

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2015 and 2014

(With Independent Auditors' Report Thereon)

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Independent Auditors' Report

Based on a report originally issued in Korean

The Board of Directors and Shareholders
Lotte Shopping Co., Ltd.:

We have audited the accompanying consolidated financial statements of Lotte Shopping Co., Ltd. and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at December 31, 2015 and 2014, the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Korean Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2015 and 2014 and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with Korean International Financial Reporting Standards.

Other matter

The Procedures and practices utilized in the Republic of Korea to audit such consolidated financial statements may differ from those generally accepted and applied in other countries.

KPMG Samjong Accounting Corp.
Seoul, Korea
March 9, 2016

<p>This report is effective as of March 9, 2016, 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.</p>
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LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Financial Position

As of December 31, 2015 and 2014

		Korean won (millions)	
	Notes	December 31, 2015	December 31, 2014
Assets			
Cash and cash equivalents	8,36,43	₩ 1,751,268	1,928,136
Trade and other receivables	6,8,42,43	918,851	912,952
Other financial assets	7,8,23,43	9,672,512	8,598,854
Inventories	5,9	3,265,997	3,161,054
Income tax refund receivable		2,828	1,037
Other non-financial assets	10	385,396	373,610
Non-current assets held for sale	11	447	-
Total current assets		15,997,299	14,975,643
Investments in associates and joint ventures	12,13	1,274,851	1,163,477
Other financial assets	7,8,23,43	2,089,193	1,919,623
Property, plant and equipment, net	5,14,42	15,759,107	15,900,974
Investment property, net	15	520,982	537,191
Goodwill	5,16	2,715,569	3,277,238
Other intangible assets, net	5,16	862,820	878,845
Other non-financial assets	10	1,413,805	1,365,900
Deferred tax assets	35	59,740	53,435
Total non-current assets		24,696,067	25,096,683
Total assets	₩	40,693,366	40,072,326

See accompanying notes to the consolidated financial statements.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Financial Position, Continued

As of December 31, 2015 and 2014

		Korean won (millions)	
	Notes	December 31, 2015	December 31, 2014
Liabilities			
Borrowings and debentures, net of issuance costs	8,18,40,42,43	₩ 4,267,139	4,569,650
Trade and other payables	8,17,42,43	5,465,907	5,623,106
Other financial liabilities	8,23,43	533,789	612,689
Income tax payables		134,348	228,573
Unearned revenues	19	217,574	235,713
Provisions	20	60,359	54,913
Other non-financial liabilities	21	1,239,537	1,209,270
Total current liabilities		11,918,653	12,533,914
Borrowings and debentures, net of issuance costs	8,18,40,42,43	9,816,438	8,156,914
Other financial liabilities	8,23,43	279,552	257,516
Employee benefit liabilities	22	81,291	82,141
Deferred tax liabilities	35	1,365,668	1,371,924
Unearned revenues	19	8,086	11,150
Provisions	20	32,458	26,803
Other non-financial liabilities	21	103,378	88,087
Total non-current liabilities		11,686,871	9,994,535
Total liabilities		23,605,524	22,528,449
Equity			
Common stock of ₩5,000 par value			
Authorized - 60,000,000 shares			
Issued and outstanding –			
31,490,892 shares	1,24	157,454	157,454
Capital surplus	24	3,910,752	3,910,752
Hybrid securities	25	269,118	269,118
Capital adjustments	26	(79,039)	(78,452)
Retained earnings	27	11,893,663	12,360,095
Accumulated other comprehensive income	28	95,502	106,836
Stockholders' equity attributable to owners of the Company		16,247,450	16,725,803
Non-controlling interests		840,392	818,074
Total equity		17,087,842	17,543,877
Total liabilities and equity	₩	40,693,366	40,072,326

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, 2015 and 2014

	Notes	Korean won (millions, except for earnings per share)	
		2015	2014
Sales	30,37,39,40,42 ₩	29,127,655	28,099,567
Cost of sales	9,30,33,42	(20,217,144)	(19,336,671)
Gross profit		8,910,511	8,762,896
Selling, general and administrative expenses	31,33,42	(8,056,798)	(7,574,517)
Operating profit		853,713	1,188,379
Other income	32,42	81,556	285,115
Other expenses	32,42	(853,305)	(345,189)
Finance income	34	270,969	240,932
Finance costs	34	(439,614)	(343,413)
Equity method income on investments in associates	12,13	6,917	52,172
Profit (loss) before income tax		(79,764)	1,077,996
Income tax expense	35	(265,737)	(462,272)
Profit (loss) for the year		(345,501)	615,724
Other comprehensive income (loss) :			
Items that will never be reclassified to profit or loss:			
Remeasurements of net defined benefit liabilities	22	(17,457)	(2,769)
Net change in equity of equity method investments		(1,122)	(3,039)
Income tax on items that will never be reclassified to profit or loss		5,390	1,042
Total items that will never be reclassified to profit or loss		(13,189)	(4,766)
Items that are or may be reclassified to profit or loss:			
Net change in unrealized fair value of available-for-sale financial assets		(99,836)	131,463
Exchange rate differences on translating foreign operations		38,141	23,615
Effective portion of unrealized changes in fair values of cash flow hedges	23	(2,880)	(20,343)
Net change in equity of equity method investments		12,131	(27,020)
Income tax on items that are or may be reclassified to profit or loss		23,568	(24,390)
Total items that are or may be reclassified to profit or loss		(28,876)	83,325
Other comprehensive income (loss) for the year, net of tax		(42,065)	78,559
Total comprehensive income (loss) for the year		(387,566)	694,283
Profit (loss) attributable to:			
- Owners of the Company		(383,067)	526,650
- Non-controlling interests		37,566	89,074
		(345,501)	615,724
Total comprehensive income (loss) attributable to:			
- Owners of the Company		(405,940)	565,557
- Non-controlling interests		18,374	128,726
		(387,566)	694,283
Earnings per share			
- Basic earnings per share (in won)	29	(13,393)	17,391
- Diluted earnings per share (in won)	₩	(13,611)	16,037

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, 2015 and 2014

	Korean won (millions)								
	Capital stock	Capital surplus	Hybrid securities	Capital adjustments	Retained earnings	Accumulated other comprehensive income	Stockholders' equity attributable to owners of the Company	Non-controlling interests	Total equity
Balance at January 1, 2014	₩ 157,454	3,910,752	269,118	(72,155)	11,895,378	63,130	16,223,677	701,565	16,925,242
Total comprehensive income (loss) for the year:									
Profit (loss) for the year	-	-	-	-	526,650	-	526,650	89,074	615,724
Other comprehensive income (loss):									
Net change in unrealized fair value of available-for-sale financial assets	-	-	-	-	-	51,069	51,069	40,063	91,132
Exchange differences on translating foreign operations	-	-	-	-	-	23,331	23,331	46	23,377
Effective portion of unrealized changes in fair values of cash flow hedges	-	-	-	-	-	(11,250)	(11,250)	(576)	(11,826)
Remeasurements of net defined benefit liabilities	-	-	-	-	(2,383)	-	(2,383)	118	(2,265)
Change in equity of equity method investments	-	-	-	-	(2,501)	(19,359)	(21,860)	1	(21,859)
Subtotal	-	-	-	-	(4,884)	43,791	38,907	39,652	78,559
Total comprehensive income (loss) for the year	-	-	-	-	521,766	43,791	565,557	128,726	694,283
Transactions with owners of the Company, recognized directly in equity:									
Dividends to owners of the Company	-	-	-	-	(44,328)	-	(44,328)	(14,666)	(58,994)
Interests of hybrid securities	-	-	-	-	(12,721)	-	(12,721)	-	(12,721)
Changes in ownership interests in subsidiaries	-	-	-	(6,304)	-	(85)	(6,389)	2,448	(3,941)
Other	-	-	-	7	-	-	7	1	8
Subtotal	-	-	-	(6,297)	(57,049)	(85)	(63,431)	(12,217)	(75,648)
Balance at December 31, 2014	₩ 157,454	3,910,752	269,118	(78,452)	12,360,095	106,836	16,725,803	818,074	17,543,877

See accompanying notes to the consolidated financial statements.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Changes in Equity, Continued

For the years ended December 31, 2015 and 2014

	Korean won (millions)								
	Capital stock	Capital surplus	Hybrid securities	Capital adjustments	Retained earnings	Accumulated other comprehensive income	Stockholders' equity attributable to owners of the Company	Non-controlling interests	Total equity
Balance at January 1, 2015	₩ 157,454	3,910,752	269,118	(78,452)	12,360,095	106,836	16,725,803	818,074	17,543,877
Total comprehensive income (loss) for the year:									
Profit (loss) for the year	-	-	-	-	(383,067)	-	(383,067)	37,566	(345,501)
Other comprehensive income (loss):									
Net change in unrealized fair value of available-for-sale financial assets	-	-	-	-	-	(54,980)	(54,980)	(17,353)	(72,333)
Exchange differences on translating foreign operations	-	-	-	-	-	38,403	38,403	(317)	38,086
Effective portion of unrealized changes in fair values of cash flow hedges	-	-	-	-	-	(1,314)	(1,314)	129	(1,185)
Remeasurements of net defined benefit liabilities	-	-	-	-	(10,808)	-	(10,808)	(1,649)	(12,457)
Change in equity of equity method investments	-	-	-	-	(731)	6,557	5,826	(2)	5,824
Subtotal	-	-	-	-	(11,539)	(11,334)	(22,873)	(19,192)	(42,065)
Total comprehensive income (loss) for the year	-	-	-	-	(394,606)	(11,334)	(405,940)	18,374	(387,566)
Transactions with owners of the Company, recognized directly in equity:									
Dividends to owners of the Company	-	-	-	-	(59,105)	-	(59,105)	(14,810)	(73,915)
Interests of hybrid securities	-	-	-	-	(12,721)	-	(12,721)	-	(12,721)
Changes in ownership interests in subsidiaries	-	-	-	(340)	-	-	(340)	3,674	3,334
Changes in subsidiaries	-	-	-	-	-	-	-	15,100	15,100
Other	-	-	-	(247)	-	-	(247)	(20)	(267)
Subtotal	-	-	-	(587)	(71,826)	-	(72,413)	3,944	(68,469)
Balance at December 31, 2015	₩ 157,454	3,910,752	269,118	(79,039)	11,893,663	95,502	16,247,450	840,392	17,087,842

See accompanying notes to the consolidated financial statements.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2015 and 2014

		Korean won (millions)	
		2015	2014
Cash flows from operating activities			
Profit (loss) for the year	₩	(345,501)	615,724
Income tax expense		265,737	462,272
Post-employment benefits		114,614	107,810
Long-term employee benefits		6,213	7,701
Depreciation		840,136	764,654
Amortization		146,054	134,719
Impairment loss on intangible assets		618,638	158,353
Loss on disposal of intangible assets		805	16,590
Loss on foreign currency translation		128,627	59,674
Loss on foreign currency transactions		22,176	9,130
Loss on disposal of property, plant and equipment		41,306	58,214
Impairment loss on property, plant and equipment		17,670	8,139
Bad debt expenses		42,962	6,314
Impairment loss on other non-current assets		13,543	-
Loss on valuation of financial liabilities at fair value through profit or loss		8,116	488
Loss on transactions of derivative instruments		239	9,708
Loss on valuation of derivative instruments		12,279	8,793
Equity method loss on investments in subsidiaries, associates and joint ventures		84,090	107,751
Impairment loss on investments in subsidiaries, associates and joint ventures		-	825
Rental expenses (Amortization of discount on deposit, etc.)		85,212	85,297
Other expenses		7,739	5,984
Gain on foreign currency translation		(21,847)	(44,190)
Gain on disposal of property, plant and equipment		(2,295)	(221,719)
Gain on disposal of investment property		(699)	-
Gain on valuation of financial liability at fair value through profit or loss		-	(10,228)
Gain on valuation of derivative instruments		(98,196)	(31,671)
Equity method gain of investments in subsidiaries, associates and joint ventures		(91,007)	(159,923)
Gain on disposal of available-for-sale financial assets		(28,270)	(16,847)
Gain on disposal of investments in subsidiaries, associates and joint ventures		(12,595)	(4,412)
Gain on redemption of debentures		-	(17,397)
Other income		(12,386)	(26,386)
Cost of card business		497,662	457,628
Income of card business		(794,062)	(769,089)
Interest expense		254,350	248,700
Interest income		(92,885)	(94,159)
Dividend income		(8,364)	(4,476)
Trade receivables		22,496	54,706
Other receivables		(107,972)	(22,606)
Other financial assets		(687,511)	(373,558)
Inventories		(86,365)	(156,000)
Other non-financial assets		(72,037)	49,476
Trade payables		(49,089)	228,001
Other payables		(153,320)	6,796
Other financial liabilities		(38,716)	47,589
Unearned revenues		(19,837)	(482)
Provisions		(9,602)	(12,648)
Other non-financial liabilities		91,248	(19,608)
Payment of post-employment benefits		(54,698)	(60,461)
Plan assets		(89,176)	(58,180)

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Cash Flows, Continued

For the years ended December 31, 2015 and 2014

	Korean won (millions)	
	2015	2014
Cash flows from operating activities, continued		
Income tax paid	(346,210)	(536,253)
Interest received	697,143	693,964
Interest paid	(155,429)	(144,992)
Dividends received	83	140
Net cash provided by operating activities	₩ 641,069	1,629,855

See accompanying notes to the consolidated financial statements.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Cash Flows, Continued

For the years ended December 31, 2015 and 2014

		Korean won (millions)	
		2015	2014
Cash flows from investing activities			
Proceeds from sale of financial assets	₩	1,323,830	1,119,662
Collection of loans		13,976	14,748
Proceeds from sale of available-for-sale financial assets		123,111	89,767
Proceeds from disposal of property, plant and equipment		140,929	1,297,265
Proceeds from disposal of intangible assets		735	2,580
Proceeds from disposal of investment property		3,400	1,150
Proceeds from disposal of non-current assets held for sale		-	21,463
Proceeds from capital distribution from associates		7,648	750
Decrease of other non-financial assets		6	262
Purchase of financial assets		(1,773,228)	(1,122,392)
Increase of loans		(5,137)	(5,566)
Purchase of available-for-sale financial assets		(144,966)	(65,916)
Purchase of investments in associates and joint ventures		(139,247)	(53,799)
Acquisition of property, plant and equipment		(1,094,939)	(1,863,149)
Acquisition of intangible assets		(100,165)	(81,662)
Acquisition of investment property		(8,040)	-
Acquisition of other investments		(2,833)	(6,061)
Business combination, net of cash acquired		1,431	(27,463)
Cash outflows from disposal of subsidiaries, net of proceeds received		(37)	(1,498)
Interest received		46,173	48,325
Dividends received		48,999	31,485
Net cash used in investing activities	₩	(1,558,354)	(600,049)

See accompanying notes to the consolidated financial statements.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Cash Flows, Continued

For the years ended December 31, 2015 and 2014

		Korean won (millions)	
		2015	2014
Cash flows from financing activities			
Proceeds from borrowings	₩	2,494,790	6,072,009
Proceeds from issuance of debentures		3,008,247	4,027,377
Capital contribution from non-controlling interests		3,297	-
Proceeds related to sale and lease back transactions		7,570	25,053
Repayment of borrowings		(2,177,278)	(5,358,194)
Redemption of debentures		(2,251,083)	(4,875,148)
Acquisition of additional ownership in subsidiaries		(343)	(3,823)
Cash outflows from settlement of derivative instruments		(18,675)	-
Payment of hybrid securities interests		(12,721)	(12,721)
Payment of finance lease liabilities		(13,865)	(1,512)
Cash outflows from other financing activities		(112)	(504)
Interest paid		(234,905)	(229,766)
Dividends paid		(73,914)	(58,994)
Net cash provided by (used in) financing activities	₩	731,008	(416,223)
Net increase(decrease) in cash and cash equivalents		(186,277)	613,583
Cash and cash equivalents at beginning of the year		1,928,136	1,309,484
Impact of foreign currency exchange rates			
on cash and cash equivalents		2,290	284
Exchange differences			
on translating foreign operations		7,119	4,785
Cash and cash equivalents at end of the year	₩	1,751,268	1,928,136

See accompanying notes to the consolidated financial statements.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

1. General Description of Reporting Entity

(a) Organization and Description of the Company

Lotte Shopping Co., Ltd. (the "Company") was established on July 2, 1970 in the Republic of Korea to engage in retail operations through department stores, outlet stores, discount stores, supermarkets and H&B stores. In addition to the retail operations, the Company's business includes a chain of multiplex movie theaters under the brand name of Lotte Cinema and so on. The Company's stock was listed on the Korea Exchange and the London Stock Exchange through an initial public offering in February 2006.

The stockholders of the Company as of December 31, 2015 are as follows:

Stockholder	Number of shares	Ownership (%)
Shin, Dong Bin	4,237,627	13.46
Shin, Dong Ju	4,235,883	13.45
Shin, Kyuk Ho	293,877	0.93
Shin, Young Ja	232,818	0.74
Hotel Lotte Co., Ltd.	2,781,947	8.83
Korea Fuji Film Co., Ltd.	2,474,543	7.86
Lotte Confectionery Co., Ltd.	2,474,543	7.86
LOTTE DATA COMMUNICATION COMPANY	1,515,653	4.81
Lotte Chilsung Beverage Co., Ltd.	1,237,272	3.93
Lotte Engineering & Construction Co., Ltd.	300,019	0.95
Hotel Lotte Pusan Co., Ltd.	246,720	0.78
Treasury share	1,938,688	6.16
Others	9,521,302	30.24
Total	31,490,892	100.00

(b) Description of Subsidiaries

The consolidated financial statements of the Company comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities") and the Group's interest in associates and joint ventures. A summary of the subsidiaries of the Company as of December 31, 2015 and 2014 is as follows:

December 31, 2015				
Subsidiaries	Location	Products or services	Fiscal year	Percentage of ownership (%)
Lotte Card Co., Ltd.	Korea	Credit card, financing	Dec. 31	93.78
eB Card Co., Ltd.	Korea	Electronic banking business	Dec. 31	95.00
Gyeonggi Smartcard Co., Ltd.	Korea	Electronic banking business	Dec. 31	100.00
Inchon Smartcard Co., Ltd.	Korea	Electronic banking business	Dec. 31	100.00
The 6th Supreme (*1)	Korea	SPC	Dec. 31	0.90
The 7th Supreme (*1)	Korea	SPC	Dec. 31	0.90
The 8th Supreme (*1)	Korea	SPC	Dec. 31	0.90
The 9th Supreme (*1)	Korea	SPC	Dec. 31	0.90
PT. Lotte Members Indonesia	Indonesia	Business support service	Dec. 31	100.00
LOTTE Members China	China	Business support service	Dec. 31	100.00
Lotte Members Vietnam Co., Ltd.	Vietnam	Business support service	Dec. 31	100.00
Woori Home Shopping & Television Co., Ltd.	Korea	TV Home Shopping	Dec. 31	53.03

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

1. General Description of Reporting Entity, Continued

(b) Description of Subsidiaries, continued

Subsidiaries	Location	Products or services	December 31, 2015	
			Fiscal year	Percentage of ownership (%)
Lotte DatViet Homeshopping Co., Ltd.	Vietnam	TV Home Shopping	Dec. 31	85.58
Korea Seven Co., Ltd.	Korea	Distribution	Dec. 31	51.14
Buy the way Inc.	Korea	Distribution	Dec. 31	100.00
NCF Co., Ltd.	Korea	Apparel manufacturing	Dec. 31	99.80
Lotte Gimhae Development Co., Ltd.	Korea	Service company	Dec. 31	100.00
Lotte Suwon Station Shopping Town Co., Ltd.	Korea	Real estate development	Dec. 31	95.00
Lotte Songdo Shopping Town Co., Ltd.	Korea	Real estate development	Dec. 31	56.30
CS Mart Co., Ltd.	Korea	Distribution	Dec. 31	99.95
LOTTE Himart Co., Ltd. (*2)	Korea	Consumer electronics	Dec. 31	65.25
Lotte Department Store Masan Co., Ltd.	Korea	Distribution	Dec. 31	100.00
Lotte Members Co., Ltd	Korea	Business support service	Dec. 31	93.78
LOTTE.COM INC	Korea	E-commerce business	Dec. 31	50.01
LOTTE PS NET	Korea	Financial support service	Dec. 31	63.64
LOTTE MART COMPANY LIMITED	China	Distribution	Dec. 31	100.00
Lotte (China) Management Co., Ltd.	China	Business management	Dec. 31	70.00
Lotte Shopping Holdings (Hong Kong) Co., Limited	Hong Kong	Holding company	Dec. 31	100.00
Qingdao LOTTE Mart Commercial Co., Ltd.	China	Distribution	Dec. 31	100.00
Liaoning LOTTE Mart Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Mart China Co., Ltd. and its subsidiaries	China	Distribution, Real estate development	Dec. 31	100.00
Swift Harvest Ltd. and its subsidiaries (*3)	Hong Kong	Distribution, Real estate development	Dec. 31	100.00
Hong Fung Ltd. and its subsidiaries (*3)	Hong Kong	Real estate development	Dec. 31	100.00
Nantong Meili Properties Limited (*3)	China	Real estate development	Dec. 31	100.00
Zhuji Decheng Properties Limited (*3)	China	Real estate development	Dec. 31	100.00
Nantong Yaodong Properties Limited (*3)	China	Real estate development	Dec. 31	100.00
Nantong Fuhua Properties Limited and its subsidiary (*3)	China	Real estate development	Dec. 31	100.00
Nantong Jinyou Properties Limited and its subsidiary (*3)	China	Real estate development	Dec. 31	100.00
Nantong Branda Properties Limited and its subsidiary (*3)	China	Real estate development	Dec. 31	100.00
Nantong Fortune Trade Properties Limited(*3)	China	Real estate development	Dec. 31	100.00

