkets and etc.

(g) Non-current assets by geographical areas as of December 31, 2011, 2010 and January 1, 2010 are as follows:

|              | December 31, 2011   |  |  | December 31, 2010   |  |  | January 1, 2010     |  |  |
|--------------|---------------------|--|--|---------------------|--|--|---------------------|--|--|
|              | In KRW millions     |  |  | In KRW millions     |  |  | In KRW millions     |  |  |
| Domestic     | ₩ 14,821,655        |  |  | ₩ 14,064,481        |  |  | ₩ 12,089,207        |  |  |
| China        | 1,188,688           |  |  | 1,082,616           |  |  | 840,836             |  |  |
| Vietnam      | 92,399              |  |  | 92,224              |  |  | 91,669              |  |  |
| Indonesia    | 398,656             |  |  | 312,234             |  |  | 236,920             |  |  |
| India        | 128                 |  |  | -                   |  |  | -                   |  |  |
| <b>Total</b> | <b>₩ 16,501,526</b> |  |  | <b>₩ 15,551,555</b> |  |  | <b>₩ 13,258,632</b> |  |  |

Non-current assets by geographical area include investment property, property, plant and equipment, goodwill and other intangible assets.

(h) There are no customers whose sales represent 10% or more of total consolidated sales.

### 36 Contingent Liabilities and Financial Commitments

(a) As of December 31, 2011, the Group has the following credit facility commitments with financial institutions:

|                  | Credit line (In KRW millions) |             | Amount used under credit facility (In KRW millions) |             |
|------------------|-------------------------------|-------------|---|-------------|
|                  | Foreign currency (thousands)  |             | Foreign currency (thousands)                        |             |
| General loan     | KRW                           | 609,803     | KRW   | 240,959     |
|                  | CNY                           | 709,471     | CNY   | 567,980     |
|                  | IDR                           | 618,423,783 | IDR   | 598,423,783 |
|                  | HKD                           | 166,000     | HKD   | 166,000     |
| Discount of bill | KRW                           | 220,000     | KRW   | 110,364     |
| Buyer's credit   | KRW                           | 312,000     | KRW   | 47,458      |
| Bank overdraft   | KRW                           | 84,000      | KRW   | 1           |
| Letter of credit | USD                           | 13,500      | USD   | 2,962       |

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

| Company                                    | Contractor   | Description of contract  |
|--|--|--|
| Lotte Shopping Co., Ltd.                   | Lotte Midopa Co., Ltd., Lotte Station Building Co., Ltd. and Lotte Square Co., Ltd.          | Providing management services  |
| Lotte Card Co., Ltd.                       | American Express Company, MasterCard International, Visa International and JCB International | Commissions based on credit card transaction amount                        |
| Woori Home Shopping & Television Co., Ltd. | BC card and Shinhan card   | Business tie-up and issuing credit cards                                   |
|  | Korea Express Co., Ltd.  | Logistics services   |
|  | Cable TV operators   | Providing broadcast programs   |
| Korea Seven Co., Ltd.                      | 7-Eleven, Inc.   | Using the registered trademark and operating know-how                      |
| Lotte Boulangerie Co., Ltd.                | Shikishima Baking Co., Ltd.  | Bread baking skills and techniques   |
| NCF Co., Ltd.                              | Nice Claup Co., Ltd.   | Royalty payments based on net revenue of selling and manufacturing amounts |

(c) As of December 31, 2011, the Group are the plaintiff in various lawsuits claiming damages totaling ₩15,093 million and the Group are the defendant in various lawsuits with damage claims totaling ₩22,032 million.

(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 earning 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) As of December 31, 2011, the Group has provided one blank note as collateral for borrowings from the Koryo Central Educational Institution.

(f) Lotte Midopa Co., Ltd. did not recover 93 blank checks and 653 blank notes from related customers, which had been pledged as collateral for debt. Management believes that the possibilities of payment are extremely low.