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

1. General Description of the Reporting Entity, Continued

(b) Description of Subsidiaries, continued

Subsidiaries	December 31, 2015			
	Location	Products or services	Fiscal year	Percentage of ownership (%)
Nantong Fine Spring Properties Limited (*3)	China	Real estate development	Dec. 31	100.00
Nantong Fine Port Properties Limited and its subsidiary (*3)	China	Real estate development	Dec. 31	100.00
Huai An Full Faith Properties Limited (*3)	China	Real estate development	Dec. 31	100.00
Jilin LOTTE Mart Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Mart (Chongqing) Commercial Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Business Management (Tianjin) Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Department Store (Shenyang) Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte International Department Store (Weihai) Co., Ltd.	China	Distribution	Dec. 31	100.00
LOTTE DEPARTMENT STORE (TIANJIN) CO., LTD.	China	Distribution	Dec. 31	100.00
Lotte Department Store (Chengdu) Co., Ltd.	China	Distribution	Dec. 31	100.00
LOTTE MART (CHENGDU) COMMERCIAL COMPANY LIMITED	China	Distribution	Dec. 31	100.00
Lotte Shopping Business Management (Hong Kong) Limited	Hong Kong	SPC	Dec. 31	100.00
LHSC Limited	Cayman islands	Holding company	Dec. 31	91.14
Lucky Pai Ltd. and its subsidiaries	China	TV Home Shopping	Dec. 31	100.00
LOTTE PROPERTIES (CHENGDU) HK LIMITED	Hong Kong	Holding company	Dec. 31	73.46
Lotte Properties (Chengdu) Limited	China	Real estate lease	Dec. 31	100.00
LOTTE VIETNAM SHOPPING CO., LTD.	Vietnam	Distribution	Dec. 31	100.00
LOTTE SHOPPING HOLDINGS (SINGAPORE) PTE. LTD.	Singapore	Holding company	Dec. 31	100.00
PT. LOTTE SHOPPING INDONESIA	Indonesia	Distribution	Dec. 31	80.00
PT. LOTTE MART INDONESIA	Indonesia	Distribution	Dec. 31	100.00
PT. LOTTE Shopping Avenue Indonesia	Indonesia	Distribution	Dec. 31	100.00
Lotte Shopping India Private Limited	India	Distribution	Dec. 31	100.00
LOTTEMART C&C INDIA PRIVATE LIMITED	India	Distribution	Dec. 31	100.00
Lotte Shopping Plaza Vietnam Co., Ltd.	Vietnam	Distribution	Dec. 31	100.00
LOTTE HOTEL & RETAIL VIETNAM PTE. LTD.	Singapore	Holding company	Dec. 31	60.00
Kotobuki Holding (HK) Ltd.	Hong Kong	Holding company	Dec. 31	100.00
Hai Thanh - Kotobuki Joint Venture Company	Vietnam	Hotel	Dec. 31	70.00
LOTTE CINEMA VIETNAM CO., LTD.	Vietnam	Cinema	Dec. 31	90.00

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

1. General Description of the Reporting Entity, Continued

(b) Description of Subsidiaries, continued

- (*1) Although the Group holds less than 50% of these investees, the Group determined that the Group controlled these investees, since it was exposed, or had rights, to variable returns from its involvement with these investees and had the ability to affect those returns through its power over these investees.
- (*2) During 2013, the Company issued exchangeable bonds which are exchangeable to common stocks of LOTTE Himart Co., Ltd. Due to the exercise of the put option, the Company redeemed ₩ 307,400 million of the issued bonds on January 25, 2016. Therefore, the total number of the exchangeable common stocks for the issued bond is changed from 3,538,224 shares to 152,016 shares. If all exchangeable bonds are exchanged to the common stocks of LOTTE Himart Co., Ltd., the Company's percentage of ownership on LOTTE Himart Co., Ltd. will be decreased from 65.25% to 64.60%. In addition, the Company entered into securities lending agreements to lend shares of LOTTE Himart Co., Ltd. owned by the Company up to 50% of the total exchangeable common stocks. As of December 31, 2015, the total number of the common stocks of Lotte Himart Co., Ltd. under securities lending agreements is 1,180,384 shares. On January 25, 2016, the Company collected all of them.
- (*3) These subsidiaries were presented as Lotte Mart China Co., Ltd. and its subsidiaries until 2014. As Lotte Mart China Co., Ltd. sold the shares of these subsidiaries to Lotte Shopping Holdings (Hong Kong) Co., Limited in 2015, the Group presents these subsidiaries separately.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

1. General Description of the Reporting Entity, Continued

(b) Description of Subsidiaries, continued

Subsidiaries	December 31, 2014			
	Location	Products or services	Fiscal year	Percentage of ownership (%)
Lotte Card Co., Ltd.	Korea	Credit card, financing	Dec. 31	93.78
eB Card Co., Ltd.	Korea	Electronic banking business	Dec. 31	95.00
Gyeonggi Smartcard Co., Ltd.	Korea	Electronic banking business	Dec. 31	100.00
Inchon Smartcard Co., Ltd.	Korea	Electronic banking business	Dec. 31	100.00
Chungnam Smartcard Co., Ltd.	Korea	Electronic banking business	Dec. 31	100.00
The 4th Supreme (*1)	Korea	SPC	Dec. 31	0.90
The 5th Supreme (*1)	Korea	SPC	Dec. 31	0.90
The 6th Supreme (*1)	Korea	SPC	Dec. 31	0.90
The 7th Supreme (*1)	Korea	SPC	Dec. 31	0.90
PT. Lotte Members Indonesia	Indonesia	Business support service	Dec. 31	100.00
Lotte Members China	China	Business support service	Dec. 31	100.00
Woori Home Shopping & Television Co., Ltd.	Korea	TV Home Shopping	Dec. 31	53.03
Lotte DatViet Homeshopping Co., Ltd.	Vietnam	TV Home Shopping	Dec. 31	85.58
Korea Seven Co., Ltd.	Korea	Distribution	Dec. 31	51.14
Buy the way Inc.	Korea	Distribution	Dec. 31	100.00
NCF Co., Ltd.	Korea	Apparel manufacturing	Dec. 31	98.30
Lotte Gimhae Development Co., Ltd.	Korea	Service company	Dec. 31	100.00
Lotte Suwon Station Shopping Town Co., Ltd.	Korea	Real estate development	Dec. 31	95.00
Lotte Songdo Shopping Town Co., Ltd.	Korea	Real estate development	Dec. 31	56.30
CS Mart Co., Ltd.	Korea	Distribution	Dec. 31	99.95
LOTTE Himart Co., Ltd. (*2)	Korea	Consumer electronics	Dec. 31	65.25
Lotte Incheon Town Co., Ltd.	Korea	Real estate lease	Dec. 31	100.00
Lotte Department Store Masan Co., Ltd.	Korea	Distribution	Dec. 31	100.00
LOTTE MART COMPANY LIMITED	China	Distribution	Dec. 31	100.00
Lotte (China) Management Co., Ltd.	China	Business management	Dec. 31	70.00
Lotte Shopping Holdings (Hong Kong) Co., Limited	Hong Kong	Holding company	Dec. 31	100.00
Qingdao LOTTE Mart Commercial Co., Ltd.	China	Distribution	Dec. 31	100.00
Liaoning LOTTE Mart Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Mart China Co., Ltd. and its subsidiaries	China	Distribution, real estate development	Dec. 31	100.00
Jilin LOTTE Mart Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Mart (Chongqing) Commercial Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Business Management (Tianjin) Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Department Store (Shenyang) Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte International Department Store (Weihai) Co., Ltd.	China	Distribution	Dec. 31	100.00

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

1. General Description of the Reporting Entity, Continued

(b) Description of Subsidiaries, continued

Subsidiaries	December 31, 2014			
	Location	Products or services	Fiscal year	Percentage of ownership (%)
LOTTE DEPARTMENT STORE (TIANJIN) CO., LTD.	China	Distribution	Dec. 31	100.00
Lotte Department Store (Chengdu) Co., Ltd.	China	Distribution	Dec. 31	100.00
LOTTE MART (CHENGDU) COMMERCIAL COMPANY LIMITED	China	Distribution	Dec. 31	100.00
Lotte Shopping Business Management (Hong Kong) Limited	Hong Kong	SPC	Dec. 31	100.00
LHSC Limited	Cayman island	Holding company	Dec. 31	91.14
Lucky Pai Ltd. and its subsidiaries	China	TV Home Shopping	Dec. 31	100.00
LOTTE PROPERTIES (CHENGDU) HK LIMITED	Hong Kong	Holding company	Dec. 31	73.46
Lotte Properties (Chengdu) Limited	China	Real estate lease	Dec. 31	100.00
LOTTE VIETNAM SHOPPING CO., LTD.	Vietnam	Distribution	Dec. 31	100.00
Lottemart Danang Co., Ltd.	Vietnam	Distribution	Dec. 31	100.00
LOTTE SHOPPING HOLDINGS (SINGAPORE) PTE. LTD.	Singapore	Holding company	Dec. 31	100.00
PT. LOTTE SHOPPING INDONESIA	Indonesia	Distribution	Dec. 31	80.00
PT. LOTTE MART INDONESIA	Indonesia	Distribution	Dec. 31	100.00
PT. LOTTE Shopping Avenue Indonesia	Indonesia	Distribution	Dec. 31	100.00
Lotte Shopping India Private Limited	India	Distribution	Dec. 31	100.00
LOTTEMART C&C INDIA PRIVATE LIMITED	India	Distribution	Dec. 31	100.00
Lotte Shopping Plaza Vietnam Co., Ltd.	Vietnam	Distribution	Dec. 31	100.00
Lotte Shopping Reit Management Singapore PTE. LTD.	Singapore	Real estate lease	Dec. 31	100.00
LOTTE HOTEL & RETAIL VIETNAM PTE. LTD.	Singapore	Holding company	Dec. 31	60.00
Kotobuki Holding (HK) Ltd.	Hong Kong	Holding company	Dec. 31	100.00
Hai Thanh - Kotobuki Joint Venture Company	Vietnam	Hotel	Dec. 31	70.00
LOTTE CINEMA VIETNAM CO., LTD.	Vietnam	Cinema	Dec. 31	90.00

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

(*2 During 2013, the Company issued exchangeable bonds which are exchangeable to common stocks of LOTTE Himart Co., Ltd. The total number of the exchangeable common stocks for the issued bonds is 3,538,224 shares. If all exchangeable bonds are exchanged to the common stocks of LOTTE Himart Co., Ltd., the Company's percentage of ownership on LOTTE Himart Co., Ltd. will be decreased from 65.25% to 50.26%. In addition, the Company entered into securities lending agreements to lend shares of LOTTE Himart Co., Ltd. owned by the Company up to 50% of the total exchangeable common stocks. As of December 31, 2014, the total number of the common stocks of LOTTE Himart Co., Ltd. under securities lending agreements is 1,180,384 shares. The Company does not have voting right and disposal of the lent shares is restricted.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

1. General Description of the Reporting Entity, Continued

(c) Financial information of significant subsidiaries as of and for the years ended December 31, 2015 and 2014 are summarized as follows:

Subsidiaries	Korean won (millions)					
	December 31, 2015					
	Assets	Liabilities	Equity	Sales	Net income (loss)	Total comprehensive Income (loss)
Lotte Card Co., Ltd.	₩ 9,198,112	7,140,566	2,057,546	1,625,815	134,273	140,751
eB Card Co., Ltd.	186,395	140,477	45,918	69,718	(1,478)	(1,448)
Woori Home Shopping & Television Co., Ltd.	846,466	253,310	593,156	854,483	15,756	(22,597)
Korea Seven Co., Ltd.	1,005,362	725,263	280,099	3,079,967	10,616	10,195
Buy the way Inc.	144,380	37,447	106,933	234,847	(54,769)	(54,557)
Lotte Suwon Station Shopping Town Co., Ltd.	355,624	271,231	84,393	46,138	(12,943)	(12,939)
Lotte Songdo Shopping Town Co., Ltd.	240,931	147,692	93,239	5,378	(1,911)	(1,910)
CS Mart Co., Ltd.	156,077	55,021	101,056	431,707	10,119	10,360
LOTTE Himart Co., Ltd.	2,905,213	1,122,386	1,782,827	3,896,137	106,595	105,484
Lotte Members Co., Ltd	179,446	150,085	29,361	56,916	153	119
LOTTE.COM INC	194,553	164,944	29,609	211,241	3,878	(1,187)
LOTTE MART COMPANY LIMITED	149,837	174,249	(24,412)	334,162	(26,008)	(26,048)
Qingdao LOTTE Mart Commercial Co., Ltd.	20,399	145,979	(125,580)	24,617	(72,610)	(74,729)
Lotte Shopping Holdings (Hong Kong) Co., Limited	1,195,329	733,439	461,890	-	(430,468)	(392,957)
Swift Harvest Ltd. and its subsidiaries	705,045	899,997	(194,952)	838,622	(99,837)	(100,109)
LOTTE PROPERTIES (CHENGDU) HK LIMITED	436,070	222,876	213,194	-	(6,998)	5,460
Lotte Properties (Chengdu) Limited	532,211	131,290	400,921	-	(3,816)	3,617
LHSC Limited	30,455	-	30,455	-	(164,324)	(157,743)
LOTTE VIETNAM SHOPPING CO., LTD.	435,575	397,402	38,173	216,131	(26,417)	(25,730)
LOTTE SHOPPING HOLDINGS (SINGAPORE) PTE. LTD.	318,693	16	318,677	-	(37,416)	(16,528)
PT. LOTTE SHOPPING INDONESIA	269,260	150,430	118,830	768,484	11,039	7,216
PT. LOTTE MART INDONESIA	175,309	173,286	2,023	245,874	(15,703)	(16,272)

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

1. General Description of the Reporting Entity, Continued

(c) Financial information of significant subsidiaries as of and for the years ended December 31, 2015 and 2014 are summarized as follows:, continued

Subsidiaries	Korean won (millions)					
	December 31, 2014					
	Assets	Liabilities	Equity	Sales	Net income (loss)	Total comprehensive Income (loss)
Lotte Card Co., Ltd.	₩ 8,438,539	6,522,855	1,915,684	1,608,601	148,742	136,908
eB Card Co., Ltd.	158,478	111,111	47,367	80,014	(8,138)	(8,186)
Woori Home Shopping & Television Co., Ltd.	994,930	355,333	639,597	869,241	84,034	170,551
Korea Seven Co., Ltd.	938,615	665,089	273,526	2,375,559	23,097	23,541
Buy the way Inc.	219,016	57,525	161,491	309,945	3,258	3,507
Lotte Suwon Station Shopping Town Co., Ltd.	368,805	271,473	97,332	5,910	(2,194)	(2,195)
Lotte Songdo Shopping Town Co., Ltd.	253,521	158,372	95,149	3,194	(2,968)	(2,968)
CS Mart Co., Ltd.	159,859	69,164	90,695	430,897	9,796	9,837
LOTTE Himart Co., Ltd.	2,774,637	1,089,502	1,685,135	3,754,295	96,438	95,997
LOTTE MART COMPANY LIMITED	163,345	161,709	1,636	347,958	(22,715)	(22,127)
Qingdao LOTTE Mart Commercial Co., Ltd.	80,221	175,107	(94,886)	51,590	(40,741)	(43,159)
Lotte Shopping Holdings (Hong Kong) Co., Limited	1,179,121	440,607	738,514	-	(343,921)	(309,944)
Lotte Mart China Co., Ltd. and its subsidiaries	712,231	692,038	20,193	852,721	(139,611)	(141,776)
LOTTE PROPERTIES (CHENGDU) HK LIMITED	422,148	209,035	213,113	-	(7,263)	(6,123)
Lotte Properties (Chengdu) Limited	403,154	5,850	397,304	-	(682)	(1,778)
LHSC Limited	188,203	5	188,198	-	(4)	(4,138)
LOTTE VIETNAM SHOPPING CO., LTD.	382,772	315,467	67,305	143,261	(7,491)	(5,849)
LOTTE SHOPPING HOLDINGS (SINGAPORE) PTE. LTD.	333,054	22	333,032	-	1,469	10,645
PT. LOTTE SHOPPING INDONESIA	269,896	157,940	111,956	771,908	10,294	12,593
PT. LOTTE MART INDONESIA	183,884	165,590	18,294	241,273	(9,542)	(8,821)

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

1. General Description of the Reporting Entity, Continued

(d) Entities included in subsidiaries in 2015 are as follows:

Description	Subsidiaries
Split off from Lotte Card Co., Ltd.	Lotte Members Co., Ltd
Reclassification from associate due to acquisition of additional interests	LOTTE.COM INC LOTTE PS NET
Established in 2015	The 8th Supreme The 9th Supreme Lotte Members Vietnam Co., Ltd.

(e) Entities excluded from subsidiaries in 2015 are as follows:

Description	Subsidiaries
Reclassification to associate due to decline in ownership	Lotte Incheon Town Co., Ltd.
Statutory merger into a Group entity in 2015	Lottemart Danang Co., Ltd.
Liquidation in 2015	Chungnam Smartcard Co., Ltd. The 4th Supreme The 5th Supreme Lotte Shopping Reit Management Singapore PTE. LTD. Shanghai Sentaiqi Industry Co., Ltd. Shanghai Maosheng Co., Ltd. Meili International Limited Branda International Group Limited Fortune Trade Enterprise Limited

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

1. General Description of the Reporting Entity, Continued

(f) Non-controlling interests

Financial information related to significant non-controlling interests for subsidiaries as of and for the years ended December 31, 2015 and 2014 are as follows:

Description	Korean won (millions)			
	December 31, 2015			
	Woori Home Shopping & Television Co., Ltd.	Lotte Card Co., Ltd.	Korea Seven Co., Ltd.	LOTTE Himart Co., Ltd.
Ownership interests held by NCI	46.97%	6.22%	48.86%	34.75%
Current assets	₩ 566,430	8,893,970	324,879	640,377
Non-current assets	320,939	508,588	683,638	782,971
Current liabilities	235,407	2,601,830	578,113	638,445
Non-current liabilities	19,210	4,763,411	147,150	532,696
Net assets	632,752	2,037,317	283,254	252,207
Net assets attributable to non-controlling interests	297,320	127,678	136,776	87,650
Dividends paid to non-controlling interests during the year	10,332	-	1,770	2,707
Revenue	864,626	1,789,948	3,079,967	3,896,137
Profit	56,696	119,811	10,442	102,518
Total comprehensive income	18,389	123,231	10,021	101,406
Profit attributable to non-controlling interests	26,408	7,348	5,102	35,628
Total comprehensive income attributable to non-controlling interests	8,420	7,560	4,897	35,242
Cash flows from operating activities	(38,781)	(530,980)	147,610	120,304
Cash flows from investing activities	37,752	(47,305)	(119,197)	(84,763)
Cash flows from financing activities	(22,000)	728,580	(79,358)	(10,612)
Effect of currency exchange rate	50	474	-	-
Net increase (decrease) in cash and cash equivalents	(22,979)	150,769	(50,945)	24,929

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

1. General Description of the Reporting Entity, Continued

(f) Non-controlling interests, continued

Financial information related to significant non-controlling interests for subsidiaries as of and for the years ended December 31, 2015 and 2014 are as follows:, continued

Description	Korean won (millions)			
	December 31, 2014			
	Woori Home Shopping & Television Co., Ltd.	Lotte Card Co., Ltd.	Korea Seven Co., Ltd.	LOTTE Himart Co., Ltd.
Ownership interests held by NCI	46.97%	6.22%	48.86%	34.75%
Current assets	₩ 705,019	8,084,122	297,111	548,189
Non-current assets	288,161	490,891	641,504	749,963
Current liabilities	325,631	2,510,607	398,031	642,428
Non-current liabilities	31,186	4,120,805	267,058	497,133
Net assets	636,363	1,943,601	273,526	158,591
Net assets attributable to non-controlling interests	299,232	121,955	133,650	55,115
Dividends paid to non-controlling interests during the year	8,454	-	1,770	2,051
Revenue	874,831	1,760,811	2,375,559	3,754,295
Profit	83,066	147,390	20,161	92,361
Total comprehensive income	169,684	128,959	17,668	91,919
Profit attributable to non-controlling interests	38,797	9,259	11,286	32,098
Total comprehensive income attributable to non-controlling interests	79,485	8,097	11,502	31,945
Cash flows from operating activities	118,311	(10,165)	151,697	195,258
Cash flows from investing activities	(72,950)	(34,608)	(37,186)	(52,677)
Cash flows from financing activities	(18,000)	18,934	(9,614)	(99,723)
Effect of currency exchange rate	(60)	396	-	-
Net increase (decrease) in cash and cash equivalents	27,301	(25,443)	104,897	42,858

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

1. General Description of the Reporting Entity, Continued

(g) Changes in a parent's ownership interest in subsidiaries that did not result in change in control

- 1) Details of the parent's additional investments in subsidiaries for the years ended December 31, 2015 and 2014 are summarized as follows:

Subsidiaries	2015					
	Korean won (millions)	Percentage of ownership (%)			Korean won (millions)	
		Before additional acquisition	After additional acquisition		Parent's portion in net assets Before additional acquisition	After additional acquisition
Lotte Shopping Plaza Vietnam Co., Ltd.	₩ 2,173	100.00%	100.00%	₩	24,306	26,479
Lotte Department Store Masan Co., Ltd.	12,000	100.00%	100.00%		3,908	15,908
Lotte Shopping Holdings (Hong Kong) Co., Limited	979	100.00%	100.00%		749,327	750,306
LOTTE PS NET	6,704	62.78%	63.64%		(3,456)	3,037
Swift Harvest Ltd. and its subsidiaries	52,069	100.00%	100.00%		(17,340)	34,729
Lotte Business Management (Tianjin) Co., Ltd.	19,250	100.00%	100.00%		(66,990)	(47,740)
Qingdao LOTTE Mart Commercial Co., Ltd.	44,034	100.00%	100.00%		(169,614)	(125,580)
LOTTE CINEMA VIETNAM CO., LTD.	4,232	90.00%	90.00%		2,950	7,182
NCF Co., Ltd.	343	98.30%	99.80%		16,804	17,060
Total	₩ 141,784			₩	539,895	681,381

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

1. General Description of the Reporting Entity, Continued

(g) Changes in a parent's ownership interest in subsidiaries that did not result in change in control, continued

2) Details of the parent's additional investments in subsidiaries for the years ended December 31, 2015 and 2014 are summarized as follows:, continued

Subsidiaries	2014					
	Korean won (millions)	Percentage of ownership (%)			Korean won (millions)	
		Before additional acquisition	After additional acquisition		Parent's portion in net assets Before additional acquisition	After additional acquisition
Lotte Department Store (Shenyang) Co., Ltd.	₩ 21,274	100.00%	100.00%	₩	16,850	38,124
	20,575	100.00%	100.00%		34,268	54,843
	11,016	100.00%	100.00%		38,073	49,089
Lotte Shopping Reit Management Singapore PTE. LTD.	1,660	100.00%	100.00%		(13)	1,647
Lotte Shopping Plaza Vietnam Co., Ltd.	4,164	100.00%	100.00%		4,735	8,899
	6,948	100.00%	100.00%		7,994	14,942
	7,195	100.00%	100.00%		14,942	22,137
	2,810	100.00%	100.00%		21,919	24,729
Lotte Properties (Chengdu) Limited	49,404	100.00%	100.00%		316,173	365,577
LOTTE MART COMPANY LIMITED	16,593	100.00%	100.00%		(18,096)	(1,503)
LHSC Limited	15,028	100.00%	100.00%		(7,740)	7,288
LOTTE MART (CHENGDU) COMMERCIAL COMPANY LIMITED	2,483	91.01%	91.14%		125,570	128,008
LOTTE SHOPPING HOLDINGS (SINGAPORE) PTE. LTD.	6,251	100.00%	100.00%		5,117	11,368
Lotte Department Store Masan Co., Ltd.	62,886	100.00%	100.00%		(489)	62,397
LOTTE CINEMA VIETNAM CO., LTD.	300	100.00%	100.00%		3,993	4,293
Lotte Boulangerie Co., Ltd.	7,967	90.00%	90.00%		(2,569)	5,398
Lucky Pai Ltd. and its subsidiaries	1,380	90.54%	100.00%		(796)	(879)
Lotte Card Co., Ltd.	2,443	94.65%	100.00%		(9,163)	(9,681)
	29,204	93.70%	93.78%		1,792,763	1,821,647
Total	₩ 269,581			₩	2,343,531	2,608,323

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

2. Basis of Accounting

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with Korean International Financial Reporting Standards ("K-IFRS"), as prescribed in *the Act on External Audits of Stock Corporation in the Republic of Korea*.

The consolidated financial statements were authorized for issue by the Board of Directors on February 25, 2016, which will be submitted for approval to the shareholders' meeting to be held on March 18, 2016.

(b) Basis of measurement

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

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with K-IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period prospectively.

(i) Information about assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

- Note 16 – Goodwill and Intangible assets
- Note 20 – Provisions
- Note 22 – Employee benefits
- Note 35 – Income taxes
- Note 40 – Contingent liabilities and financial commitments
- Note 43 – Risk management

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

2. Basis of Accounting, Continued

(d) Use of estimates and judgments, continued

(ii) Measurement of fair value

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

The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of K-IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

Significant valuation issues are reported to the Group's Audit Committee.

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

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

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

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

Note 8 - Fair value of financial instruments

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

3. Changes in Accounting Policies

Except for the changes below, the Group has consistently applied the accounting policies set out in Note 4 to all periods presented in these consolidated financial statements.

The Group has adopted the following amendments to standards and new interpretation with a date of initial application of January 1, 2015.

- ✓ Employee contributions (Amendments to K-IFRS 1019 'Employee benefits')

The nature of the changes are explained below.

(i) Employee contributions

Amendments to K-IFRS 1019 introduced a practical expedient to accounting for defined benefit plan, when employees or third parties pay contributions if certain criteria are met.

According to the amendments, the Group is permitted to recognize those contributions as a reduction of the service cost in the period in which the related service is rendered, instead of forecast future contributions from employees or third parties and attribute them to periods or service as negative benefits.

The impact of the amendments on the Group's consolidated financial statements is not significant.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

4. Significant Accounting Policies

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

(a) Operating segment

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Group's chief operating decision maker include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

The Group has six reportable segments which consist of department stores, discount stores, credit card service, consumer electronics retail, convenience stores and others, as described in note 39.

(b) Basis of consolidation

(i) Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognized in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

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

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

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

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

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

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

4. Significant Accounting Policies, Continued

(b) Basis of consolidation, continued

(iii) Subsidiaries

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

(iv) Loss of control

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

(v) Interests in equity-accounted Investees

The Group's interests in equity-accounted investees comprise interests in associates and a joint venture.

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

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

(vi) Transactions eliminated on consolidation

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

(vii) Acquisitions from entities under common control

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

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

4. Significant Accounting Policies, Continued

(c) Cash and cash equivalents

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

(d) Inventories

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

The cost of inventories is based on the total-weighted average method, moving average method and retail method except for goods-in-transit. The cost of goods-in-transit and unfinished apartment units is determined by the specific identification method.

When inventories are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value, is recognized as a reduction in the amount of inventories and recognized as an expense in the period in which the reversal occurs.

(e) Non-derivative financial assets

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

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

(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.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

4. Significant Accounting Policies, Continued

(e) Non-derivative financial assets, continued

(iii) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method except for loans and receivables of which the effect of discounting is immaterial.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, held-to-maturity investments or loans and receivables. Subsequent to initial recognition, they are measured at fair value, which changes in fair value, net of any tax effect, recorded in other comprehensive income in equity. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost.

(v) De-recognition of financial assets

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

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

(vi) Offsetting between financial assets and financial liabilities

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

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

4. Significant Accounting Policies, Continued

(f) Derivative financial instruments, including hedge accounting

Derivatives are initially recognized at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

(i) Hedge accounting

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

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

Fair value hedge

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

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

Cash flow hedge

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

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

(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.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

4. Significant Accounting Policies, Continued

(g) Impairment of financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. However, losses expected as a result of future events, regardless of likelihood, are not recognized.

If there is objective evidence that financial instruments are impaired, impairment losses are measured and recognized. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

(i) Financial assets measured at amortized cost

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

(ii) Financial assets carried at cost

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.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

4. Significant Accounting Policies, Continued

(h) Property, plant and equipment

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

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

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

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

A component that is significant compared to the total cost of property, plant and equipment is depreciated over its separate useful life.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized in profit or loss.

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

	Useful lives (years)
Buildings	5 ~ 50
Structures	2 ~ 40
Machinery	3 ~ 30
Vehicles	5 ~ 10
Furniture and fixtures	2 ~ 7
Tools and equipment	2 ~ 15
Display fixtures	2 ~ 20
Other property, plant and equipment ("Other PP&E")	3 ~ 40

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

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

4. Significant Accounting Policies, Continued

(i) Intangible assets

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

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

	Useful lives (years)
Industrial property rights	5 ~ 10
Rights to use facility	5 ~ 20
Film copyrights	Actual revenue as a percentage of total estimated revenue
Other intangible assets	2 ~ 10

Useful lives and the amortization methods for intangible assets with finite useful lives are reviewed at the end of each reporting period. The useful lives of intangible assets that are not being amortized are reviewed at the end of each reporting period to determine whether events and circumstances continue to support indefinite useful life assessments for those assets. Changes are accounted for as changes in accounting estimates.

(j) Investment property

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

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

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

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

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

4. Significant Accounting Policies, Continued

(k) Non-current assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. In order to be classified as held for sale, the asset (or disposal group) must be available for immediate sale in its present condition and its sale must be highly probable. The assets or disposal group that are classified as non-current assets held for sale are measured at the lower of their carrying amount and fair value less cost to sell.

The Group recognizes an impairment loss for any initial or subsequent write-down of an asset (or disposal group) to fair value less costs to sell, and a gain for any subsequent increase in fair value less costs to sell, up to the cumulative impairment loss previously recognized in accordance with K-IFRS No. 1036, 'Impairment of Assets'.

A non-current asset that is classified as held for sale or part of a disposal group classified as held for sale is not depreciated (or amortized).

(l) Impairment of non-financial assets

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

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

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

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

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

4. Significant Accounting Policies, Continued

(m) Leases

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

(i) Finance leases

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

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant 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.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

4. Significant Accounting Policies, Continued

(n) Borrowing costs

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

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

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

(o) Non-derivative financial liabilities

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

(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).

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

4. Significant Accounting Policies, Continued

(p) Employee benefits

(i) Short-term employee benefits

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

(ii) Other long-term employee benefits

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

(iii) Retirement benefits: defined contribution plans

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

(iv) Retirement benefits: defined benefit plans

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

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

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

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

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

4. Significant Accounting Policies, Continued

(q) Provisions

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

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

Where some or all of the expenditures required to settle a provision are expected to be reimbursed by another party, the reimbursement is recognized when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement is presented as a separate asset.

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

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

4. Significant Accounting Policies, Continued

(r) Foreign currencies

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign 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.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

4. Significant Accounting Policies, Continued

(s) Equity capital

(i) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

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

(ii) Hybrid securities

Debt and equity instruments issued by the Group are classified as either financial liabilities or as equity in accordance with the substance of the arrangement and the definitions of financial liability and an equity instrument. When the Group has an unconditional right to avoid delivering cash or another financial asset to settle a contractual obligation, the Group's hybrid securities are classified as equity instruments.

(t) Revenue

Revenue from sale of goods, rendering of services or use of the Group assets is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates.

(i) Sales of goods

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

The Group recognizes sales on a gross basis for merchandise of which the Group bears the overall inventory risk in connection with purchase contracts with vendors where the merchandise may only be returned for a full refund prior to the end of the relevant season (for seasonal merchandise) or within 90 days from delivery (for non-seasonal merchandise). The Group recognizes sales on a net basis for merchandise that may be returned to vendors at any time.

(ii) Customer loyalty programmes

For customer loyalty programmes, 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.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

4. Significant Accounting Policies, Continued

(t) Revenue, continued

(iii) Commissions

When the Group acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognized is the net amount of commission made by the Group.

(iv) Rental income

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

(v) Income of card business

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

(u) Finance income and finance costs

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

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

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

4. Significant Accounting Policies, Continued

(v) Income taxes

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

(i) Current tax

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

(ii) Deferred tax

The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

The Group recognizes a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, associates, and interests in joint ventures, except to the extent that the Group is 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.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

4. Significant Accounting Policies, Continued

(w) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise convertible notes.

(x) Emission Rights

The Group accounts for greenhouse gases emission right and the relevant liability as below pursuant to the Act on Allocation and Trading of Greenhouse Gas Emission which became effective in 2015.

(i) Greenhouse Gases Emission Right

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

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

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

(ii) Emission liability

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

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

4. Significant Accounting Policies, Continued

(y) New standards and interpretations not yet adopted

The following new standards, interpretations and amendments to existing standards have been published and are mandatory for the Group for annual periods beginning after January 1, 2015, and the Group has not early adopted them.

Management is in the process of evaluating the impact of the amendments on the Group's consolidated financial statements.

K-IFRS 1109 'Financial Instruments'

K-IFRS 1109, published in December 2015, replaces the existing guidance in K-IFRS 1039, Financial Instruments: Recognition and Measurement. K-IFRS 1109 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from K-IFRS 1039. K-IFRS 1109 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

K-IFRS 1115 'Revenue from Contracts with Customers'

K-IFRS 1115, published in January 2016, establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including K-IFRS 1018, Revenue, K-IFRS 1011, Construction Contracts and K-IFRS 2113, Customer Loyalty Programmes. K-IFRS 1115 is effective for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

5. Business Combination

Significant business combinations of the Group in 2015 are as follows:

(i) Acquisition of LOTTE.COM INC

On February 26, 2015, the Group acquired 15.62% of capital stock of LOTTE.COM INC, in which the Group held 34.39% of its capital stock prior to the acquisition. As a result of the acquisition of additional interests, the Group obtained control over LOTTE.COM INC by holding 50.01% of its capital stock.

(ii) Acquisition of LOTTE PS NET

The Group and LOTTE.COM INC held 31.91% and 30.87% of LOTTE PS NET, respectively, prior to the Group's obtaining control over LOTTE.COM INC in February 2015. As a result of obtaining control over LOTTE.COM INC, the Group obtained control over LOTTE PS NET by holding 62.78% of its capital stock.

(iii) Acquisition of Lotte Department Store Masan Co., Ltd.

The Group entered into an agreement to acquire department stores (MASAN store and BUSAN CENTRAL store) from DAEWOO INTERNATIONAL CORPORATION on September 2, 2014 and the Group consummated the acquisition on June 30, 2015.

The following summarizes major classes of consideration transferred.

Description	Korean won (millions)		
	LOTTE.COM INC	LOTTE PS NET	Lotte Department Store Masan Co., Ltd.
Fair value of the Group's existing equity interest (*)	₩ 14,104	2,480	-
Cash and cash equivalents	11,563	-	7,630
Total consideration transferred	25,667	2,480	7,630
Cash and cash equivalents held by subsidiary acquired	12,872	26	3,725
Net cash inflow (outflow)	₩ 1,309	26	(3,905)

(*) The Group recognized a gain on disposal of existing equity interests of ₩6,880 million upon consummation of the business combination. The gain is included in financial income in the Group's statement of comprehensive income for the year ended December 31, 2015.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

5. Business Combination, Continued

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

Accounts		Korean won (millions)		
		LOTTE.COM INC	LOTTE PS NET	Lotte Department Store Masan Co., Ltd.
Current:				
Cash and cash equivalents	₩	12,872	26	3,725
Trade and other receivables		86,402	1,526	2,560
Inventories		1,560	-	453
Other assets		34,521	728	16,673
Non-current:				
Property, plant and equipment, net		9,099	49,870	1,222
Intangible assets, net		17,073	36	-
Other assets		6,256	9	763
Total assets		167,783	52,195	25,396
Current:				
Trade and other payables		128,632	4,370	12,741
Borrowings and debentures, net of debentures issuance cost		-	27,000	-
Other liabilities		5,408	11,790	9,752
Non-current:				
Employee benefit liabilities		944	-	464
Other liabilities		163	12,300	975
Total liabilities		135,147	55,460	23,932
Total identifiable net assets	₩	32,636	(3,265)	1,464

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

Accounts		Korean won (millions)		
		LOTTE.COM INC	LOTTE PS NET	Lotte Department Store Masan Co., Ltd.
Total consideration transferred	₩	25,667	2,480	7,630
Non-controlling interests		16,315	(1,215)	-
Subtotal		41,982	1,265	7,630
Less: Fair value of identifiable net assets		(32,636)	3,265	(1,464)
Goodwill	₩	9,346	4,530	6,166

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

6. Trade and Other Receivables

Trade and other receivables as of December 31, 2015 and 2014 are summarized as follows:

		Korean won (millions)	
		December 31, 2015	December 31, 2014
Trade receivables	₩	621,014	675,461
Other receivables		349,065	253,622
Allowance for doubtful accounts		(51,228)	(16,131)
Total	₩	918,851	912,952

7. Restricted Deposits

Restricted deposits included in short-term and long-term financial instruments as of December 31, 2015 and 2014 are summarized as follows:

		Korean won (millions)	
Description	Depository	December 31, 2015	December 31, 2014
Current:			
Time deposits	Kookmin Bank and others	₩ 78,441	73,610
Special deposits	Industrial Bank of Korea and others	154,000	129,500
Money Market Fund	Citibank and others	21,744	64,498
Non-current:			
Special deposits	Busan Bank and others	2,505	86
Available-for-sale financial assets	Busan City Hall and others	21,408	34,916
Total		₩ 278,098	302,610

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

8. Fair Value of Financial Instruments

(a) The carrying amount and the fair value of financial instruments as of December 31, 2015 and 2014 are summarized as follows:

		Korean won (millions)			
		December 31, 2015		December 31, 2014	
		Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	Cash and cash equivalents	₩ 1,751,268	1,751,268	1,928,136	1,928,136
Financial assets at fair value through profit or loss	Short-term financial instruments	60,003	60,003	30,002	30,002
	Derivative assets held for the purpose of trading	-	-	1,201	1,201
	Subtotal	60,003	60,003	31,203	31,203
Loans and receivables (*1)	Current :				
	Trade and other receivables	918,851	918,851	912,952	912,952
	Short-term financial instruments	1,221,935	1,221,935	712,503	712,503
	Short-term loans	12,136	12,136	11,015	11,015
	Accrued income	37,664	37,664	38,957	38,957
	Current portion of deposits	107,947	107,947	218,337	218,337
	Card financial assets	8,178,959	8,178,959	7,587,287	7,587,287
	Non-current :				
	Long-term financial instruments	2,507	2,507	86	86
	Long-term loans	54,909	54,909	65,251	65,251
	Deposits	1,361,193	1,361,193	1,203,728	1,203,728
	Accrued income	8	8	-	-
	Long-term trade receivable	-	-	5,369	5,369
	Subtotal	11,896,109	11,896,109	10,755,485	10,755,485
Available-for-sale financial assets	Marketable available-for-sale financial assets (*2)	282,887	282,887	390,009	390,009
	Non-marketable available-for-sale financial assets (*3)	279,170	279,170	233,669	233,669
	Subtotal	562,057	562,057	623,678	623,678
Derivative assets held for the purpose of hedging	Current	53,868	53,868	751	751
	Non-current	108,519	108,519	20,312	20,312
	Subtotal	162,387	162,387	21,063	21,063
	Total	₩ 14,431,824	14,431,824	13,359,565	13,359,565

(*1) Book value is considered as a reasonable approximation value of fair value.