### 37 Inter-company Transactions and Balances with Consolidated Companies

The Group has provided guarantees for consolidated companies as of December 31, 2011 as follows:

| Consolidated company             | Provided by              | Guarantee recipient             | 2011               |                                 |
|----------------------------------|--------------------------|---------------------------------|--------------------|---------------------------------|
|                                  |                          |                                 | Type of borrowings | Guaranteed amount<br>thousands  |
| Lotte Vietnam Shopping Co., Ltd. | Lotte Shopping Co., Ltd. | Citibank N.A. Hochiminh         | Working capital    | USD 60,000 and interest thereon |
|                                  |                          | Shinhan Bank                    | Working capital    | USD 15,000                      |
| Liaoning Lotte Mart Co., Ltd.    | Lotte Shopping Co., Ltd. | Australia and New Zealand Bank  | Working capital    | RMB 10,000                      |
| Lotte Cinema Vietnam Co., Ltd.   | Lotte Shopping Co., Ltd. | The Export-Import Bank of Korea | Working capital    | USD 6,000 and interest thereon  |

### 38 Transactions and Balances with Related Companies

(a) Details of investor and subsidiary relationships with the Company as of December 31, 2011 are as follows:

| Related company                            | Ownership (%) | Control relationship (*) |
|--|---------------|--------------------------|
| Hotel Lotte Co., Ltd.                      | 9.58          | Affiliate of Lotte Group |
| Korea Fuji Film Co., Ltd.                  | 8.52          | Affiliate of Lotte Group |
| Lotte Confectionery Co., Ltd.              | 8.52          | Affiliate of Lotte Group |
| Lotte Data Communication Company           | 5.22          | Affiliate of Lotte Group |
| Lotte Chilsung Beverage Co., Ltd.          | 4.26          | Affiliate of Lotte Group |
| Lotte Engineering & Construction Co., Ltd. | 1.03          | Affiliate of Lotte Group |
| Hotel Lotte Pusan Co., Ltd.                | 0.85          | 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, 2011 and 2010 are summarized as follows:

| Related company                            | 2011     |          | 2010     |          |
|--|----------|----------|----------|----------|
|  | Revenues | Expenses | Revenues | Expenses |
| Hotel Lotte Co., Ltd.                      | ₩ 37,527 | ₩ 78,538 | ₩ 35,694 | ₩ 71,865 |
| Lotte Confectionery Co., Ltd.              | 14,437   | 138,601  | 23,809   | 118,797  |
| Lotte Chilsung Beverage Co., Ltd.          | 11,045   | 72,785   | 10,288   | 60,831   |
| Lotte Engineering & Construction Co., Ltd. | 10,689   | 603,916  | 6,771    | 467,311  |
| Hotel Lotte Pusan Co., Ltd.                | 7,761    | 14,689   | 7,984    | 19,633   |
| Lotte Station Building Co., Ltd.           | 25,643   | 6,452    | 27,826   | 6,330    |
| Lotte Samkang Co., Ltd.                    | 3,594    | 29,295   | 3,600    | 24,041   |
| Lotte Ham Co., Ltd.                        | 6,378    | 62,452   | 7,563    | 61,535   |
| Lotte Fresh Delica Co., Ltd.               | 9,925    | 70,377   | 8,274    | 52,884   |
| Lotte Trading Co., Ltd.                    | 9,347    | 239,348  | 8,658    | 182,257  |
| Lotte Aluminium Co., Ltd.                  | ₩ 1,860  | ₩ 84,522 | ₩ 1,843  | ₩ 80,188 |

Continued

| Related company           | 2011             |                    | 2010             |                    |
|---------------------------|------------------|--------------------|------------------|--------------------|
|                           | Revenues         | Expenses           | Revenues         | Expenses           |
| Lotte Logistics Co., Ltd. | ₩ 21,718         | ₩ 1,093,039        | ₩ 8,882          | ₩ 445,320          |
| Others                    | 138,055          | 672,258            | 96,078           | 424,595            |
| <b>Total</b>              | <b>₩ 297,979</b> | <b>₩ 3,166,272</b> | <b>₩ 247,270</b> | <b>₩ 2,015,587</b> |

(c) Account balances with related companies as of December 31, 2011, 2010 and January 1, 2010 are summarized as follows:

| Related company                            | December 31, 2011 |                  | December 31, 2010 |                  | January 1, 2010  |                  |
|--|-------------------|------------------|-------------------|------------------|------------------|------------------|
|  | Receivables       | Payables         | Receivables       | Payables         | Receivables      | Payables         |
| Hotel Lotte Co., Ltd.                      | ₩ 30,015          | ₩ 14,339         | ₩ 23,984          | ₩ 11,446         | ₩ 24,964         | ₩ 8,105          |
| Lotte Confectionery Co., Ltd.              | 12,535            | 17,375           | 12,026            | 15,837           | 8,505            | 11,205           |
| Lotte Chilsung Beverage Co., Ltd.          | 3,638             | 4,178            | 1,722             | 4,842            | 10,059           | 3,181            |
| Lotte Engineering & Construction Co., Ltd. | 115,366           | 232,209          | 48,427            | 236,209          | 57,435           | 275,099          |
| Hotel Lotte Pusan Co., Ltd.                | 526               | 2,301            | 2,777             | 1,879            | 2,556            | 1,924            |
| Lotte Station Building Co., Ltd.           | 28,245            | 11,318           | 27,828            | 8,633            | 25,848           | 6,590            |
| Lotte Aluminium Co., Ltd.                  | 16,367            | 27,300           | 15,254            | 23,635           | 12,666           | 22,114           |
| Lotte Samkang Co., Ltd.                    | 998               | 11,549           | 342               | 10,565           | 1,478            | 10,944           |
| Lotte Ham Co., Ltd.                        | 4,363             | 8,376            | 5,460             | 2,307            | 5,684            | 3,293            |
| Lotte Fresh Delica Co., Ltd.               | 280               | 5,848            | 455               | 4,645            | 279              | 3,317            |
| Lotte Trading Co., Ltd.                    | 6,980             | 17,391           | 4,275             | 11,541           | 4,809            | 12,522           |
| Lotte Logistics Co., Ltd.                  | 1,678             | 170,740          | 369               | 72,874           | 415              | 59,304           |
| Others                                     | 527,825           | 172,657          | 159,170           | 97,530           | 63,288           | 113,590          |
| <b>Total</b>                               | <b>₩ 748,816</b>  | <b>₩ 695,581</b> | <b>₩ 302,089</b>  | <b>₩ 501,943</b> | <b>₩ 217,986</b> | <b>₩ 531,188</b> |

(d) The Group has provided guarantees for related companies as of December 31, 2011 as follows:

| Related company                         | Guarantee recipient     | Type of borrowings | Guaranteed amount (thousands) |
|---|-------------------------|--------------------|-------------------------------|
| Lotte Shopping Rus LLC                  | Korea Development Bank  | Working capital    | USD 10,000                    |
| Intime Lotte Department Store Co., Ltd. | Woori Bank              | Working capital    | KRW 12,000,000                |
|   | Standard Chartered Bank | Working capital    | RMB 70,000                    |
|   | Shinhan Bank            | Working capital    | USD 8,125                     |

(e) 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.

(f) The fulfillment of the loyalty contract between Burger King Japan Co., Ltd. and BK Asiapac, Pte. Ltd. was guaranteed by the Group.

### 39 Subsequent Events

The Group obtained control of CS Mart Co., Ltd. by acquiring 97.37% of stocks at ₩244,880 million in cash on January 19, 2012. CS Mart Co., Ltd. will be accounted for as a subsidiary in the consolidated financial statements in subsequent to the acquisition.

### 40 Transition to Korean International Financial Reporting Standards ("K-IFRS")

As stated in note 2 to the consolidated financial statements, these are the Group's first consolidated financial statements prepared for the part of the period covered by the first K-IFRS annual financial statements in accordance with K-IFRS No.1101 *First-time Adoption of K-IFRS*.

The accounting policies in note 3 to the consolidated financial statements have been applied in preparing the consolidated financial statements for the year ended December 31, 2011, the comparative information for the year ended December 31, 2010, for the year ended December 31, 2010 and the preparation of an opening statement of financial position under K-IFRS as of January 1, 2010.

#### (a) The exemptions the Group adopted in accordance with K-IFRS No.1101 *First-time Adoption of K-IFRS*

K-IFRS No.1101 permits those companies adopting K-IFRS for the first time certain exemptions from the full requirements of K-IFRS in the transition period. The Group has taken the following key exemptions.

#### Business combination

Business combinations prior to the date of transition are not restated.

#### Cumulative translation differences

The Group regards the accumulated translation difference of overseas operations as zero ("0").

#### Deemed cost to fair value or the revaluation amount

The Group measures some property, plant and equipment except for buildings at deemed cost which is fair value at the date of transition.

#### Borrowing costs

The Group capitalizes borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset after the date of transition to K-IFRS.

(b) The effects of the adoption of K-IFRSs on the Group's financial position as of January 1, 2010 are as follows:

|   | Total assets        | Total liabilities   | Total equity        |
|---|---------------------|---------------------|---------------------|
|   | In KRW millions     |                     |                     |
| <b>K-GAAP</b>   | <b>₩ 24,423,378</b> | <b>₩ 11,258,111</b> | <b>₩ 13,165,267</b> |
| <b>Adjustment for:</b>  |                     |                     |                     |
| Change in gains and losses on disposal of property, plant and equipment ① | 29,511              | -                   | 29,511              |
| Change in depreciation method of property, plant and equipment ②          | (11,760)            | (11,888)            | 128                 |
| Component accounting of property, plant and equipment ③                   | (269,667)           | 127                 | (269,794)           |
| Provision for sales return ④  | (1,452)             | 1,556               | (3,008)             |
| Impairment of financial assets ⑤  | (12,901)            | (167,039)           | 154,138             |
| Changes in scope of associates ⑥  | (345,733)           | (159,740)           | (185,993)           |
| Employee benefits ⑦   | 1,470               | 51,007              | (49,537)            |
| Present value of deposit ⑧  | (29,171)            | (2,818)             | (26,353)            |
| Customer loyalty programs ⑨   | -                   | 8,754               | (8,754)             |
| Impairment of assets ⑩  | (6,291)             | (1,236)             | (5,055)             |
| Depreciation of annual fee for credit card on straight-line basis ⑪       | -                   | 15,747              | (15,747)            |
| Deferred loan income from card assets ⑫                                   | 1,650               | 321                 | 1,329               |
| Deferred tax assets ⑬   | (32,286)            | 204,821             | (237,107)           |
| Others  | 1                   | 1                   | -                   |
| <b>Total adjustment</b>   | <b>₩ (676,629)</b>  | <b>₩ (60,387)</b>   | <b>₩ (616,242)</b>  |
| <b>K-IFRS</b>   | <b>₩ 23,746,749</b> | <b>₩ 11,197,724</b> | <b>₩ 12,549,025</b> |

(c) The effects of the adoption of K-IFRSs on the Group's financial position as of December 31, 2010 and comprehensive income for the year ended December 31, 2010 are as follows:

|   | Total assets         | Total liabilities   | Total equity        | Net income         | Total comprehensive income |
|---|----------------------|---------------------|---------------------|--------------------|----------------------------|
|   | In KRW millions      |                     |                     |                    |                            |
| <b>K-GAAP</b>   | <b>₩ 30,249,887</b>  | <b>₩ 16,101,370</b> | <b>₩ 14,148,517</b> | <b>₩ 1,043,834</b> | <b>₩ 991,962</b>           |
| <b>Adjustment for:</b>  |                      |                     |                     |                    |                            |
| Change in gains and losses on disposal of property, plant and equipment ① | 26                   | -                   | 26                  | (156,174)          | (1,191)                    |
| Change in depreciation method of property, plant and equipment ②          | 116,372              | -                   | 116,372             | 86,504             | 86,504                     |
| Component accounting of property, plant and equipment ③                   | (311,915)            | 127                 | (312,042)           | (46,061)           | (46,061)                   |
| Provision for sales return ④  | (2,889)              | 1,689               | (4,578)             | (1,570)            | (1,570)                    |
| Impairment of financial assets ⑤  | (16,121)             | (192,651)           | 176,530             | 25,888             | 25,888                     |
| Changes in scope of associates ⑥  | (989,884)            | (730,408)           | (259,476)           | 15,920             | (31,718)                   |
| Employee benefits ⑦   | 6,765                | 93,058              | (86,293)            | (12,039)           | (33,772)                   |
| Present value of deposit ⑧  | (33,265)             | (2,891)             | (30,374)            | (4,028)            | (4,028)                    |
| Customer loyalty programs ⑨   | -                    | 9,551               | (9,551)             | (797)              | (797)                      |
| Impairment of assets ⑩  | 158,280              | (1,235)             | 159,515             | 164,571            | 164,571                    |
| Depreciation of annual fee for credit card on straight-line basis ⑪       | -                    | 17,998              | (17,998)            | (2,251)            | (2,251)                    |
| Deferred loan income from card assets ⑫                                   | 2,873                | -                   | 2,873               | 2,237              | 2,237                      |
| Deferred tax assets ⑬   | 1,048                | 250,577             | (249,529)           | (19,594)           | (19,594)                   |
| Others ⑭  | 10,353               | 2,347               | 8,006               | 7,209              | 2,405                      |
| <b>Total adjustment</b>   | <b>₩ (1,058,357)</b> | <b>₩ (551,838)</b>  | <b>₩ (506,519)</b>  | <b>₩ 59,815</b>    | <b>₩ 140,623</b>           |
| <b>K-IFRS</b>   | <b>₩ 29,191,530</b>  | <b>₩ 15,549,532</b> | <b>₩ 13,641,998</b> | <b>₩ 1,103,649</b> | <b>₩ 1,132,585</b>         |

① Change in gains and losses on disposal of property, plant and equipment

The Group measures some property, plant and equipment except for buildings at deemed cost which is fair value at the date of transition in accordance with K-IFRS No.1101. When the Group disposed of property, plant and equipment which are measured at deemed cost, gains and losses on disposal of property, plant and equipment were changed.