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

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

8. Fair Value of Financial Instruments, Continued

(a) The carrying amount and the fair value of financial instruments as of December 31, 2015 and 2014 are summarized as follows:, continued

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

(b) Other financial assets as of December 31, 2015 and 2014 are summarized as follows:

		Korean won (millions)	
		December 31, 2015	December 31, 2014
Current:			
Short-term financial instruments	₩	1,281,938	742,505
Short-term loans		12,136	11,015
Available-for-sale financial assets		-	2
Accrued income		37,664	38,957
Deposits		107,947	218,337
Card business financial assets		8,178,959	7,587,287
Derivative assets held for the purpose of hedging		53,868	751
Subtotal		9,672,512	8,598,854
Non-current:			
Long-term financial instruments		2,507	86
Available-for-sale financial assets		562,057	623,676
Long-term loans		54,909	65,251
Deposits		1,361,193	1,203,728
Accrued income		8	-
Long-term trade receivables		-	5,369
Derivative assets held for the purpose of trading		-	1,201
Derivative assets held for the purpose of hedging		108,519	20,312
Subtotal		2,089,193	1,919,623
Total	₩	11,761,705	10,518,477

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

8. Fair Value of Financial Instruments, Continued

(c) Available-for-sale financial assets as of December 31, 2015 and 2014 are summarized as follows:

	Korean won (millions)				
	December 31, 2015				December 31, 2014
	Number of shares	Percentage of ownership	Acquisition cost	Carrying amount	Carrying amount
Marketable available-for-sale financial assets:					
BNK Financial Group Inc. (Formerly, BS Financial Group Inc.)	6,561,494	2.56%	₩ 42,042	55,248	95,142
Shinhan Financial Group Co., Ltd.	311,118	0.07%	2,247	12,305	13,829
LOTTE FOOD CO.,LTD.	47,180	3.45%	10,167	44,774	27,364
momo.com Inc.	21,333,420	15.02%	37,684	161,737	248,289
Others			5,638	8,823	5,385
Subtotal			₩ 97,778	282,887	390,009
Non-marketable available-for-sale financial assets:					
Lotte Aluminum Co., Ltd.	-	-	₩ -	-	71,374
LOTTE Logistics Corp.	66,308	4.64%	4,000	13,865	10,278
LOTTE rental co., Ltd.	1,329,166	13.53%	137,912	142,420	-
SPARX Asset Management Korea Co., Ltd. (Formerly, Cosmo Asset Management Co., Ltd.)	149,807	17.70%	50,118	34,457	35,179
Lotte Properties (Shenyang) Limited	29,928,756	17.93%	41,919	41,919	41,919
Investment in government bonds			369	386	32,805
Others			47,142	46,123	42,114
Subtotal			281,460	279,170	233,669
Total			₩ 379,238	562,057	623,678

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

8. Fair Value of Financial Instruments, Continued

- (d) The carrying amount and the fair value of financial liabilities as of December 31, 2015 and 2014 are summarized as follows:

		Korean won (millions)			
		December 31, 2015		December 31, 2014	
		Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities at fair value through profit or loss	Overseas convertible bonds	₩ 113,440	113,440	105,325	105,325
	Non-current derivative liabilities held for the purpose of trading	24,608	24,608	12,329	12,329
	Subtotal	138,048	138,048	117,654	117,654
Financial liabilities based on amortized cost (*)	Current :				
	Trade and other payables	5,465,907	5,465,907	5,623,106	5,623,106
	Short-term borrowings	1,789,819	1,789,819	1,487,331	1,487,331
	Current portion of long-term borrowings	467,641	467,641	837,208	837,208
	Current portion of long-term debentures	1,896,239	1,896,239	2,245,111	2,245,111
	Accrued expenses	276,716	276,716	310,835	310,835
	Current portion of withholding deposit	244,524	244,524	280,484	280,484
	Other liabilities	11,947	11,947	1,698	1,698
	Non-current :				
	Long-term borrowings	1,856,538	1,856,538	1,369,618	1,369,618
	Long-term debentures	7,959,900	7,959,900	6,681,971	6,681,971
	Withholding deposit	201,134	201,134	153,119	153,119
	Other liabilities	38,465	38,465	30,567	30,567
	Subtotal	20,208,830	20,208,830	19,021,048	19,021,048
Derivative liabilities held for the purpose of hedging	Current	602	602	19,672	19,672
	Non-current	15,345	15,345	61,501	61,501
	Subtotal	15,947	15,947	81,173	81,173
Total		₩ 20,362,825	20,362,825	19,219,875	19,219,875

(*) Book value is considered as a reasonable approximation value of fair value.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

8. Fair Value of Financial Instruments, Continued

(e) Other financial liabilities as of December 31, 2015 and 2014 are summarized as follows:

		Korean won (millions)	
		December 31, 2015	December 31, 2014
Current:			
Accrued expenses	₩	276,716	310,835
Deposit received		244,524	280,484
Derivative liabilities held for the purpose of hedging		602	19,672
Finance lease liabilities assets		11,282	1,042
Others		665	656
Subtotal		533,789	612,689
Non-current:			
Deposit received		201,134	153,119
Derivative liabilities held for the purpose of hedging		15,345	61,501
Derivative liabilities held for the purpose of trading		24,608	12,329
Finance lease liabilities		32,870	25,484
Other financial liabilities		5,595	5,083
Subtotal		279,552	257,516
Total	₩	813,341	870,205

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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8. Fair Value of Financial Instruments, Continued

(f) The fair value hierarchy

The fair value measurements classified by fair value hierarchy as of December 31, 2015 are as follows:

Description		Korean won (millions)			Total
		Level I	Level II	Level III	
Available-for-sale financial assets	₩	282,887	386	198,034	481,307
Derivative assets		-	162,387	-	162,387
Total financial assets		282,887	162,773	198,034	643,694
Oversees convertible bonds		-	113,440	-	113,440
Derivative liabilities		-	15,947	24,608	40,555
Total financial liabilities	₩	-	129,387	24,608	153,995

The fair value measurements classified by fair value hierarchy as of December 31, 2014 are as follows:

Description		Korean won (millions)			Total
		Level I	Level II	Level III	
Available-for-sale financial assets	₩	390,009	32,805	124,546	547,360
Derivative assets		-	22,264	-	22,264
Total financial assets		390,009	55,069	124,546	569,624
Oversees convertible bonds		-	105,325	-	105,325
Derivative liabilities		-	81,173	12,329	93,502
Total financial liabilities	₩	-	186,498	12,329	198,827

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

In measuring Level 3 fair values, the Group used discounted cash flows model, etc. and the Group used the significant unobservable inputs of forecast annual revenue growth rate and risk-adjusted discount rate, etc.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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8. Fair Value of Financial Instruments, Continued

(g) Level 3 fair values

Changes in Level 3 fair values for the years ended December 31, 2015 and 2014 are as follows:

Description		Korean won (millions)	
		December 31, 2015	December 31, 2014
Beginning of the year	₩	112,217	263,442
Transfer out of Level 3		-	(78,206)
Gain (loss) included in finance costs			
- Gain (loss) on valuation of derivative instruments		167	(2,396)
Gain (loss) included in OCI			
- Net change in unrealized fair value of available-for-sale financial assets		7,262	(4,372)
Purchases		137,912	37,825
Disposal		(84,132)	(54,275)
Reclassification to investments in associates		-	(49,801)
End of the year	₩	173,426	112,217

(h) Sensitivity analysis

For the fair values of available-for-sale financial assets and stock options, reasonably possible changes as of December 31, 2015 to one of the significant unobservable inputs, holding other inputs constant, would have the following effects on fair values.

(i) Equity securities

Description		Korean won (millions)			
		Discount rate		Terminal growth rate	
		1% Decrease	1% Increase	0.5% Increase	1% Increase
Available-for-sale financial assets	₩	103,359	(74,647)	8,177	50,869

(ii) Stock options (liability-classified)

Description		Korean won (millions)			
		Discount rate		Stock price volatility	
		10% Decrease	10% Increase	1% Decrease	1% Increase
Stock options	₩	(5,354)	5,300	(27)	30

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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December 31, 2015 and 2014

9. Inventories

(a) Inventories as of December 31, 2015 and 2014 are summarized as follows:

		Korean won (millions)					
		December 31, 2015			December 31, 2014		
		Acquisition cost	Allowance for valuation	Book value	Acquisition cost	Allowance for valuation	Book value
Merchandise	₩	2,952,329	(21,290)	2,931,039	2,891,266	(13,558)	2,877,708
Finished goods		17,579	(4,798)	12,781	16,387	(4,160)	12,227
Goods in process		969	-	969	943	-	943
Raw materials		973	(125)	848	966	(93)	873
Subsidiary materials		23	-	23	9	-	9
Supplies		2,244	-	2,244	2,168	-	2,168
Materials-in-transit		2,149	-	2,149	2,206	-	2,206
Unsold apartment units		29,412	-	29,412	-	-	-
Unfinished apartment units		286,532	-	286,532	248,859	-	248,859
Lots		-	-	-	16,061	-	16,061
Total	₩	<u>3,292,210</u>	<u>(26,213)</u>	<u>3,265,997</u>	<u>3,178,865</u>	<u>(17,811)</u>	<u>3,161,054</u>

(b) For the years ended December 31, 2015 and 2014, the amount of inventories recognized as cost of goods sold and changes of allowance for valuation losses of inventories are summarized as follows:

		Korean won (millions)	
		2015	2014
Cost of goods sold:			
- Amount of inventories recognized as cost of goods sold	₩	18,909,058	18,136,874
- Changes of allowance for valuation losses of inventories		8,402	(58)

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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December 31, 2015 and 2014

10. Other Non-financial Assets

Other non-financial assets as of December 31, 2015 and 2014 are summarized as follows:

		Korean won (millions)	
		December 31, 2015	December 31, 2014
Current:			
Advance payments	₩	132,282	109,504
Prepaid expenses		174,145	184,311
Prepaid value added tax		78,909	79,724
Other		60	71
Subtotal		385,396	373,610
Non-current:			
Long-term advance payments		183,727	131,157
Long-term prepaid expenses (*)		1,226,136	1,230,298
Other		3,942	4,445
Subtotal		1,413,805	1,365,900
Total	₩	1,799,201	1,739,510

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

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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December 31, 2015 and 2014

11. Non-current assets held for sale

Non-current assets held for sale as of December 31, 2015 and 2014 are as follows:

	Korean won (millions)	
	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Tools and equipment(*1)	447	-

(*1) Since Qingdao Lotte Mart Commercial Co., Ltd. closed the Deyang store and decided to dispose of its tools and equipment in 2015, these assets were reclassified to non-current assets held for sale.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

12. Investments in Associates

(a) The details of associates as of December 31, 2015 and 2014 are summarized as follows:

December 31, 2015				
Company	Location	Major operation	Ownership (%)	Korean won (millions) Balance at December 31, 2015
Lotte Station Building Co., Ltd.	Korea	Distribution	25.00	₩ 121,725
Daehong Communications Co., Ltd.	Korea	Advertisement agency	34.00	135,243
Lotte Capital Co., Ltd.	Korea	Capital	22.36	195,323
Lotteria Co., Ltd.	Korea	Restaurant chain	38.68	239,270
FRL Korea Co., Ltd.	Korea	Retail	49.00	187,626
Lotte Asset Development Co., Ltd.	Korea	Real estate development	39.14	49,316
Lotte Trading Co., Ltd.	Korea	Product brokerage	27.68	124,077
Lotte Europe Holdings B.V.	Netherlands	Holding company	26.98	-
Coralis S.A.	Luxembourg	Holding company	45.00	11,923
Others				131,252
Total				₩ 1,195,755

December 31, 2014				
Company	Location	Major operation	Ownership (%)	Korean won (millions) Balance at December 31, 2014
Lotte Station Building Co., Ltd.	Korea	Distribution	25.00	₩ 123,646
Daehong Communications Co., Ltd.	Korea	Advertisement agency	34.00	122,989
Lotte Capital Co., Ltd.	Korea	Capital	22.36	152,953
Lotteria Co., Ltd.	Korea	Restaurant chain	38.68	241,347
FRL Korea Co., Ltd.	Korea	Retail	49.00	161,831
Lotte Asset Development Co., Ltd.	Korea	Real estate development	39.14	40,871
Lotte Trading Co., Ltd.	Korea	Product brokerage	27.68	134,725
Lotte Europe Holdings B.V.	Netherlands	Holding company	30.97	11,731
Coralis S.A.	Luxembourg	Holding company	45.00	37,616
Others				119,377
Total				₩ 1,147,086

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

12. Investments in Associates, Continued

(b) Changes in investments in associates for the years ended December 31, 2015 and 2014 are as follows:

Korean won (millions)										
2015										
Company		Adjustment to							Balance at December 31, 2015	
		Beginning balance	Acquisition	Business combination	Dividends	Net income (loss)	Capital adjustment	Disposal		Others
Lotte Station Building Co., Ltd.	₩	123,646	-	-	(13,597)	10,546	1,130	-	-	121,725
Daehong Communications Co., Ltd.		122,989	-	-	(9)	5,066	7,711	-	(514)	135,243
Lotte Capital Co., Ltd.		152,953	-	-	(2,234)	20,157	24,962	-	(515)	195,323
Lotteria Co., Ltd.		241,347	-	-	-	(3,093)	1,197	-	(181)	239,270
FRL Korea Co., Ltd.		161,831	-	-	(19,502)	44,816	481	-	-	187,626
Lotte Asset Development Co., Ltd.		40,871	19,571	-	-	(5,078)	(6,383)	-	335	49,316
Lotte Trading Co., Ltd.		134,725	-	-	-	2,398	(13,571)	-	525	124,077
Lotte Europe Holdings B.V.		11,731	10,855	-	-	(24,450)	(2,832)	-	4,696	-
Coralis S.A.		37,616	-	-	-	(24,786)	(907)	-	-	11,923
Others		119,377	49,764	396	-	(18,930)	7	(12,003)	(7,359)	131,252
Total	₩	1,147,086	80,190	396	(35,342)	6,646	11,795	(12,003)	(3,013)	1,195,755

Korean won (millions)									
2014									
Company		Adjustment to							Balance at December 31, 2014
		Beginning balance	Acquisition	Dividends	Net income (loss)	Capital adjustment	Others		
Lotte Station Building Co., Ltd.	₩	122,212	-	(9,940)	12,282	(914)	6		123,646
Daehong Communications Co., Ltd.		127,298	-	(7)	5,385	(9,029)	(658)		122,989
Lotte Capital Co., Ltd.		138,666	-	(1,861)	16,731	(583)	-		152,953
Lotteria Co., Ltd.		244,228	-	-	10,497	(12,209)	(1,169)		241,347
FRL Korea Co., Ltd.		112,631	-	(13,132)	58,021	4,311	-		161,831
Lotte Asset Development Co., Ltd.		46,398	-	-	(7,829)	1,915	387		40,871
Lotte Trading Co., Ltd. (*)		-	42,980	-	54,902	(12,207)	49,050		134,725
Lotte Europe Holdings B.V.		94,132	-	-	(81,937)	(1,890)	1,426		11,731
Coralis S.A.		42,219	-	-	(5,934)	1,331	-		37,616
Others		123,451	8,481	(1,665)	(10,773)	2,262	(2,379)		119,377
Total	₩	1,051,235	51,461	(26,605)	51,345	(27,013)	46,663		1,147,086

(*) During 2014, the investment was reclassified from available-for-sale financial assets upon acquisition of additional interests.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

12. Investments in Associates, Continued

(c) Financial information of significant associates as of and for the years ended December 31, 2015 and 2014 are summarized as follows:

		Korean won (millions)							
		2015							
Company		Current asset	Non-current asset	Current liabilities	Non-current liabilities	Sales	Operating income (loss)	Other comprehensive income (loss)	Total comprehensive income (loss)
Lotte Station Building Co., Ltd.	₩	277,785	450,438	232,636	8,689	612,651	54,390	4,519	46,704
Daehong Communications Co., Ltd.		248,298	451,607	255,311	53,698	398,229	19,994	21,227	35,664
Lotte Capital Co., Ltd. (*)		6,361,468	-	5,484,954	-	803,553	123,178	8,562	98,713
Lotteria Co., Ltd.		223,909	843,767	343,767	152,659	1,122,763	1,456	2,626	(3,208)
FRL Korea Co., Ltd.		510,173	144,316	270,327	1,253	1,107,387	131,616	981	92,442
Lotte Asset Development Co., Ltd.		375,566	239,175	138,391	351,236	155,020	1,526	(15,452)	(28,426)
Lotte Trading Co., Ltd.		289,406	915,687	317,194	187,920	686,409	4,719	(49,905)	(38,519)
Lotte Europe Holdings B.V.		73,640	416,992	252,318	236,348	98,713	1,630	(7,421)	(113,189)
Coralis S.A.		28,279	409,687	10,298	435,619	25,560	(15,628)	(2,015)	(57,079)

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

		Korean won (millions)							
		2014							
Company		Current asset	Non-current asset	Current liabilities	Non-current liabilities	Sales	Operating income (loss)	Other comprehensive income (loss)	Total comprehensive income (loss)
Lotte Station Building Co., Ltd.	₩	304,777	431,325	222,991	18,528	651,674	65,208	(3,631)	45,496
Daehong Communications Co., Ltd.		192,053	382,859	174,234	45,545	328,003	16,494	(34,972)	(19,134)
Lotte Capital Co., Ltd. (*)		5,503,352	-	4,816,281	-	632,159	98,756	(1,067)	73,761
Lotteria Co., Ltd.		192,382	838,495	283,197	153,697	1,132,875	37,961	(46,049)	(18,913)
FRL Korea Co., Ltd.		450,753	131,951	249,220	3,218	1,035,644	150,263	8,796	127,207
Lotte Asset Development Co., Ltd.		327,826	197,174	160,887	257,450	156,356	(6,035)	5,926	(14,066)
Lotte Trading Co., Ltd.		241,377	1,041,791	259,390	252,692	945,880	5,206	(46,807)	(36,578)
Lotte Europe Holdings B.V.		114,023	382,216	312,169	214,934	136,100	(565)	(6,049)	(271,183)
Coralis S.A.		43,180	388,939	346,447	36,545	5,741	(3,559)	928	(12,242)

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

(d) Current and accumulated unrecognized equity method losses of associates are summarized as follows:

		Korean won (millions)	
		December 31, 2015	
Company		Unrecognized losses for the year	Unrecognized accumulated losses
LOTTE Giants Co., Ltd.	₩	(534)	(534)
Lotte Incheon Development Co., Ltd.		(2,108)	(2,108)
Lotte Europe Holdings B.V.		(3,064)	(3,064)
Total	₩	(5,706)	(5,706)

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

13. Joint Ventures

- (a) When the Group has rights to the net assets of the joint venture entity, the Group classifies the investment in entity as a joint venture. The details of joint ventures as of December 31, 2015 and 2014 are summarized as follows:

December 31, 2015				
Company	Location	Major operation	Ownership (%)	Korean won (millions) Balance at December 31, 2015
D-Cinema of Korea Co., Ltd.	Korea	Film equipment	50.00	₩ 1,725
STL Co., Limited	Korea	Retail	50.00	606
LOTTE JTB Co., Ltd.	Korea	Travel business	50.00	-
Shenyang SL Cinema Investment Management Co., Ltd.	China	Cinema	49.00	962
Shandong Luckypai TV Shopping	China	TV Home Shopping	49.00	10,092
Yunnan Maile TV Shopping Media Co., Ltd.	China	TV Home Shopping	49.00	4,195
Chongqing Yujia Co., Ltd.	China	TV Home Shopping	49.00	-
International Business Center Company Limited	Vietnam	Distribution	50.00	61,516
Total				₩ 79,096

December 31, 2014				
Company	Location	Major operation	ownership (%)	Korean won (millions) Balance at December 31, 2014
D-Cinema of Korea Co., Ltd.	Korea	Film equipment	50.00	₩ -
STL Co., Limited	Korea	Retail	50.00	1,335
Shenyang SL Cinema Investment Management Co., Ltd.	China	Cinema	49.00	925
Shandong Luckypai TV Shopping	China	TV Home Shopping	49.00	9,906
Yunnan Maile TV Shopping Media Co., Ltd.	China	TV Home Shopping	49.00	4,225
Chongqing Yujia Co., Ltd.	China	TV Home Shopping	49.00	-
Total				₩ 16,391

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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13. Joint Ventures, Continued

(b) Changes in joint ventures for the years ended December 31, 2015 and 2014 are as follows:

		Korean won (millions)							
		2015							
		Adjustment to						Balance at December 31, 2015	
Company		Beginning balance	Acquisition	Business combination	Dividends	Net income (loss)	Capital adjustment		Others
D-Cinema of Korea Co., Ltd.	₩	-	-	-	-	1,725	-	-	1,725
STL Co., Limited		1,335	-	-	-	(729)	-	-	606
LOTTE JTB Co., Ltd.		-	-	4,100	-	(4,100)	-	-	-
Shenyang SL Cinema Investment Management Co., Ltd.		925	-	-	-	20	17	-	962
Shandong Luckypai TV Shopping		9,906	-	-	-	-	-	186	10,092
Yunnan Maile TV Shopping Media Co., Ltd.		4,225	-	-	(309)	200	-	79	4,195
Chongqing Yujia Co., Ltd.		-	-	-	-	-	-	-	-
International Business Center Company Limited		-	59,058	-	(4,927)	3,155	319	3,911	61,516
Total	₩	16,391	59,058	4,100	(5,236)	271	336	4,176	79,096

		Korean won (millions)							
		2014							
		Adjustment to						Balance at December 31	
Company		Beginning balance	Acquisition	Dividends	Net income (loss)	Capital adjustment	Others		
D-Cinema of Korea Co., Ltd.	₩	-	-	-	-	-	-	-	-
STL Co., Limited		527	1,500	-	(668)	(24)	-	-	1,335
Shenyang SL Cinema Investment Management Co., Ltd.		921	-	-	(13)	17	-	-	925
Shandong Luckypai TV Shopping		8,506	-	-	1,203	-	197	-	9,906
Yunnan Maile TV Shopping Media Co., Ltd.		3,157	838	(168)	305	-	93	-	4,225
Chongqing Yujia Co., Ltd.		-	-	-	-	-	-	-	-
Total	₩	13,111	2,338	(168)	827	(7)	290	-	16,391

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES Notes to the Consolidated Financial Statements

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13. Joint Ventures

(c) Financial information of joint ventures as of and for the years ended December 31, 2015 and 2014 are summarized as follows:

Korean won (millions)								
2015								
Company	Current asset	Non-current asset	Current liabilities	Non-current liabilities	Sales	Operating income (loss)	Other comprehensive income (loss)	Total comprehensive income (loss)
D-Cinema of Korea Co., Ltd. ₩	25,784	9,289	13,777	17,845	22,747	9,553	-	6,931
STL Co., Limited	3,436	1,186	2,978	434	13,724	(1,187)	-	(1,458)
LOTTE JTB Co.,Ltd	15,500	3,441	23,709	2,965	18,998	(13,551)	-	(15,980)
Shenyang SL Cinema Investment Management Co., Ltd.	884	1,586	513	-	1,454	(37)	35	75
Shandong Luckypai TV Shopping	47,014	3,583	32,252	-	24,086	(310)	-	(260)
Yunnan Maile TV Shopping Media Co., Ltd.	14,528	2,580	10,477	-	29,944	1,315	-	394
Chongqing Yujia Co., Ltd.	1,622	385	32,252	-	38,025	(12,329)	-	(11,418)
International Business Center Company Limited	13,831	54,857	32,701	1,609	23,577	12,664	(1,996)	6,384
Korean won (millions)								
2014								
Company	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Sales	Operating profit (loss)	Other comprehensive income (loss)	Total comprehensive income (loss)
D-Cinema of Korea Co., Ltd. ₩	26,862	21,568	13,279	38,630	22,792	2,418	-	454
STL Co., Limited	3,629	1,847	2,432	375	9,904	(1,261)	(47)	(1,384)
Shenyang SL Cinema Investment Management Co., Ltd.	614	1,737	469	-	1,303	(134)	114	88
Shandong Luckypai TV Shopping	43,074	3,716	26,574	-	94,998	3,794	-	2,455
Yunnan Maile TV Shopping Media Co., Ltd.	14,234	2,919	10,426	-	29,309	877	-	623
Chongqing Yujia Co., Ltd.	9,721	1,643	28,564	-	57,862	(12,266)	-	(12,304)

(d) Current and accumulated unrecognized equity method losses of joint ventures are summarized as follows:

Korean won (millions)		
December 31, 2015		
Company	Unrecognized losses for the year	Unrecognized accumulated losses
LOTTE JTB Co.,Ltd ₩	(3,922)	(3,922)

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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14. Property, Plant and Equipment

(a) Property, plant and equipment as of December 31, 2015 and 2014 are summarized as follows:

Korean won (millions)								
December 31, 2015					December 31, 2014			
	Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Book value	Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Book value
Land	₩ 7,991,801	-	-	7,991,801	7,947,313	-	-	7,947,313
Buildings	7,229,462	(2,169,376)	-	5,060,086	7,174,380	(1,951,781)	-	5,222,599
Structures	354,383	(102,766)	-	251,617	346,086	(87,030)	-	259,056
Machinery	265,792	(144,192)	(417)	121,183	252,362	(141,755)	(24)	110,583
Vehicles	8,541	(5,759)	(50)	2,732	8,786	(5,486)	-	3,300
Display fixtures	727,796	(432,687)	(9,440)	285,669	633,187	(334,310)	(62)	298,815
Furniture and fixtures	3,739,494	(2,648,079)	(5,587)	1,085,828	3,486,214	(2,356,973)	(15)	1,129,226
Tools and equipment	186,219	(103,005)	(3,492)	79,722	203,020	(108,874)	(2,195)	91,951
Other PP&E	257,741	(90,634)	(23,618)	143,489	247,458	(87,921)	(22,151)	137,386
Construction-in-progress	679,473	-	-	679,473	676,973	-	-	676,973
Finance lease assets	82,957	(23,679)	(1,771)	57,507	36,049	(10,539)	(1,738)	23,772
Total	₩ 21,523,659	(5,720,177)	(44,375)	15,759,107	21,011,828	(5,084,669)	(26,185)	15,900,974

(b) Changes in property, plant and equipment for the year ended December 31, 2015 are as follows:

Korean won (millions)								
2015								
	Book value as of January 1, 2015	Acquisitions	Increase from business combination	Depreciation	Impairment	Disposals	Others (*)	Book value as of December 31, 2015
Land	₩ 7,947,313	5,593	-	-	-	(37,346)	76,241	7,991,801
Buildings	5,222,599	24,705	-	(212,570)	-	(152,758)	178,110	5,060,086
Structures	259,056	83	-	(15,646)	-	(755)	8,879	251,617
Machinery	110,583	15,402	8,510	(20,722)	(395)	(2,176)	9,981	121,183
Vehicles	3,300	639	-	(1,018)	(50)	(126)	(13)	2,732
Display fixtures	298,815	71,327	-	(93,696)	(2,407)	(3,790)	15,420	285,669
Furniture and fixtures	1,129,226	236,385	11,050	(438,968)	(5,571)	(5,201)	158,907	1,085,828
Tools and equipment	91,951	11,021	-	(20,797)	(1,253)	(8,854)	7,654	79,722
Other PP&E	137,386	7,414	462	(15,741)	(7,994)	(22,192)	44,154	143,489
Construction-in-progress	676,973	612,254	535	-	-	(72,090)	(538,199)	679,473
Finance lease assets	23,772	252	39,634	(8,366)	-	-	2,215	57,507
Total	₩ 15,900,974	985,075	60,191	(827,524)	(17,670)	(305,288)	(36,651)	15,759,107

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

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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14. Property, Plant and Equipment, Continued

(c) Changes in property, plant and equipment for the year ended December 31, 2014 are as follows:

		Korean won (millions)							
		2014							
		Book value as of January 1, 2014	Acquisitions	Increase from business combination	Depreciation	Impairment	Disposals	Others (*)	Book value as of December 31, 2014
Land	₩	8,124,642	10,930	-	-	-	(527,251)	338,992	7,947,313
Buildings		4,762,331	22,244	-	(201,025)	-	(400,087)	1,039,136	5,222,599
Structures		204,465	640	-	(14,232)	-	(55,628)	123,811	259,056
Machinery		101,229	28,602	-	(24,023)	-	(521)	5,296	110,583
Vehicles		3,496	962	-	(1,066)	-	(109)	17	3,300
Display fixtures		251,470	60,990	-	(78,445)	(3)	(9,153)	73,956	298,815
Furniture and fixtures		1,075,873	227,376	1,571	(396,299)	(2)	(7,358)	228,065	1,129,226
Tools and equipment		120,275	8,797	-	(16,594)	(1)	(31,200)	10,674	91,951
Other PP&E		140,453	14,892	-	(14,109)	(6,456)	(9,263)	11,869	137,386
Construction-in- progress		1,002,861	1,571,318	-	-	-	(235)	(1,896,971)	676,973
Finance lease assets		1,453	32,766	-	(9,423)	(1,677)	-	653	23,772
Total	₩	15,788,548	1,979,517	1,571	(755,216)	(8,139)	(1,040,805)	(64,502)	15,900,974

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

(d) Pledged property, plant and equipment provided by the Group as of December 31, 2015 are as follows:

		Korean won (millions)					
		Book value	Guaranteed amount	Type of borrowings	Amount of borrowings	Guarantee recipient	
Land and buildings etc.	₩	240,326	424,936	Secured Loan and others	166,749	Kookmin Bank and others	

(e) During 2015 and 2014, capitalized borrowing costs and capitalization interest rates are as follows:

		Korean won (millions)	
		2015	2014
Capitalized borrowing costs	₩	8,162	12,094
Capitalization interest rates (%)		2.72%~5.25%	2.55%~4.80%

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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December 31, 2015 and 2014

15. Investment Property

(a) Investment property as of December 31, 2015 and 2014 are summarized as follows:

Korean won (millions)						
December 31, 2015			December 31, 2014			
	Acquisition cost	Accumulated depreciation	Book value	Acquisition cost	Accumulated depreciation	Book value
Land	₩ 223,494	-	223,494	233,762	-	233,762
Buildings	387,646	(90,158)	297,488	392,706	(89,277)	303,429
Total	₩ 611,140	(90,158)	520,982	626,468	(89,277)	537,191

(b) Changes in investment property for the year ended December 31, 2015 are as follows:

Korean won (millions)						
2015						
	Book value as of January 1, 2015	Acquisitions	Depreciation	Disposals	Others (*)	Book value as of December 31, 2015
Land	₩ 233,762	-	-	(960)	(9,308)	223,494
Buildings	303,429	1,571	(12,612)	(1,966)	7,066	297,488
Total	₩ 537,191	1,571	(12,612)	(2,926)	(2,242)	520,982

(*) Others include reclassification between property, plant and equipment and investment property and foreign exchange effects.

(c) Changes in investment property for the year ended December 31, 2014 are as follows:

Korean won (millions)						
2014						
	Book value as of January 1, 2014	Depreciation	Disposals	Others (*)	Book value as of December 31, 2014	
Land	₩ 271,232	-	(943)	(36,527)	233,762	
Buildings	206,079	(9,438)	(630)	107,418	303,429	
Total	₩ 477,311	(9,438)	(1,573)	70,891	537,191	

(*) Others include reclassification between property, plant and equipment and investment property and foreign exchange effects.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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December 31, 2015 and 2014

15. Investment Property, Continued

(d) Income and expense from investment property

The details of income and expense from investment property during 2015 and 2014 are as follows:

Description		Korean won (millions)	
		2015	2014
Rent income	₩	72,273	66,634
Direct operating expense (including maintenance and repair expenses)		30,191	25,098

(e) Fair value of investment property as of December 31, 2015 was follows:

Description		Korean won (millions)	
		Book value	Fair value
Land and buildings	₩	520,982	702,804

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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December 31, 2015 and 2014

16. Goodwill and Intangible Assets

(a) Intangible assets as of December 31, 2015 and 2014 are summarized as follows:

Korean won (millions)								
December 31, 2015					December 31, 2014			
	Acquisition cost	Accumulated amortization	Accumulated impairment losses	Book value	Acquisition cost	Accumulated amortization	Accumulated impairment losses	Book value
Goodwill	₩ 3,571,160	-	(855,591)	2,715,569	3,516,315	-	(239,077)	3,277,238
Industrial property rights	144,015	(5,999)	-	138,016	143,478	(4,874)	-	138,604
Rights to use facility	524,464	(144,449)	(2)	380,013	524,444	(117,903)	-	406,541
Membership	39,674	-	(5,532)	34,142	37,921	-	(4,445)	33,476
Other intangible assets	672,647	(357,448)	(4,550)	310,649	543,687	(239,349)	(4,114)	300,224
Total	₩ 4,951,960	(507,896)	(865,675)	3,578,389	4,765,845	(362,126)	(247,636)	4,156,083

(b) Changes in intangible assets for the years ended December 31, 2015 and 2014 are as follows:

Korean won (millions)								
2015								
	Book value as of January 1, 2015	Acquisition	Business combination	Amortization	Impairment	Disposals	Others (*)	Book value as of December 31, 2015
Goodwill	₩ 3,277,238	290	20,042	-	(616,934)	(1,323)	36,256	2,715,569
Industrial property rights	138,604	236	26	(1,108)	-	-	258	138,016
Rights to use facility	406,541	-	-	(26,544)	(2)	(14)	32	380,013
Membership	33,476	1,712	206	-	(1,087)	(165)	-	34,142
Other intangible assets	300,224	76,984	16,877	(118,402)	(573)	(39)	35,578	310,649
Total	₩ 4,156,083	79,222	37,151	(146,054)	(618,596)	(1,541)	72,124	3,578,389

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

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

16. Goodwill and Intangible Assets, Continued

(b) Intangible assets as of December 31, 2015 and 2014 are summarized as follows:, continued

		Korean won (millions)						
		2014						
		Book value as of January 1, 2014	Acquisition	Business combination	Amortization	Impairment	Disposals	Book value as of December 31, 2014
Goodwill	₩	3,407,535	-	5,563	-	(157,710)	(759)	3,277,238
Industrial property rights		139,366	325	-	(1,135)	-	-	138,604
Rights to use facility		452,130	-	-	(27,766)	-	(18,339)	406,541
Membership		33,140	1,112	-	-	(480)	(9)	33,476
Other intangible assets		309,216	81,291	8,100	(105,818)	(111)	(36)	300,224
Total	₩	4,341,387	82,728	13,663	(134,719)	(158,301)	(19,143)	4,156,083

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

(c) Impairment testing for cash-generating units containing goodwill

For the purpose of impairment testing, goodwill is allocated to the units at the lowest level at which the goodwill may be monitored in terms of internal management of the Group and cannot be higher than any of the Group's operating segments, as defined in the note 39.

Details of the goodwill allocated to the groups of cash-generating units as of December 31, 2015 and 2014 are as follows:

		Korean won (millions)	
		December 31, 2015	December 31, 2014
Department stores	₩	198,464	237,074
Discount stores		409,941	806,478
Finance business		113,320	118,733
Consumer electronics retail		1,282,696	1,282,696
Convenience stores		202,948	202,948
Others		508,200	629,309
Total	₩	2,715,569	3,277,238

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, 2015 was consistent with those used in 2014. 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.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

16. Goodwill and Intangible Assets, Continued

(c) Impairment testing for cash-generating units containing goodwill, continued

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

	2015	2014
Department stores	7.20% ~ 14.38%	8.18%
Discount stores	6.81% ~ 9.77%	7.55% ~ 10.67%
Finance business	4.71% ~ 7.16%	5.91% ~ 10.13%
Consumer electronics retail	7.74%	7.58%
Convenience stores	12.61%	10.98%
Others	6.65% ~ 13.60%	6.71% ~ 12.85%

Value in use is based on the above assumptions representing management's estimation of future cash flows, and is calculated using external and internal sources of the Group. As a result of impairment testing as of December 31, 2015, recoverable amounts of the cash-generating units in department stores, discount stores, finance business and others were less than its book value, including goodwill, therefore impairment losses were recognized. As a result of impairment testing, value in use of the other cash-generating units is higher than their respective carrying amount as of December 31, 2015 and 2014.

The recoverable amount was determined based on the value in use. Value in use is estimated by applying 7.74% discount rate and 2.0% terminal growth rate with 5 years, the period for the estimated future cash flows, based on management's business plan. Terminal growth rate does not exceed the long-term average growth rate in the industry. No impairment loss on goodwill recognized during the year ended December 31, 2015 as recoverable amounts calculated based on the value in use exceeded the carrying value of the cash-generating unit. The value in use is affected by the key assumptions such as discount rate or terminal growth rate used in discounted cash flow model. When the discount rate increases by 0.4%, the value in use would be decreased by 8.76%. When the terminal growth rate decreases by 0.4%, the value in use would be decreased by 6.85%. Management of the Group estimated that the any reasonably possible change in the key assumption on which the recoverable amount could influence on impairment losses of goodwill. For the years ended December 31, 2015 and 2014, the impairment losses and recoverable amounts of the impaired cash-generating units are as follows:

		Korean won (millions)			
		2015		2014	
		Impairment losses	Recoverable amounts	Impairment losses	Recoverable amounts
Department stores	₩	44,776	500,885	-	-
Discount stores		433,461	724,673	156,904	311,758
Finance business		5,413	126,374	-	-
Others		133,284	16,271	806	2,571
Total	₩	616,934	1,368,203	157,710	314,329

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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December 31, 2015 and 2014

16. Goodwill and Intangible Assets, Continued

(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, 2015 and 2014 are as follows:

		Korean won (millions)	
		December 31, 2015	December 31, 2014
Department stores	₩	11,012	11,059
Discount stores		1,976	1,976
Finance business		3,621	3,425
Consumer electronics retail		138,868	138,621
Convenience store		2,348	2,794
Others		12,443	11,697
Total	₩	170,268	169,572

As a result of the Group's impairment test on indefinite intangible assets, the Group recognized an impairment loss of ₩ 1,127 million and a reversal of impairment of ₩ 40 million in 2015.

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December 31, 2015 and 2014

17. Trade and Other Payables

Trade and other payables as of December 31, 2015 and 2014 are summarized as follows:

		Korean won (millions)	
		December 31, 2015	December 31, 2014
Trade payables	₩	3,725,603	3,761,489
Other payables		1,740,304	1,861,617
Total	₩	5,465,907	5,623,106

18. Borrowings and Debentures

(a) Borrowings and debentures as of December 31, 2015 and 2014 are summarized as follows:

		Korean won (millions)	
		December 31, 2015	December 31, 2014
Current:			
Short-term borrowings	₩	1,789,819	1,487,331
Current portion of long-term borrowings		467,765	837,208
Current portion of discount on long-term borrowings		(124)	-
Current portion of long-term debentures		2,030,280	2,250,212
Current portion of discount on debentures		(1,727)	(5,101)
Exchange rights adjustment		(18,874)	-
Subtotal		4,267,139	4,569,650
Non-current:			
Long-term borrowings		1,857,614	1,371,781
Discount on long-term borrowings		(1,076)	(2,163)
Long-term debentures		7,994,640	6,863,085
Discount on debentures		(34,740)	(47,385)
Exchange rights adjustment		-	(28,404)
Subtotal		9,816,438	8,156,914
Total	₩	14,083,577	12,726,564

(b) Short-term borrowings as of December 31, 2015 and 2014 are summarized as follows:

				Korean won (millions)	
Lender	Details	Annual interest rate (%)		December 31, 2015	December 31, 2014
Korea Development Bank and others	General	1.80~10.45	₩	846,819	792,331
Shinhan Bank and others	Financial notes	1.64~6.10		943,000	695,000
Total			₩	1,789,819	1,487,331

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December 31, 2015 and 2014

18. Borrowings and Debentures, Continued

(c) Long-term borrowings as of December 31, 2015 and 2014 are summarized as follows:

Lender	Details	Annual interest rate (%)		Korean won (millions)	
				December 31, 2015	December 31, 2014
Shinhan Bank and others Lotte Co., Ltd. (Japan) and others	Local currency	2.22~6.90	₩	1,006,095	1,129,751
	Foreign currency	1.30~10.75		1,319,284	1,079,238
Subtotal				2,325,379	2,208,989
Less: Discount on borrowings				(1,200)	(2,163)
Subtotal				2,324,179	2,206,826
Less: Current portion of long- term borrowings, net of discount				(467,641)	(837,208)
Total			₩	<u>1,856,538</u>	<u>1,369,618</u>

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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December 31, 2015 and 2014

18. Borrowings and Debentures, Continued

(d) Debentures as of December 31, 2015 and 2014 are summarized as follows:

Description	Maturity	Interest rate (%)	Korean won (millions)	
			December 31, 2015	December 31, 2014
54-2nd placed	Mar. 12, 2015	-	₩ -	400,000
59-1st placed	Aug. 07, 2015	-	-	350,000
59-2nd placed	Aug. 07, 2017	3.20	230,000	230,000
59-3rd placed	Aug. 07, 2019	3.33	200,000	200,000
60th placed (foreign currency)	Dec. 13, 2015	3M USD Libor+0.68	-	109,920
61th placed	Mar. 21, 2018	3.05	100,000	100,000
62th placed	Jun. 21, 2018	2.80	110,000	110,000
63-1st placed	Jul. 02, 2017	2.79	200,000	200,000
63-2nd placed	Jul. 02, 2019	3.08	200,000	200,000
64-1st placed (foreign currency)	May 25, 2018	3M USD Libor+0.50	175,800	164,880
64-2nd placed (foreign currency)	May 25, 2018	3M USD Libor	117,200	109,920
64-3rd placed (foreign currency)	May 25, 2018	3M USD Libor+0.02	117,200	109,920
65-1st placed	Mar. 03, 2020	2.26	160,000	-
65-2nd placed	Mar. 03, 2022	2.45	240,000	-
66-1st placed	Jun. 23, 2020	2.40	130,000	-
66-2nd placed	Jun. 23, 2022	2.64	50,000	-
66-3rd placed	Jun. 23, 2025	2.98	140,000	-
67-1st placed (foreign currency)	Aug. 17, 2018	3M USD Libor+0.60	175,800	-
67-2nd placed (foreign currency)	Aug. 17, 2018	3M USD Libor+0.02	117,200	-
67-3rd placed (foreign currency)	Aug. 06, 2018	3M USD Libor+0.60	117,200	-
68th placed	Jul. 31, 2020	2.40	110,000	-
1st placed (Global bond)	Apr. 07, 2016	3.88	468,800	439,680
2nd placed (Global bond)	May 09, 2017	3.38	468,800	439,680
USD convertible bonds (*1)	Jul. 05, 2016	-	22,340	20,744
JPY convertible bonds (*1)	Jul. 05, 2016	-	91,100	84,581
Exchangeable bonds (*2)	Jan. 24, 2018	-	321,200	321,200
Korea Seven Co., Ltd.	Jan. 30, 2015	-	-	40,000
Korea Seven Co., Ltd. (foreign currency)	Jan. 30, 2015	-	-	20,243
Korea Seven Co., Ltd. (foreign currency)	Apr. 18, 2016	3M USD Libor+0.50	35,160	32,976
Korea Seven Co., Ltd. (convertible bonds)	May 08, 2018	-	7,920	7,920
Lotte Card Co., Ltd.	Multiple	1.87~3.86	5,264,040	4,641,932
CS Mart Co., Ltd.	Oct. 29, 2015	-	-	13,802
LOTTE Himart Co., Ltd.	Multiple	2.90~3.04	620,000	600,000
LOTTE Himart Co., Ltd. (Foreign currency)	Mar. 29, 2016	3M USD Libor+0.50	35,160	32,976
LSBM	Feb. 09, 2015	-	-	132,923
Subtotal			₩ 10,024,920	9,113,297

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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December 31, 2015 and 2014

18. Borrowings and Debentures, Continued

(d) Debentures as of December 31, 2015 and 2014 are summarized as follows: continued

Description	Maturity	Interest rate (%)	Korean won (millions)	
			December 31, 2015	December 31, 2014
Less: Discount on debentures			₩ (36,467)	(52,486)
Less: Exchange rights adjustment			(18,874)	(28,404)
Total book value			9,969,579	9,032,407
Less: Current portion of debentures, net of discount			(2,009,679)	(2,245,111)
Total			₩ 7,959,900	6,787,296

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

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December 31, 2015 and 2014

18. Borrowings and Debentures, Continued

(*1) In 2011, the Group issued USD convertible bonds of USD 500 million and JPY convertible bonds of JPY 32.5 billion, among which USD convertible bonds of USD 480,800,000 and JPY convertible bonds of JPY 22,940,000,000 were redeemed during 2014. USD convertible bonds and JPY convertible bonds have been designated as financial liabilities at fair value through profit or loss as of December 31, 2015 and December 31, 2014. The terms and conditions for convertible bonds held as of December 31, 2015 are summarized as follows:

(a) Type of bonds:	Registered overseas unsecured convertible bonds
(b) Total face value of bonds:	
USD Bonds:	19,200,000
JPY Bonds:	9,560,000,000
Total (in won):	149,412,924,000
(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 (%):	- (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 delisted 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) (*):	647,979
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.	

(*) On March 20, 2015, the general meeting of the Company's shareholders resolved to distribute cash dividends exceeding 0.5% of the market price of the Company's stock for the defined period. Consequently, in accordance with terms and conditions of conversion price adjustments, the conversion price was adjusted from ₩650,000 to ₩647,979.

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December 31, 2015 and 2014

18. Borrowings and Debentures, Continued

(*2) The Group issued five-year bonds in 2013 which are exchangeable to shares of LOTTE Himart Co., Ltd. Due to the exercise of the put option, the Company redeemed ₩307,400 million of the issued bonds on January 25, 2016. The terms and conditions are summarized as follows:

- | | |
|---|--|
| (a) Type of bonds: | Registered overseas unsecured exchangeable bonds |
| (b) Total face value of bonds(KRW): | 321,200,000,000 |
| (c) Bond interest rate | |
| Coupon rate (%): | - |
| Yield to maturity (%): | - |
| (d) Date of bond maturity: | January 24, 2018 |
| (e) Principal redemption method: | |
| i. Redemption on maturity date: Redemption in lump sum on the maturity date for the principal amount of bonds for which a condition for early redemption has not occurred and the exchange right has not been exercised. Early redemption: The Company has a call option, whereas bond holders have a put option. | |
| ii. Early redemption: Lotte Shopping Co., Ltd. ("Lotte Shopping") has a call option, whereas bond holders have a put option. | |
| (f) Put option by bondholders: | |
| The put option can be exercised if any of the following conditions occurs: | |
| On the third anniversary of the date of payment (January 24, 2016); | |
| i. If any change of control occurs in the LOTTE Himart; or | |
| ii. The issued stocks of the Company are delisted from the stock exchange or their transaction is suspended for 30 consecutive transaction days or longer. | |
| (g) Call option by the Company: | |
| The call option can be exercised if any of the following conditions occurs: | |
| i. If the closing price of LOTTE Himart Co., Ltd for 20 transactional days in 30 consecutive transaction days reaches 130% or more of the exchange price between 3 years from the issuance date (January 24, 2013) and 30 business days to the maturity date; | |
| ii. If the balance of bonds that has not been redeemed reaches less than 10% of the sum of the total issued amount (clean up call); or | |
| iii. Any additional tax burden arises due to the amendments of the related laws and regulations. | |
| (h) Matters relating to exchange: | |
| i. Exchange ratio (%): | 100 |
| ii. Exchange price (KRW per share): | 90,780 |
| iii. Type of shares to be issued following exchange: | Common shares of LOTTE Himart Co., Ltd. |
| iv. Period to apply for exchange: | |
| Start date: | March 5, 2013 |
| End date: | January 15, 2018 |
| v. Matters for the adjustment of exchange price: | |
| In case when a condition for re-adjustment of the exchange price has occurred, such as a stock dividend, the exchange price will be adjusted in accordance with the provisions in the relevant bonds purchase agreement. | |

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18. Borrowings and Debentures, Continued

(e) Maturities of long-term borrowings and debentures as of December 31, 2015 are scheduled as follows:

		Korean won (millions)		
		Borrowings	Debentures	Total
Within 1 year	₩	467,765	2,030,280	2,498,045
1 ~ 2 years		896,276	2,474,480	3,370,756
2 ~ 3 years		792,479	3,080,160	3,872,639
3 ~ 4 years		31,350	1,050,000	1,081,350
More than 4 years		137,509	1,390,000	1,527,509
Total	₩	<u>2,325,379</u>	<u>10,024,920</u>	<u>12,350,299</u>

19. Unearned Revenues

The details of unearned revenues as of December 31, 2015 and 2014 are as follows:

		Korean won (millions)	
		December 31, 2015	December 31, 2014
Current:			
Membership point	₩	93,222	95,703
Other points		85,018	99,233
Unearned rental income		8,492	4,967
Others		30,842	35,810
Subtotal		<u>217,574</u>	<u>235,713</u>
Non-current:			
Other points		-	912
Unearned rental income		8,086	10,238
Subtotal		<u>8,086</u>	<u>11,150</u>
Total	₩	<u>225,660</u>	<u>246,863</u>

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20. Provisions

(a) Changes in provisions for the year ended December 31, 2015 are as follows:

		Korean won (millions)		
		2015		
		Beginning balance	Increase	Utilization
				Balance as of December 31, 2015
Current:				
Provision for bonus points reward program	₩	24,443	74,389	(70,870)
Provision for bonus payable		9,896	49,206	(50,577)
Provision for sales return		9,186	9,242	(9,405)
Other provisions (*1)		11,388	62,415	(58,954)
Subtotal		54,913	195,252	(189,806)
Non-current:				
Provision for unused credit card limits (*2)		25,546	1,745	-
Other provisions		1,257	4,352	(442)
Subtotal		26,803	6,097	(442)
Total	₩	81,716	201,349	(190,248)
				92,817

(*1) Other provisions include provisions for litigation, provision for closing up stores and and others. During 2015, Qingdao LOTTE Mart Commercial Co., Ltd., which is a subsidiary of the Company, closed five discount stores. In connection with closing the stores, the Group estimated the expenditures that have incurred in connection with the closures and recognized other provision of ₩5,417 million as of December 31, 2015.

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

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20. Provisions, Continued

(b) Changes in provisions for the year ended December 31, 2014 are as follows:

		Korean won (millions)			
		2014			
		Beginning balance	Increase	Utilization	Balance as of December 31, 2014
Current:					
Provision for bonus points reward program	₩	23,391	38,951	(37,899)	24,443
Provision for bonus payable		5,568	55,446	(51,118)	9,896
Provision for sales return		7,375	5,986	(4,175)	9,186
Other provisions		9,896	49,639	(48,147)	11,388
Subtotal		46,230	150,022	(141,339)	54,913
Non-current:					
Provision for unused credit card limits (*)		30,292	-	(4,746)	25,546
Other provisions		2,321	12	(1,076)	1,257
Subtotal		32,613	12	(5,822)	26,803
Total	₩	78,843	150,034	(147,161)	81,716

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

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21. Other Non-financial Liabilities

Other non-financial liabilities as of December 31, 2015 and 2014 are summarized as follows:

		Korean won (millions)	
		December 31, 2015	December 31, 2014
Current:			
Withholdings	₩	86,466	53,938
Withholdings of value added tax		96,059	68,330
Advances received		1,055,057	1,085,458
Other liabilities		1,955	1,544
Subtotal		1,239,537	1,209,270
Non-current:			
Other liabilities		103,378	88,087
Total	₩	1,342,915	1,297,357

22. Employee Benefits

(a) Details of defined benefit liabilities as of December 31, 2015 and 2014 are summarized as follows:

		Korean won (millions)	
		December 31, 2015	December 31, 2014
Present value of defined benefit obligations	₩	640,058	525,909
Fair value of plan assets		(601,989)	(486,054)
Total	₩	38,069	39,855

(b) Details of present value of other long-term employee benefits as of December 31, 2015 and 2014 are summarized as follows:

		Korean won (millions)	
		December 31, 2015	December 31, 2014
Present value of other long-term employee benefits	₩	43,222	42,286

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22. Employee Benefits, Continued

(c) Changes in employee benefits for the years ended December 31, 2015 and 2014 are as follows:

		Korean won (millions)	
		2015	2014
Beginning of the year	₩	525,909	457,032
Current service costs		109,805	102,421
Past service costs		66	178
Interest costs		21,168	22,992
Remeasurements :			
- Loss (gain) from change in demographic assumptions		(10,581)	3,558
- Loss (gain) from change in financial assumptions		19,420	(8,951)
- Loss (gain) experience adjustments		3,356	2,339
Payments		(50,054)	(56,853)
Business combination		15,596	-
Others		5,373	3,193
End of the year	₩	640,058	525,909

(d) During 2015 and 2014, changes on plan assets of an employee benefit plan are as follows:

		Korean won (millions)	
		2015	2014
Beginning of the year	₩	486,054	412,811
Return on plan assets		16,425	17,781
Actuarial loss		(5,262)	(5,823)
Employer contribution		129,264	101,153
Payments		(40,088)	(42,973)
business combination		14,188	-
Others		1,408	3,105
End of the year	₩	601,989	486,054

The estimated contributions to the plan for the next annual reporting period are ₩127,004 million.

(e) The components of plan assets as of December 31, 2015 and 2014 are summarized as follows:

		Korean won (millions)	
		December 31, 2015	December 31, 2014
Principal guaranteed insurance policies	₩	601,797	485,852
Others		192	202
Total	₩	601,989	486,054

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22. Employee Benefits, Continued

(f) Expenses recognized for the years ended December 31, 2015 and 2014 are as follows:

		Korean won (millions)	
		2015	2014
Current service costs	₩	109,805	102,421
Past service costs		66	178
Interest costs		21,168	22,992
Return on plan assets		(16,425)	(17,781)
Contributions to defined contribution plans		2,335	2,205
Long-term employee benefits		6,213	7,701
Total	₩	123,162	117,716

(g) The principal actuarial assumptions used as of December 31, 2015 and 2014 are summarized as follows:

	December 31, 2015	December 31, 2014
Discount rate	2.17~9.00%	2.35~8.00%
Expected rate of promotion	1.44~4.00%	1.48~2.32%
Expected rate of increase in salaries	2.00~8.00%	3.00~7.00%

(h) Sensitivity analysis

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

	Increase	Decrease
Discount rate (1% movement)	(52,998)	62,102
Expected rate of promotion (1% movement)	55,740	(47,880)
Expected rate of increase in salaries (1% movement)	61,390	(53,394)

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

(i) Information about the maturity profile of the defined benefit obligation as of December 31, 2015 is as follows:

1 year or less	1 ~ 2 years	2 ~ 5 years	5 ~ 10 years
43,167	41,951	120,938	214,746

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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23. Derivative Instruments and Hedge Accounting

(a) Details of derivatives outstanding as of December 31, 2015 are as follows:

Purpose	Type	Description
Trade	Call option	The Group holds the right to buy preferred stocks of Lotte Incheon Development Co., Ltd. and Lotte Incheon Town Co., Ltd.
	Put option	The Group grants the right to sell preferred stocks of Lotte Incheon Development Co., Ltd. and Lotte Incheon Town Co., Ltd. to the preferred stockholders.
	Put option	The Group grants the right to sell preferred stocks of Eunpyeong PFV to the preferred stockholders.
	Currency swap	At the maturity of the swap, the principal and interest payments for debentures in USD based on floating rates are exchanged back with the principal and fixed interest rate payments in CNY.
Cash flow hedge	Currency swap	At the maturity of the swap, the principal and the interest payments for debentures in USD and JPY based on floating rates are exchanged back with the principal and fixed interest rate payments in KRW.
	Currency swap	At the maturity of the swap, the principal and the interest payments for the borrowings in USD based on floating rates are exchanged back with the principal and fixed interest rate payments in CNY.
	Interest swap	Pays fixed interest to receive floating rate in KRW short-term borrowings
	Interest swap	Pays fixed interest to receive floating rate in IDR borrowings
	Currency forward	At the maturity of the contract, purchase dollars and yen at the fixed exchange rate

(b) Fair value of derivatives outstanding as of December 31, 2015 and 2014 are summarized as follows:

Purpose	Type	Korean won (millions)			
		December 31, 2015		December 31, 2014	
		Assets	Liabilities	Assets	Liabilities
Trade	Stock option	₩ -	24,608	-	12,329
	Currency swap	-	-	1,201	-
Cash flow hedge	Currency swap	101,273	11,516	8,487	75,427
	Interest swap	47	4,431	-	5,746
	Currency forward	61,067	-	12,576	-
	Total	₩ 162,387	40,555	22,264	93,502

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23. Derivative Instruments and Hedge Accounting, Continued

(c) Changes in the fair value of derivative instruments for the years ended December 31, 2015 are as follows:

Purpose	Type	Related accounts	Korean won (millions)
Trade	Stock option	Loss on valuation of derivative instruments	₩ (12,279)
	Currency swap	Gain on valuation of derivative instruments	1,169
Cash flow hedge	Currency swap	Gain on valuation of derivative instruments	45,798
		Unrealized loss on valuation of derivative instruments	(1,453)
		Gain on valuation of derivatives instruments (card business)	50,605
	Interest swap	Loss on valuation of derivatives instruments (card business)	(11)
		Unrealized gain on valuation of derivative instruments	1,312
	Currency forward	Gain on valuation of derivative instruments	51,229
		Unrealized loss on valuation of derivative instruments	(2,739)

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24. Capital Stock and Capital Surplus

(a) Pursuant to its amended Articles of Incorporation, the Company's authorized capital stock is 60,000,000 shares, which consist of common shares and preferred shares each with a par value of ₩5,000 per share. The Company is authorized to issue non-voting preferred shares of up to one-fourth of the Company's total issued and outstanding capital stock. Holders of preferred shares may, upon a resolution of the board of directors at the time of the issuance of the preferred shares, be entitled to receive dividends prior to the holders of common shares. The preferred shares will be automatically converted to common shares within ten years of issuance as determined by the Company's board of directors. However, if the holders of preferred shares do not receive the minimum dividends as prescribed, the prescribed conversion date will be extended to the time when all such minimum dividend amount is paid to the holders of preferred shares. As of December 31, 2015, the Company has not issued any preferred stock and 31,490,892 shares of common stock were issued and outstanding as of December 31, 2015.

(b) Capital surplus as of December 31, 2015 and 2014 consists of the following:

		Korean won (millions)	
		December 31, 2015	December 31, 2014
Additional paid-in capital	₩	3,786,431	3,786,431
Others		124,321	124,321
	₩	<u>3,910,752</u>	<u>3,910,752</u>

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25. Hybrid securities classified as equity

Hybrid securities classified as equity as of December 31, 2015 and 2014 are as follows:

	Date of issue	Date of maturity	Interest rate (%)		Korean won (millions)	
					December 31, 2015	December 31, 2014
Hybrid security 1-1 (*)	Nov.15, 2013	Nov.15, 2043	4.723	₩	240,000	240,000
Hybrid security 1-2 (*)	Nov.15, 2013	Nov.15, 2043	4.723		30,000	30,000
Issuance cost					(882)	(882)
Total				₩	269,118	269,118

(*) Details of hybrid securities are as follows:

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

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

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26. Capital Adjustments

As of January 1, 2013, the Company merged with Lotte Midopa Co., Ltd. In connection with the merger, the Company issued 1,933,873 shares of common stocks in exchange for 51,475,843 shares of Lotte Midopa Co., Ltd. which the Company had held and 228 shares of treasury stocks of Lotte Midopa Co., Ltd. The Company recognized the acquisition cost of the treasury stocks as zero ("0"). In addition, the Company acquired 4,815 shares of fractional shares for ₩1,806 million in 2013 and, as a result, the Company holds 1,938,688 shares of treasury stocks as of December 31, 2015.

27. Retained Earnings

Details of retained earnings as of December 31, 2015 and 2014 are as follows:

	Korean won (millions)	
	December 31, 2015	December 31, 2014
Legal reserve	₩ 190,006	184,097
Voluntary reserve	11,190,052	10,730,052
Unappropriated retained earnings	513,605	1,445,946
	₩ 11,893,663	12,360,095

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28. Accumulated Other Comprehensive Income

Changes in accumulated other comprehensive income (loss) for the years ended December 31, 2015 and 2014 are as follows:

		Korean won (millions)			
		2015			
		Beginning balance	Changes for the year	Tax effects for the year	Balance as of December 31, 2015
Net change in unrealized fair value of available for-sale financial assets	₩	145,678	(76,939)	21,959	90,698
Exchange rate differences on translating foreign operations		(70,788)	38,458	(55)	(32,385)
Effective portion of unrealized changes in fair values of cash flow hedges		(10,950)	(3,050)	1,736	(12,264)
Change in equity of equity method investments		42,896	12,131	(5,574)	49,453
Total	₩	106,836	(29,400)	18,066	95,502
		Korean won (millions)			
		2014			
		Beginning balance	Changes for the year	Tax effects for the year	Balance as of December 31, 2014
Net change in unrealized fair value of available for-sale financial assets	₩	94,694	78,526	(27,542)	145,678
Exchange rate differences on translating foreign operations		(94,118)	23,569	(239)	(70,788)
Effective portion of unrealized changes in fair values of cash flow hedges		299	(19,583)	8,334	(10,950)
Change in equity of equity method investments		62,255	(27,021)	7,662	42,896
Total	₩	63,130	55,491	(11,785)	106,836

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29. Earnings per Share

(a) Basic earnings per share

(i) Basic earnings per share for the years ended December 31, 2015 and 2014 are as follows:

		Korean won (millions, except per share amount)	
		2015	2014
Profit (loss) for the year attributable to the owners of the Company	₩	(383,067)	526,650
Interests of hybrid securities, net of tax		(12,721)	(12,721)
Weighted average number of common shares outstanding		29,552,204	29,552,204
Basic earnings per share	₩	(13,393)	17,391

(ii) Weighted average number of ordinary shares

		Number of shares	
		2015	2014
Issued ordinary shares at January 1		31,490,892	31,490,892
Effect of treasury shares		(1,938,688)	(1,938,688)
Weighted average number of ordinary shares		29,552,204	29,552,204

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29. Earnings per Share, Continued

(b) Diluted earnings per share

(i) Diluted earnings per share for the years ended December 31, 2015 and 2014 are as follows:

		Korean won (millions, except per share amount)	
		2015	2014
Profit (loss) for the year attributable to the owners of the Company (basic)	₩	(383,067)	526,650
Interests of hybrid securities, net of tax		(12,721)	(12,721)
Effect of convertible bonds, net of tax (*)		(1)	(20,622)
Effect of exchange of exchangeable bond, net of tax		(6,455)	(5,324)
Diluted profit attributable to ordinary shareholders		(402,244)	487,983
Diluted weighted average number of ordinary shares		29,552,204	30,428,932
Diluted earnings per share	₩	(13,611)	16,037

(*) For the year ended 31, 2015, the shares related to USD convertible bonds and JPY convertible bonds were excluded from diluted earnings per share calculation as their effect would have been anti-dilutive.