② Change in depreciation method of property, plant and equipment

In accordance with K-IFRS, property, plant and equipment which are depreciated with the declining-balance method under K-GAAP, are depreciated on a straight-line basis that reflects the appropriate pattern in which the asset's future economic benefits are expected to be consumed.

③ Component accounting of property, plant and equipment

In accordance with K-IFRS, a component that is significant compared to the total cost of property, plant and equipment is depreciated over separate useful lives.

④ Provision for sales return

In accordance with K-IFRS, the Group estimates the possibility of returns and recognizes as provision for sales return.

⑤ Impairment of financial assets

In accordance with K-IFRS, the Group first assesses whether objective evidence of impairments exists individually for financial assets and then, assesses whether objective evidence of impairment exists collectively for other financial assets by group of financial assets with similar credit risk characteristics.

⑥ Changes in scope of associates

In accordance with K-IFRS, the Group reclassified investment securities as available-for-sale financial assets and investments in associate. Available-for-sale financial assets are measured at fair value, and investments in associate are recognized under the equity method. While under K-GAAP, the scope for associates is different due to the prescribed entities.

⑦ Employee benefits

- Post-employment benefit: In accordance with K-GAAP, the Group records the liabilities for its retirement and severance benefit obligations which would be payable if all employees left the Group at the end of the reporting period. In accordance with K-IFRS, the measurement of the retirement and severance benefit obligations are calculated actuarially using the projected unit credit method based on certain assumptions to calculate the present value.

- Short-term employee benefit: According to K-IFRS, the Group recognizes the expected cost of short-term employee benefits in the form of compensated absence as a liability, when employees render service that increases their entitlement to future compensated absences.

- Long-term employee benefit: Other long-term employee benefits include employee benefits that do not settle within twelve months after the end of the period in which the employees renders the related service, and 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.

⑧ Present value of leasehold deposits and leasehold deposits received

In accordance with K-GAAP, the Group recognizes leasehold deposits and leasehold deposits received as nominal amount of deposits. In accordance with K-IFRS, leasehold deposits and leasehold deposits received are measured at amortized cost using the effective interest method.

⑨ Customer Loyalty Programs

In accordance with K-GAAP, the Group recognized a provision for the costs of the product to be provided in the future from using the points. However, in accordance with K-IFRS, the revenue to be incurred in the future from using the points is deferred at first and the Group recognizes the unearned revenues as sales when the points are redeemed.

⑩ Impairment of assets

In accordance with K-IFRS, the Group does not amortize goodwill and perform the impairment test. The carrying amounts of the Group's non-financial assets 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. While under K-GAAP goodwill is amortized on a straight line basis over the estimated useful lives.

⑪ Depreciation of annual fee for credit card on straight-line basis

In accordance with K-IFRS, annual fees for credit cards are depreciated on a straight-line basis over the duration of the related service to be rendered. While under K-GAAP, the revenue is recognized fully upon receipt.

⑫ Deferred loan income from card assets

In accordance with K-IFRS, deferred loan income from card assets is recognized as revenue over the loan period using the effective interest method. While under K-GAAP, such income is recognized in full upon occurrence.

⑬ Deferred tax effects

The Group reflected the tax effects in relation to the adjustments in transition to K-IFRS. Also, in accordance with K-IFRS, the current deferred tax assets (liabilities) are reclassified to the non-current deferred tax assets (liabilities).

⑭ Others

- Investment in properties: In accordance with K-GAAP, properties held to earn rentals or for capital appreciation were classified and accounted for as property, plant and equipment. However, in accordance with K-IFRS, it is classified as investment property.

- Guarantee deposits for membership: In accordance with K-GAAP, guarantee deposits for membership recognized as other non-current assets are recorded as intangible assets with indefinite useful lives.

- Website costs: The Group recognizes development costs of its website, not directly related to operating activity, as expenses in the incurred period.

- Bank overdraft: Bank overdraft, which must be repaid upon request from financial institutions and which constitutes a part of cash management, has been reclassified from cash flows from financing activities to cash and cash equivalents under K-IFRS.

(d) Explanation of material adjustments to the consolidated statement of cash flows

In accordance with K-GAAP, interest expense, interest income, dividends income and income tax expenses were presented as non-cash items in operating activities. While in accordance with K-IFRS, interest paid are recognized as cash flows from financing activities, and interest received and dividends received are recognized as cash flows from investing activities. Income tax paid is recognized as cash flows from operating activities.

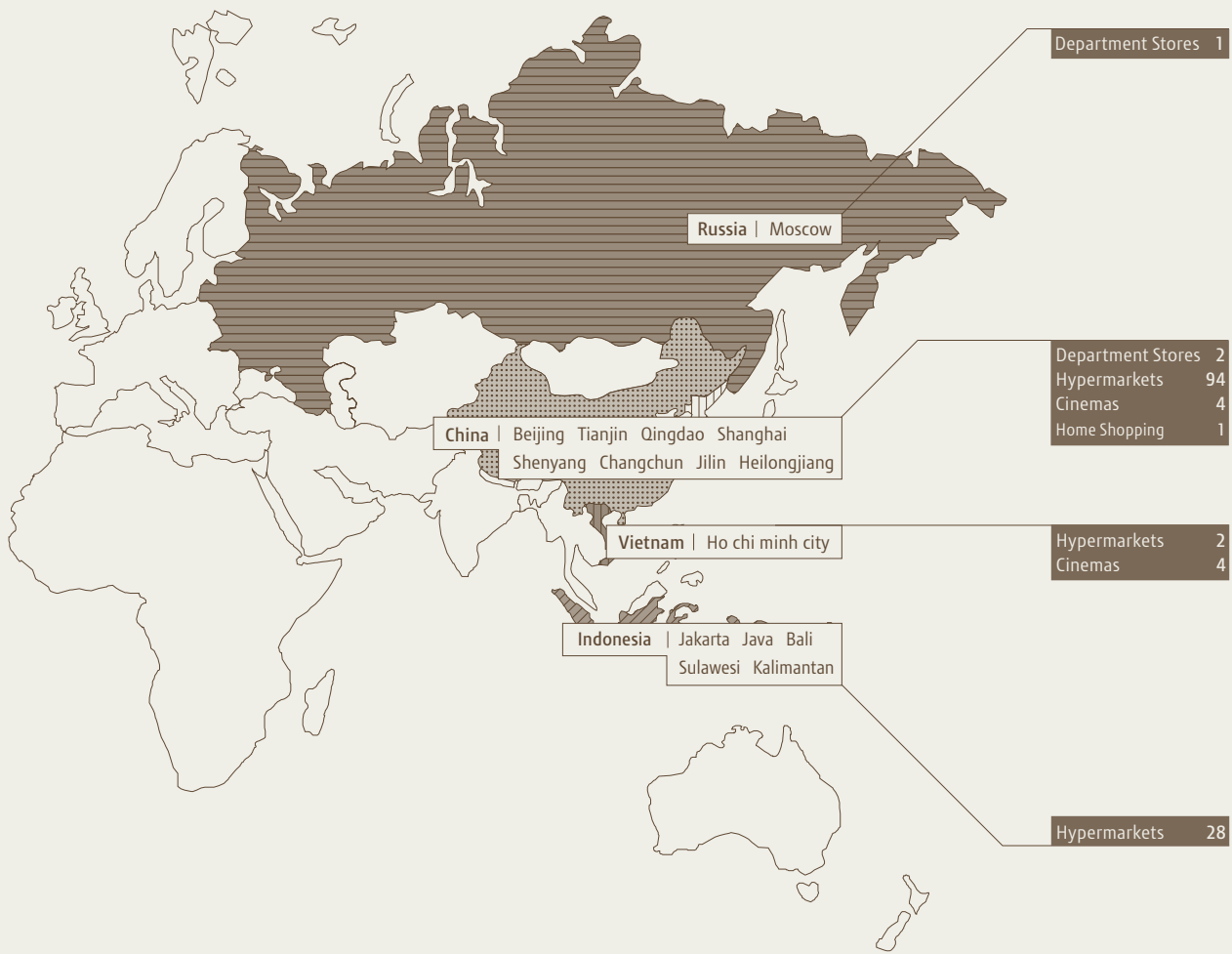
Bank overdraft, which must be repaid upon request from financial institutions and which constitutes a part of cash management, has been reclassified from cash flows from financing activities to cash and cash equivalence under K-IFRS.

Except for the explanation above, there are not other significant differences on cash flow statement between K-IFRS and K-GAAP.