(ii) Diluted weighted average number of ordinary shares

		Number of shares	
		2015	2014
Basic weighted average number of ordinary shares		29,552,204	29,552,204
Effect of conversion of convertible bonds(*)		-	876,728
Diluted weighted average number of ordinary shares		29,552,204	30,428,932

(*) For the year ended 31, 2015, the shares related to USD convertible bonds and JPY convertible bonds were excluded from diluted earnings per share calculation as their effects would have been anti-dilutive.

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29. Earnings per Share, Continued

(b) Diluted earnings per share, continued

(iii) Potential ordinary shares from conversion of convertible bonds as of December 31, 2015 are as follows:

		Korean won (millions, except for conversion price)	
		USD Bonds	JPY Bonds
Principal amount (*1)	₩	20,803	128,610
Conversion price (in won) (*2)		647,979	647,979
Number of potential ordinary shares		32,105	198,478

(*1) Principal amount of convertible bonds are the amount of USD 19 million and JPY 9,560 million multiplied by fixed exchange rate of 1,083.50/USD and 13.4529/JPY, respectively.

(*2) On March 20, 2015, the general meeting of the Company's shareholders resolved to distribute cash dividends exceeding 0.5% of the market price of the Company's stock for the defined period. Consequently, in accordance with terms and conditions of conversion price adjustments in the contract, the conversion price was adjusted from ₩650,000 to ₩647,979.

30. Sales and Cost of Sales

(a) Details of sales for the years ended December 31, 2015 and 2014 are as follows:

		Korean won (millions)	
		2015	2014
Sales of merchandise	₩	24,166,462	23,432,763
Sales of products		54,982	89,082
Other operating revenue		3,409,872	3,108,178
Revenue of card business		1,496,339	1,469,544
Total	₩	29,127,655	28,099,567

(b) Details of cost of sales for the years ended December 31, 2015 and 2014 are as follows:

		Korean won (millions)	
		2015	2014
Cost of merchandise sold	₩	18,876,180	18,084,441
Cost of products sold		31,691	53,517
Cost of other operating revenue		435,447	376,367
Cost of card business		873,826	822,346
Total	₩	20,217,144	19,336,671

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31. Selling, General and Administrative Expenses:

Details of selling, general and administrative expenses for the years ended December 31, 2015 and 2014 are as follows:

		Korean won (millions)	
		2015	2014
Salaries	₩	1,456,508	1,387,123
Retirement and termination benefits		116,484	109,269
Other employee benefits		6,159	7,701
Employee welfare		317,500	295,511
Education and training		22,117	22,065
Travel		38,369	40,392
Maintenance fee for car		4,127	4,317
Insurance premium		19,165	16,861
Taxes and dues		181,279	179,650
Entertainment expenses		12,266	11,383
Supplies and stationery		83,137	89,227
Communications		44,202	41,460
Utilities		386,600	363,678
Maintenance		90,537	89,758
Rent		1,106,415	945,378
Depreciation		818,732	747,503
Amortization of intangible assets		88,117	75,166
Commissions and fees		1,183,261	1,155,702
Service commission expenses		893,871	821,292
Advertising		340,481	343,502
Sales promotion expenses		552,648	585,755
Decoration		16,656	20,406
Bad debt expenses		39,331	1,681
Transportation		218,560	206,580
Provisions		5,007	12
Others		15,269	13,145
Total	₩	8,056,798	7,574,517

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32. Other income and expenses

Details of other income and expenses for the years ended December 31, 2015 and 2014 are as follows:

		Korean won (millions)	
		2015	2014
Other income:			
Gain on foreign currency transactions	₩	2,069	1,038
Gain on foreign currency translation		441	512
Gain on disposal of investment property		699	-
Gain on disposal of property, plant and equipment		2,295	221,719
Gain on disposal of intangible assets		-	18
Reversal of impairment losses on other non-current assets		1	-
Reversal of impairment losses on intangible assets		41	52
Others (*1)		76,010	61,776
Total	₩	81,556	285,115
Other expenses:			
Loss on foreign currency transactions	₩	3,306	1,726
Loss on foreign currency translation		99	2
Loss on disposal of investment property		-	423
Loss on disposal of property, plant and equipment		41,306	58,214
Impairment loss on property, plant and equipment		17,670	8,139
Loss on disposal of intangible assets		805	16,590
Impairment loss on intangible assets		618,638	158,353
Loss on disposal of trade receivables		-	28
Loss on disposal of other non-current assets		38	709
Impairment loss on other non-current assets		13,543	-
Donation		32,721	25,214
Other bad debt expenses		3,631	4,633
Taxes and dues		7,961	608
Others (*2)		113,587	70,550
Total	₩	853,305	345,189

(*1) Others primarily relates to income from unused gift certificates after expiration date and penalty from suppliers on delayed delivery of merchandise.

(*2) Others primarily relates to non-deductible value added tax.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

33. Nature of Expenses

Details of nature of expenses for the years ended December 31, 2015 and 2014 are as follows:

		Korean won (millions)	
		2015	2014
Purchase of inventories	₩	18,942,312	18,250,171
Changes in inventories		(96,736)	(123,043)
Employee benefits expense		1,905,347	1,812,054
Rent		1,116,273	956,701
Depreciation and amortization		986,190	899,373
Sales commissions		759,712	765,276
Sales promotion expenses		552,772	585,757
Commissions		871,652	782,463
Service commission expenses		954,167	843,645
Advertising		368,333	371,401
Utilities		390,072	365,113
Taxes and dues		183,584	179,786
Others		1,340,264	1,222,491
Total	₩	28,273,942	26,911,188

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

34. Finance Income and Finance Costs

(a) Details of finance income and finance costs for the years ended December 31, 2015 and 2014 are as follows:

		Korean won (millions)	
		2015	2014
Finance income:			
Interest income	₩	92,885	94,159
Dividend income		8,364	4,476
Gain on foreign currency transactions		808	10,043
Gain on foreign currency translation		21,406	43,678
Gain on valuation of financial assets and liabilities at fair value through profit or loss		-	10,228
Gain on disposal of available-for-sale financial assets		28,270	16,847
Gain on valuation of derivative instruments held for the purpose of hedging		97,027	30,135
Gain on valuation of derivative instruments held for the purpose of trading		1,169	1,536
Gain on transaction of derivative instruments held for the purpose of hedging		8,445	8,021
Gain on redemption of debentures		-	17,397
Gain on disposal of investments in subsidiaries, associates and joint ventures		12,595	4,412
Total	₩	270,969	240,932
Finance costs:			
Interest expense	₩	254,350	248,700
Loss on foreign currency transactions		28,379	9,584
Loss on foreign currency translation		128,528	59,672
Loss on valuation of financial assets and liabilities at fair value through profit or loss		8,115	488
Loss on disposal of available-for-sale financial assets		803	3,983
Impairment loss on available-for-sale financial assets		6,905	1,529
Loss on valuation of derivative instruments held for the purpose of hedging		-	6,204
Loss on valuation of derivative instruments held for the purpose of trading		12,279	2,589
Loss on transaction of derivative instruments held for the purpose of hedging		239	9,708
Loss on redemption of debentures		-	131
Loss on disposal of investments in associates, joint ventures and subsidiaries		16	-
Impairment loss on investments in subsidiaries, associates and joint ventures		-	825
Total	₩	439,614	343,413

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December 31, 2015 and 2014

34. Finance Income and Finance Costs, Continued

- (b) Details of finance income and finance costs by financial instruments category for the years ended December 31, 2015 and 2014 are as follows:

		Korean won (millions)						
		2015						
		Cash and cash equivalents	Loans and receivables	Available-for-sale financial assets	Financial assets and liabilities at fair value through profit or loss	Derivative assets and liabilities held for the purpose of hedging	Financial liabilities based on amortized cost	Total
Recognized in profit or loss :								
Interest income	₩	39,400	782,917	417	76	-	-	822,810
Interest expense		-	-	-	-	-	(425,459)	(425,459)
Dividend income		-	-	8,301	-	-	-	8,301
Valuation / Disposal		-	27,429	27,728	(17,034)	147,621	-	185,744
Impairment		-	(248,935)	(15,661)	-	-	-	(264,596)
Gain (loss) on foreign currency translation/transactions		426	689	-	-	-	(191,130)	(190,015)
Commission revenue		-	837,198	-	-	-	-	837,198
Others		-	(754,689)	-	-	22,544	-	(732,145)
Subtotal		39,826	644,609	20,785	(16,958)	170,165	(616,589)	241,838
Recognized in other comprehensive income (loss) (*):								
Gain (loss) on valuation of available-for-sale financial assets		-	-	(99,835)	-	-	-	(99,835)
Loss on valuation of derivative instruments		-	-	-	-	(2,880)	-	(2,880)
Subtotal		-	-	(99,835)	-	(2,880)	-	(102,715)
Total	₩	39,826	644,609	(79,050)	(16,958)	167,285	(616,589)	139,123

- (*) The gain/loss on valuation of available-for-sale finance assets and of derivative assets and liabilities held for the purpose of hedging (other comprehensive income/loss) are amounts before offsetting effects of income taxes.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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December 31, 2015 and 2014

34. Finance Income and Finance Costs, Continued

- (b) Details of finance income and finance costs by financial instruments category for the years ended December 31, 2015 and 2014 are as follows:, continued

		Korean won (millions)					
		2014					
		Cash and cash equivalents	Loans and receivables	Available-for-sale financial assets	Financial assets and liabilities at fair value through profit or loss	Derivative assets and liabilities held for the purpose of hedging	Financial liabilities based on amortized cost
							Total
Recognized in profit or loss :							
Interest income	₩	51,308	760,466	692	93	-	-
Interest expense		-	-	-	-	-	(432,121)
Dividend income		-	-	4,616	-	-	-
Valuation / Disposal		-	28,024	31,490	8,687	50,615	-
Impairment		(68)	(206,478)	(1,529)	-	-	-
Gain (loss) on foreign currency translation/transactions		846	(1,218)	-	-	-	(56,509)
Commission revenue		-	744,393	-	-	-	-
Others		-	(692,074)	-	17,267	21,248	-
Subtotal		52,086	633,113	35,269	26,047	71,863	(488,630)
Recognized in other comprehensive income (loss) (*):							
Gain (loss) on valuation of available-for-sale financial assets		-	-	131,463	-	-	-
Loss on valuation of derivative instruments		-	-	-	-	(20,343)	-
Subtotal		-	-	131,463	-	(20,343)	-
Total	₩	52,086	633,113	166,732	26,047	51,520	(488,630)
							440,868

- (*) The gain/loss on valuation of available-for-sale finance assets and of derivative assets and liabilities held for the purpose of hedging (other comprehensive income/loss) are amounts before offsetting effects of income taxes.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

35. Income Taxes

(a) The components of income tax expense for the years ended December 31, 2015 and 2014 are as follows:

		Korean won (millions)	
		2015	2014
Current tax	₩	249,283	432,338
Deferred tax		(12,561)	53,175
Income taxes directly (charged) credited to equity		29,015	(23,241)
Income tax expense	₩	265,737	462,272

(b) During 2015 and 2014, the details of income tax expense recognized directly to equity are as follows:

		Korean won (millions)	
		2015	2014
Change in fair value of available-for-sale financial assets	₩	27,502	(40,331)
Exchange differences on translating foreign operations		(55)	(239)
Effective portion of changes in fair value of cash flow hedges		1,695	8,517
Defined benefit plan actuarial gain		5,000	504
Change in equity of equity method investments		(5,184)	8,200
Others		57	108
Income tax directly (charged) credited to equity	₩	29,015	(23,241)

Income tax related to actuarial losses (gains), losses (gains) on valuation of available-for-sale financial assets, cumulative effect of foreign currency translation, losses (gains) on valuation of derivatives, and changes in equity using equity method of accounting are recognized in other comprehensive income.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

35. Income Taxes, Continued

(c) During 2015 and 2014, statutory to actual effective tax rates are reconciled as follows:

		Korean won (millions)	
		2015	2014
Profit before income tax	₩	(79,764)	1,077,996
Tax rates (%)		23.60%	24.11%
Income tax using statutory tax rates		(18,827)	259,899
Adjustment:			
Tax effects on non-taxable income		(15,074)	(13,657)
Tax effects on non-deductible expense		31,904	12,911
Tax credit		(1,067)	(957)
Adjustments for prior periods		1,847	8,857
Tax effects on share of net income of subsidiaries, associates and joint ventures		33,949	56,005
Unused tax losses for which no deferred tax asset is recognized		229,838	134,110
Others		3,167	5,104
Income tax expenses	₩	265,737	462,272
Effective tax rate (%) (*)		-	42.88%

(*)The Group has not present effective tax rate due to loss incurred in 2015.

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

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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December 31, 2015 and 2014

35. Income Taxes, Continued

(e) Changes in deferred tax assets (liabilities) for the years ended December 31, 2015 and 2014 are as follows:

		Korean won (millions)		
		2015		
		Beginning balance	Profit or loss	Other comprehensive income
				Balance as of December 31, 2015
Impairment loss on available-for-sale financial assets	₩	1,969	3,790	-
Buildings		(13,458)	(419)	-
Depreciation expense		42,624	3,838	-
Allowance for doubtful accounts		2,586	(29)	-
Accrued revenues		(1,404)	24	-
Unearned revenues		30,553	(16,103)	-
Non-current prepaid expenses		(40,445)	443	-
Losses on valuation of inventories		2,563	2,607	-
Provision for sales return		2,296	(110)	-
Property, plant and equipment (capitalization of borrowing costs)		(10,293)	510	-
Land		32,548	-	-
Land (asset revaluation)		(1,022,505)	851	-
Provision for mileage program		18,652	(4,256)	-
Accrued expense		24,082	70	-
Gain (loss) on foreign currency translation		5,201	(3,370)	-
Gain (loss) on valuation of convertible bonds		(891)	441	-
Construction-in-progress		1,707	(56)	-
Other intangible assets		(52,072)	1,051	-
Rental guarantee deposits		12,744	(312)	-
Goodwill		(72,574)	21,587	-
Exchangeable debenture		(6,874)	2,168	-
Other capital surplus		62,270	-	-
Investments in subsidiaries and associates		(290,708)	(37,058)	(5,127)
Loss (gain) on valuation of available-for-sale financial assets		(102,175)	-	27,502
Loss (gain) on valuation of derivatives		15,446	(180)	1,695
Salaries and retirement benefits		18,756	(3,074)	5,000
Translation difference of foreign subsidiaries		2,485	-	(55)
Others		18,428	11,133	-
Total	₩	(1,318,489)	(16,454)	29,015
				(1,305,928)

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

35. Income Taxes, Continued

- (e) Changes in deferred tax assets (liabilities) for the years ended December 31, 2015 and 2014 are as follows:, continued

		Korean won (millions)		
		2014		
		Beginning balance	Profit or loss	Other comprehensive income
				Balance as of December 31, 2014
Impairment loss on available-for-sale financial assets	₩	1,348	621	-
Buildings		(14,367)	909	-
Depreciation expense		38,391	4,233	-
Allowance for doubtful accounts		1,890	696	-
Accrued revenues		(1,534)	130	-
Unearned revenues		8,357	22,196	-
Non-current prepaid expenses		(33,541)	(6,904)	-
Losses on valuation of inventories		3,724	(1,161)	-
Provision for sales return		1,788	508	-
Property, plant and equipment (capitalization of borrowing costs)		(12,595)	2,302	-
Land		32,840	(292)	-
Land (asset revaluation)		(1,063,563)	41,058	-
Deferred revenue		23,227	(23,227)	-
Provision for mileage program		14,492	4,160	-
Accrued expense		21,362	2,720	-
Gain (loss) on foreign currency translation		4,364	837	-
Gain (loss) on valuation of convertible bonds		(1,032)	141	-
Construction-in-progress		1,727	(20)	-
Other intangible assets		(55,714)	3,642	-
Rental guarantee deposits		11,501	1,243	-
Goodwill		(63,117)	(9,457)	-
Exchangeable debenture		(8,973)	2,099	-
Other capital surplus		62,270	-	-
Investments in subsidiaries and associates		(237,784)	(61,231)	8,307
Loss (gain) on valuation of available-for-sale financial assets		(61,845)	-	(40,330)
Loss (gain) on valuation of derivatives		15,624	(8,694)	8,516
Salaries and retirement benefits		18,212	40	504
Translation difference of foreign subsidiaries		2,723	-	(238)
Others		24,910	(6,482)	-
Total	₩	(1,265,315)	(29,933)	(23,241)
				(1,318,489)

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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December 31, 2015 and 2014

35. Income Taxes, Continued

- (f) As of December 31, 2015 and 2014, the amounts of total deductible temporary differences related to investments in associates, joint ventures and subsidiaries for which deferred tax assets were not recognized are as follows:

		Korean won (millions)	
		December 31, 2015	December 31, 2014
Investments in associates and joint ventures	₩	343,253	220,444
Investments in subsidiaries		1,942,984	1,300,007
Total	₩	2,286,237	1,520,451

36. Consolidated statements of cash flows

As of December 31, 2015 and 2014, the details of cash and cash equivalents are as follows:

		Korean won (millions)	
		December 31, 2015	December 31, 2014
Cash	₩	37,243	42,852
Deposits		587,247	558,107
Other cash equivalents		1,126,778	1,327,177
Total	₩	1,751,268	1,928,136

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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December 31, 2015 and 2014

37. Operating Leases

(a) Lessee

The Group has entered into the operating leases for buildings, furniture and fixtures and vehicles. Future lease payments under operating leases of land and buildings as of December 31, 2015 and 2014 are as follows:

		Korean won (millions)	
		2015	2014
Within 1 year	₩	929,426	665,322
1 ~ 5 years		2,989,971	2,325,157
Thereafter		7,471,285	5,371,598
Total	₩	11,390,682	8,362,077

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 ₩41,380 million and ₩45,316 million during 2015 and ₩41,046 million and ₩45,121 million during 2014, respectively. The related deposit balances amount to ₩1,827,999 million and ₩1,765,251 million as of December 31, 2015 and 2014 respectively. Such amounts were measured using the fixed interest rate for time deposits with similar maturities.

(b) Lessor

The Group has entered into operating leases of certain of its properties and equipment. Future minimum lease payments receivable under operating leases as of December 31, 2015 and 2014 are as follows:

		Korean won (millions)	
		2015	2014
Within 1 year	₩	143,525	177,393
1 ~ 5 years		192,862	162,932
Thereafter		150,477	190,591
Total	₩	486,864	530,916

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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December 31, 2015 and 2014

38. Greenhouse Gases Emission Rights

(a) Emission Right

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

	Emissions (tCO ₂ -eq)
2015	872,149
2016	848,205
2017	825,406
Total	2,545,760

There is no pledged emission and the Group has 2,545,760tCO₂-eq of emissions.