**Overseas Store Network**  
as of December 31, 2011

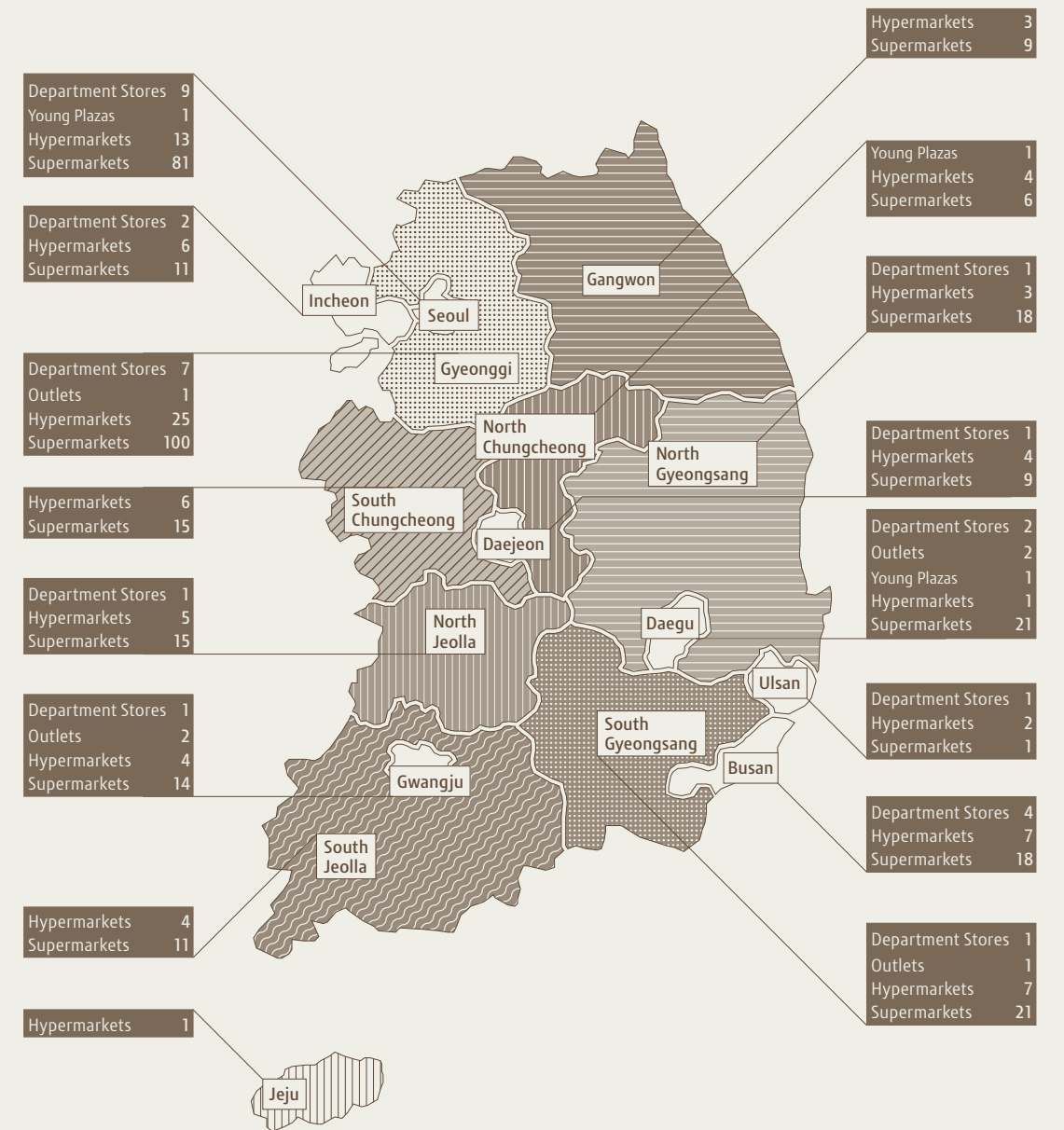
|                   |     |
|-------------------|-----|
| Department Stores | 3   |
| Hypermarkets      | 124 |
| Cinemas           | 8   |
| Home Shopping     | 1   |



**Domestic Store Network**  
as of December 31, 2011

|                    |     |
|--------------------|-----|
| Department Stores* | 30  |
| Young Plazas       | 3   |
| Outlets            | 6   |
| Hypermarkets       | 95  |
| Supermarkets       | 350 |

\* Includes six stores managed under contract



## LEADING KOREAN RETAIL INTO A GLOBAL FUTURE

At Lotte Shopping, we've been winning the hearts of Korean shoppers with top brands and unrivaled service since 1979. Over the past three decades, we've expanded from department stores into virtually every segment of retail with hypermarkets, supermarkets, convenience stores, home shopping networks, and outlet malls. In addition to operating 30 department stores\*, 95 hypermarkets, and 350 supermarkets in Korea, we are an increasingly global retailer. We now operate a department store in Russia, 2 department stores and 94 hypermarkets in China, 28 hypermarkets in Indonesia, and 2 hypermarkets in Vietnam. Today, we have our sights set on becoming one of the leading global retailers. \* Includes six stores managed under contract

### November 1979

Lotte Shopping Co., Ltd. is founded

### December 1979

Opened first Lotte Department Store

### June 1996

Launched Lotteshopping.com

### April 1998

Opened first Lotte Mart

### January 2000

Spun off LotteShopping.com to create Lotte.com

### May 2001

Opened first Lotte Super

### October 2002

Acquired Nowon department store from Midopa

### November 2003

Opened first Lotte Young Plaza

### December 2003

Spun off credit card business to subsidiary Lotte Card

### March 2004

Acquired 25 supermarkets from Hanwha Super

### March 2005

Opened Avenuel

### February 2006

Listed on London and Korean stock exchanges

### August 2006

Acquired majority stake in Woori Home Shopping

### September 2007

Opened first overseas department store in Moscow

### December 2007

Entered Chinese hypermarket sector with acquisition of Makro

### August 2008

Opened second overseas department store in Beijing

### October 2008

Entered Indonesian hypermarket sector with acquisition of Makro

Opened first Lotte Outlets in Gwangju

### December 2008

Opened first Lotte Premium Outlets in Gimhae

Opened first hypermarket in Vietnam

### September 2009

Opened second Lotte Outlets in Gwangju

Acquired 7-Eleven convenience store chain (Korea Seven)

### October 2009

Acquired Times hypermarket chain in China (68 stores)

### January 2010

Acquired Buy The Way convenience store chain

### February 2010

Acquired GS Square department stores and GS Mart hypermarkets

### August 2010

Acquired equity stake in Chinese home shopping network Lucky Pai

Opened first Lotte Outlets in Daegu

Opened first greenfield hypermarket in Indonesia (Store 20)

### November 2010

Acquired Nice Claup Fashion

### February 2011

Opened Second Lotte School in Vietnam

### April 2011

Opened Lotte Mall Daegu Esiapolis

### May 2011

Ranked sixth in department stores category by *Forbes*

### June 2011

Opened third overseas department store in Tianjin

### August 2011

Opened 200th Lotte Mart Store (Store 83, China)

### September 2011

Included in DJSI World for third consecutive year

Opened second Lotte Multiplex Cinema in China

### December 2011

Opened Lotte Premium Outlet Paju

Opened Lotte Mall Gimpo Airport

Opened 28th Lotte mart store in Indonesia

### January 2012

Acquired CS Mart

## BECOMING ONE OF ASIA'S TOP-10 GLOBAL CORPORATIONS

The Lotte Group was established when Chairman Shin Kyuk-ho founded Lotte Confectionery in 1967. Over the last 44 years it has grown into one of Korea's five largest conglomerates, expanding its business scope to fields including food, retail, tourism, chemicals, construction, machinery, finance, information and technology, and services. The Lotte Group has also been active around the world by exploring overseas markets, especially in Asia, and is working hard in every field to realize its goal of becoming one of Asia's top-10 global corporations by 2018.

### Retail

Lotte.com  
Lotte Midopa  
Lotte Shopping  
Lotte Station Building  
FRL Korea  
Woori Home Shopping  
Korea Seven  
Buy The Way  
Lotte Square

### Food

Lotte Confectionery  
Lotte Chilsung Beverage  
Lotte Samkang  
Lotte Ham  
Lotteria  
Lotte Fresh Delica  
Lotte Boulangerie  
Lotte Asahi Liquor  
Wellga  
Kirin

### Tourism & Services

Lotte Giants  
Lotte Corporation  
Lotte JTB  
Busan Lotte Hotel  
Hotel Lotte  
Lotte City Hotel  
Lotte Jeju Resort  
Lotte Buyeo Resort  
Lotte Logistics  
Lotte international  
Daehong Communications  
Lotte Data Communication Company  
Hyundai Information Technology

### Chemicals & Construction

KP Chemical  
KP Chemtech  
Korea Fuji Film  
Honam Petrochemical  
Honam Mitsui Chemicals  
Daesan MMA  
Lotte Aluminium  
Canon Korea Business Solutions

### Finance

Lotte Card  
Lotte Capital  
Lotte Insurance  
KI Bank  
Mybi  
Hanarocard  
eB Card

We make  
customers feel  
happy while  
adding to  
their pleasure and  
convenience in the  
new era of retail  
we are pursuing.  
Please join us as  
we continue to  
open up the  
future of retail.



Lotte Shopping 2011

[ir.lotteshopping.com](http://ir.lotteshopping.com)

Visit Lotte Shopping's  
investment information website  
often to find out the  
latest news and information.