(b) Emission liability

The Group has estimated to emit 818,352tCO₂-eq of CO₂ in 2015.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

39. Operating Segments and Geographic Information

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

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

- (b) Information about reportable segments as of and for the years ended December 31, 2015 and 2014 are as follows:

Korean won (millions)							
December 31, 2015							
	Department stores	Discount stores	Finance business	Consumer electronics retail	Convenience stores	Others	Total
External sales ₩	8,011,056	8,272,480	1,587,249	3,889,804	3,296,465	4,070,601	29,127,655
Inter-segment sales	21,476	51,212	202,699	6,333	18,349	257,534	557,603
Total sales	8,032,532	8,323,692	1,789,948	3,896,137	3,314,814	4,328,135	29,685,258
Interest income	93,536	15,965	767	5,865	11,643	44,111	171,887
Interest expenses	8,690	219,101	1,841	24,077	8,235	73,375	335,319
Depreciation and amortization	368,012	232,264	47,682	52,386	66,283	205,061	971,688
Equity method income (loss) of investments in associates	13,721	(1,325)	209	-	(849)	(4,839)	6,917
Income tax expense	144,202	(10,464)	41,792	36,631	12,161	20,337	244,659
Segment profit	447,010	(470,282)	119,811	106,595	(44,153)	(1,153,696)	(994,715)
Segment assets	16,704,343	9,742,640	9,402,558	2,905,213	1,149,742	6,813,434	46,717,930
Segment liabilities	9,886,930	2,678,163	7,365,241	1,122,386	762,710	2,668,690	24,484,120

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

39. Operating Segments and Geographic Information, Continued

(b) Information about reportable segments as of and for the years ended December 31, 2015 and 2014 are as follows:, continued

		Korean won (millions)						
		December 31, 2014						
		Department stores	Discount stores	Finance business	Consumer electronics retail	Convenience stores	Others	Total
External sales	₩	8,027,870	8,166,891	1,553,512	3,753,457	2,667,050	3,930,787	28,099,567
Inter-segment sales		15,875	42,066	207,299	838	18,455	96,723	381,256
Total sales		8,043,745	8,208,957	1,760,811	3,754,295	2,685,505	4,027,510	28,480,823
Interest income		106,064	10,192	687	5,363	12,213	36,965	171,484
Interest expenses		5,628	231,551	2,030	25,172	11,022	51,100	326,503
Depreciation and amortization		321,599	225,861	44,367	20,094	66,340	206,735	884,996
Equity method income (loss) of investments in associates		58,032	(871)	(275)	-	(2,936)	(1,778)	52,172
Income tax expense		256,365	23,443	53,872	28,009	8,745	36,067	406,501
Segment profit		686,698	(215,721)	147,390	96,438	26,355	(384,629)	356,531
Segment assets		16,794,731	10,412,802	8,575,013	2,774,637	1,157,632	6,954,994	46,669,809
Segment liabilities		10,029,922	2,569,120	6,631,412	1,089,503	722,614	1,774,175	22,816,746

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39. Operating Segments and Geographic Information, Continued

- (c) Reconciliations of total segment sales and profit to their respective consolidated financial statements line items for the years ended December 31, 2015 and 2014 are summarized as follows:

		Korean won (millions)	
		2015	
		Sales	Profit for the year
Department stores	₩	8,032,532	447,010
Discount stores		8,323,692	(470,282)
Finance business		1,789,948	119,811
Consumer electronics retail		3,896,137	106,595
Convenience stores		3,314,814	(44,153)
Others		4,328,135	(1,153,696)
Segment totals		29,685,258	(994,715)
Elimination of inter-segment amounts		(557,603)	649,214
After consolidated adjustments	₩	29,127,655	(345,501)
		Korean won (millions)	
		2014	
		Sales	Profit for the year
Department stores	₩	8,043,745	686,698
Discount stores		8,208,957	(215,721)
Finance business		1,760,811	147,390
Consumer electronics retail		3,754,295	96,438
Convenience stores		2,685,505	26,355
Others		4,027,510	(384,629)
Segment totals		28,480,823	356,531
Elimination of inter-segment amounts		(381,256)	259,193
After consolidated adjustments	₩	28,099,567	615,724

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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December 31, 2015 and 2014

39. Operating Segments and Geographic Information, Continued

- (d) Reconciliation of segment assets and liabilities to their respective consolidated financial statement line items as of December 31, 2015 and 2014 are summarized as follows:

		Korean won (millions)	
		December 31, 2015	
		Assets	Liabilities
Department stores	₩	16,704,343	9,886,930
Discount stores		9,742,640	2,678,163
Finance business		9,402,558	7,365,241
Consumer electronics retail		2,905,213	1,122,386
Convenience stores		1,149,742	762,710
Others		6,813,434	2,668,690
Segment totals		46,717,930	24,484,120
Elimination of inter-segment assets and liabilities		(1,041,480)	(1,041,480)
Adjustments of business combinations		851,662	162,884
Investments in subsidiaries and associates		(5,834,746)	-
Subtotal		(6,024,564)	(878,596)
After consolidated adjustments	₩	40,693,366	23,605,524

		Korean won (millions)	
		December 31, 2014	
		Assets	Liabilities
Department stores	₩	16,794,731	10,029,922
Discount stores		10,412,802	2,569,120
Finance business		8,575,013	6,631,412
Consumer electronics retail		2,774,637	1,089,503
Convenience stores		1,157,632	722,614
Others		6,954,994	1,774,175
Segment totals		46,669,809	22,816,746
Elimination of inter-segment assets and liabilities		(503,951)	(503,951)
Adjustments of business combinations		784,617	215,654
Investments in subsidiaries and associates		(6,878,149)	-
Subtotal		(6,597,483)	(288,297)
After consolidated adjustments	₩	40,072,326	22,528,449

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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December 31, 2015 and 2014

39. Operating Segments and Geographic Information, Continued

(e) Sales by geographical areas for the years ended December 31, 2015 and 2014 are summarized as follows:

Region		Korean won (millions)	
		2015	2014
Domestic	₩	26,893,998	25,732,612
China		1,475,706	1,506,624
Vietnam		278,390	204,407
Indonesia		1,037,164	1,037,180
Total	₩	29,685,258	28,480,823

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

(f) Non-current assets by geographical areas as of December 31, 2015 and 2014 are summarized as follows:

Region		Korean won (millions)	
		December 31, 2015	December 31, 2014
Domestic	₩	18,082,243	18,431,098
China		467,401	905,143
Vietnam		374,769	345,396
Indonesia		214,477	216,924
Total	₩	19,138,890	19,898,561

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

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

39. Operating Segments and Geographic Information, Continued

(g) Sales by types of products and services for each operating segment for the years ended December 31, 2015 and 2014 are summarized as follows:

		Korean won (millions)					
		December 31, 2015					
		Department stores	Discount stores	Finance business	Consumer electronics retail	Convenience stores	Others (*)
							Total
Sales of merchandise	₩	6,929,852	7,753,894	3,894	3,880,911	3,102,471	24,195,210
Sales of products		-	-	-	-	-	54,982
Financial income		-	-	1,697,784	-	-	1,697,784
Commissions		-	-	-	-	211,905	986,811
Rental income		507,444	170,590	-	1,403	438	737,634
Others		595,236	399,208	88,270	13,823	-	2,012,837
Total segment sales	₩	8,032,532	8,323,692	1,789,948	3,896,137	3,314,814	29,685,258

		Korean won (millions)					
		December 31, 2014					
		Department stores	Discount stores	Finance business	Consumer electronics retail	Convenience stores	Others (*)
							Total
Sales of merchandise	₩	7,123,132	7,640,011	4,708	3,738,940	2,455,330	23,474,363
Sales of products		-	-	-	-	-	89,082
Financial income		-	-	1,675,891	-	-	1,675,891
Commissions		-	-	-	-	229,490	976,721
Rental income		855,533	204,306	-	2,098	685	1,076,843
Others		65,080	364,640	80,212	13,257	-	1,187,923
Total segment sales	₩	8,043,745	8,208,957	1,760,811	3,754,295	2,685,505	28,480,823

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

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

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

40. Contingent Liabilities and Financial Commitments

(a) As of December 31, 2015, the Group has the following credit facility commitments with financial institutions:

		Credit line Korean won (millions), Foreign currency (thousands)		Amount used under credit facility Korean won (millions), Foreign currency (thousands)
General loan	KRW	2,098,200	KRW	878,900
	CNY	6,603,592	CNY	5,399,639
	VND	2,518,087,647	VND	2,518,087,647
	USD	468,900	USD	468,056
	IDR	2,320,000,000	IDR	1,880,000,000
	HKD	197,000	HKD	178,000
Discount of bill	KRW	1,490,000	KRW	940,000
Buyer's credit	KRW	635,000	KRW	97,521
Bank overdraft	KRW	333,000	KRW	-
	CNY	300,000	CNY	166,912
Guarantee	KRW	25,150	KRW	21,578
Letter of credit and others	USD	36,700	USD	10,053
Others	KRW	69,000	KRW	20

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

Company	Contractor	Description of contract
Lotte Shopping Co., Ltd.	Lotte Station Building Co., Ltd.	Providing management services
Lotte Card Co., Ltd.	American Express Company, Master Card International, Visa International, JCB International and UNIONPAY INTERNATIONAL	Commissions based on credit card transaction amount
Woori Home Shopping & Television Co., Ltd.	Lotte Capital Co., Ltd. LOTTE rental Co., Ltd. Shinhan card Lotte Card Co., Ltd. BC CARD CO., LTD. LOTTE LOGISTICS CORP. HYUNDAI LOGISTICS CO.,LTD. CJ Korea Express Corporation HANJIN TRANSPORTATION CO., LTD. Cable TV operators	Contract of operating leases Contract of operating leases Issuing credit cards Logistics services
Korea Seven Co., Ltd.	7-Eleven, Inc.	Providing broadcast programs Using the registered trademark and operating know-how
NCF Co., Ltd.	Nice Claup Co., Ltd.	Royalty payments based on net revenue of selling and manufacturing amounts

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

40. Contingent Liabilities and Financial Commitments, Continued

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

Company	Contractor	Description of contract
Buy the way Inc.	7-Eleven, Inc.	Using the registered trademark and operating know-how
	KTOTO.CO.,LTD.	Renewal guarantees of payments for goods every year

- (c) As of December 31, 2015, the Group is the plaintiff in various lawsuits with damage claims totaling ₩66,213 million and the Group is the defendant in various lawsuits with damage claims totaling ₩123,471 million, among which ₩35,462 million is related to a claim against Lotte Card Co., Ltd., a subsidiary of the Company, related to personal data leaks. The Group cannot reliably estimate the impacts from lawsuit results related to personal data leaks and recognized other provision of ₩4,093 million in regard to the claim. The management believes that the ultimate resolutions of other legal action except 90 lawsuits recognized as an other provision of ₩4,734 million will not have a material effect of the financial position or results of operations of the Group.
- (d) Lotte Card Co., Ltd. has sold certain card assets to SPCs pursuant to the Assets-Backed Securitization Law of the Republic of Korea and assumed the liability to pay the outstanding card assets when the transferred card assets cannot meet the prescribed qualifications in the contract or fall into arrears in accordance with the terms of assets transfer agreement and other contracts. Accordingly, as prescribed in the assets transfer agreement and other contracts, the SPCs have obligations of early redemption of the asset-backed securities when average portfolio earnings ratio during three consecutive settlement periods is lower than the average primary cost ratio or when outstanding balance of adjusted securitized assets is less than the minimum principal balance as of closing date of each settlement period and others.
- (e) The Company has the right to purchase 5.1% of the Hyundai Logistics Co., Ltd. shares held by IGIS I Corporation and in the event the Company does not exercise the call option, IGIS I Corporation has the right to require the Company to purchase 5.1% of Hyundai Logistics Co., Ltd. shares held by IGIS I Corporation. In connection with IGIS I Corporation's borrowings, all IGIS I Corporation shares (₩5,477 million of book value) held by the Company have been in pledge in Mizuho Corporate Bank.
- (f) The Group disposed of land and buildings to structured entities and the Group has been leasing the assets. The details are as follows:
- (i) The Company disposed of land and buildings of 3 stores including Lotte mart Jeju store to KTB Confidence Private Real Estate Investment Trust for ₩220 billion in 2008 and the Company has been leasing the assets. The Company has the options to purchase the assets at a fair value at the end of the lease.
- (ii) The Company disposed of land and buildings of 6 stores including Lotte department store Bundang store to Lotte Retail Real Estate Investment Trust for ₩595 billion in 2010 and 2011, and the Company has been leasing the assets. The Company has the options to purchase the assets at a fair value at the end of the lease.
- (iii) The Company has been leasing the building of Lotte outlet esiapolis store from KB Star Retail Private Real Estate Investment Trust since 2013 and the Company has the preferential right of negotiation to purchase the building.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

40. Contingent Liabilities and Financial Commitments, Continued

- (f) The Group disposed of land and buildings to structured entities and the Group has been leasing the assets. The details are as follows:, continued
- (iv) In 2014, the Company disposed of land and buildings of 2 Lotte department stores including Ilsan store and 5 Lotte mart stores including Bupyeong store to KTB Confidence Private Real Estate Investment Trust for ₩602 billion and the Company has been leasing the assets. The Company disposed of land and buildings of 2 Lotte department stores including Dongnae store and 3 Lotte mart stores including Sungjung store to Capstone Private Real Estate Investment Trust for ₩500 billion and the Company has been leasing the assets. The Company has the preferential right of negotiation to purchase the assets at the end of the lease.
- (v) In 2015, the Company disposed of land and buildings of Lotte outlets store Gwangmyeong to KTB Confidence Private Real Estate Investment Trust for ₩147 billion and the Company has been leasing the assets. And the Company disposed of land and buildings of Lotte mart Yangdeok to KB Lotte Master Lease Private Real Estate Investment Trust for ₩55 billion and the Company has been leasing the assets. The Company has the preferential right of negotiation to purchase the assets at the end of the lease.

The Group does not consolidate these structured entities.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

41. Inter-company Transactions and Balances with Consolidated Companies

(a) The Group has provided guarantees for consolidated companies as of December 31, 2015 as follows:

Consolidated company	Provided by	Guarantee recipient	2015	
			Type of borrowings	Guaranteed amount (thousands)
LOTTE PROPERTIES (CHENGDU) HK LIMITED	Lotte Shopping Co., Ltd.	Korea Exchange Bank	Working capital	USD 140,000
Lotte Shopping Holdings (Hong Kong) Co., Limited	Lotte Shopping Co., Ltd.	Shinhan Bank	Working capital	USD 50,000
		Standard Chartered Bank Korea Limited		USD 38,136
		BNP Paribas		USD 38,135
		Citibank N.A., Hong Kong Branch		USD 38,135
		SMBC		USD 38,135
		ING		USD120,214
		Shinhan Bank		HKD 8,000
PT. LOTTE Shopping Avenue Indonesia	Lotte Shopping Co., Ltd.	HSBC	Working capital	USD 95,298
		DBS		USD 20,000
		JP Morgan		IDR 200,000,000
Lotte Business Management (Tianjin) Co., Ltd.	Lotte Shopping Co., Ltd.	DBS	Working capital	CNY 200,000
LOTTE DEPARTMENT STORE (TIANJIN) CO., LTD.	Lotte Shopping Co., Ltd.	DBS	Working capital	CNY 110,000
Lucky Pai (Shanghai) Trading Co., Ltd.	Lotte Shopping Co., Ltd. and Woori Home Shopping & Television Co., Ltd.	Shinhan Bank	Working capital	CNY 46,000
				CNY 14,000
		KEB Hana Bank		CNY 57,000
				CNY 58,000
				CNY 39,900
				CNY 20,100

(b) In 2015, the Company entered into an agreement to provide financial support for Suwon Landmark the Second Co., Ltd. in default of the principal and interest on the Asset Backed Commercial Paper ("ABCP", ₩250,000 million of par value in maturing in 36 months) issued by Suwon Landmark the Second Co., Ltd. on May 28, 2015, which was collateralized with the assets of LOTTE Suwon Station Shopping Town CO., LTD.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

42. Transactions and Balances with Related Companies

(a) Details of control and subsidiary relationships with the Company as of December 31, 2015 are as follows:

Related company	Ownership (%)	Control relationship (*)
Hotel Lotte Co., Ltd.	8.83	Affiliate of Lotte Group
Korea Fuji Film Co., Ltd.	7.86	Affiliate of Lotte Group
Lotte Confectionery Co., Ltd.	7.86	Affiliate of Lotte Group
LOTTE DATA COMMUNICATION COMPANY	4.81	Affiliate of Lotte Group
Lotte Chilsung Beverage Co., Ltd.	3.93	Affiliate of Lotte Group
Lotte Engineering & Construction Co., Ltd.	0.95	Affiliate of Lotte Group
Hotel Lotte Pusan Co., Ltd.	0.78	Affiliate of Lotte Group

(*) Lotte Group represents a group of entities as defined and restricted by the Monopoly Regulation and Fair Trade Act in Korea.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

42. Transactions and Balances with Related Companies, Continued

- (b) Significant transactions which occurred in the normal course of business with related companies for the years ended December 31, 2015 and 2014 are summarized as follows:

Related company	Korean won (millions)				
	2015				
	Sales	Purchase of inventories	Purchase of fixed asset	Other revenue	Other expenses
Shareholders:					
Hotel Lotte Co., Ltd.	₩ 77,509	141	3,410	1,180	107,943
Lotte Confectionery Co., Ltd.	14,547	154,965	-	53	18,082
Lotte Chilsung Beverage Co., Ltd.	12,573	110,092	-	64	642
Lotte Engineering & Construction Co., Ltd.	6,837	-	292,022	-	128
Hotel Lotte Pusan Co., Ltd.	9,723	26	-	-	19,414
LOTTE DATA COMMUNICATION COMPANY	18,319	1,595	131,706	50	173,679
Korea Fuji Film Co., Ltd.	1,431	537	-	-	55
Subtotal	140,939	267,356	427,138	1,347	319,943
Associates:					
DAEHONG COMMUNICATIONS INC.	32,881	-	1,025	46	89,528
Lotte Station Building Co., Ltd.	28,586	38	16	1,474	5,548
Lotteria Co., Ltd.	22,692	5,681	55	63	1,920
Lotte Trading Co., Ltd.	5,172	230,181	-	615	299
Others	102,137	71,976	7,071	1,340	87,763
Subtotal	191,468	307,876	8,167	3,538	185,058
Others:					
LOTTE FOOD CO., LTD.	19,115	203,575	-	12	7,785
Lotte Aluminum Co., Ltd.	3,044	17,107	38,184	1	34,785
Lotte Logistics Co., Ltd.	35,488	2,118,619	2,100	9,797	257,159
Others	64,763	34,478	22,613	1,032	198,025
Subtotal	122,410	2,373,779	62,897	10,842	497,754
Total	₩ 454,817	2,949,011	498,202	15,727	1,002,755

During 2015, the Group disposed of shares of Lotte Aluminum Co., Ltd. to Hotel Lotte Co., Ltd. for ₩83,999 million.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

42. Transactions and Balances with Related Companies, Continued

- (b) Significant transactions which occurred in the normal course of business with related companies for the years ended December 31, 2015 and 2014 are summarized as follows:, continued

Related company	Korean won (millions)				
	2014				
	Sales	Purchase of inventories	Purchase of fixed asset	Other revenue	Other expenses
Shareholders:					
Hotel Lotte Co., Ltd.	₩ 50,202	144	5,282	711	125,669
Lotte Confectionery Co., Ltd.	16,746	130,795	-	22	18,341
Lotte Chilsung Beverage Co., Ltd.	12,753	109,991	-	39	563
Lotte Engineering & Construction Co., Ltd.	4,442	-	986,478	15	682
Hotel Lotte Pusan Co., Ltd.	7,903	-	80	10	19,733
LOTTE DATA COMMUNICATION COMPANY	40,436	1,993	99,335	562	159,793
Korea Fuji Film Co., Ltd.	1,592	1,035	-	-	12
Subtotal	134,074	243,958	1,091,175	1,359	324,793
Associates:					
DAEHONG COMMUNICATIONS INC.	29,575	-	1,361	453	80,791
Lotte Station Building Co., Ltd.	23,469	-	-	-	6,384
Lotteria Co., Ltd.	22,073	7,540	-	1,482	1,997
Lotte Trading Co., Ltd.	9,195	267,559	-	17	221
Others	80,406	57,177	2,439	1,184	168,107
Subtotal	164,718	332,276	3,800	3,136	257,500
Others:					
LOTTE FOOD CO., LTD.	20,543	177,624	93	53	6,972
Lotte Aluminum Co., Ltd.	2,658	17,840	14,526	5	31,868
Lotte Logistics Co., Ltd.	26,001	1,563,742	1,252	21	202,400
Others	51,673	30,344	13,608	1,562	69,388
Subtotal	100,875	1,789,550	29,479	1,641	310,628
Total	₩ 399,667	2,365,784	1,124,454	6,136	892,921

During 2014, the Group disposed of shares of Lotte Boulangerie Co., Ltd. which was the Company's subsidiary to Lotte Confectionery Co., Ltd. for ₩182 million, shares of Lotte Chilsung Beverage Co., Ltd. to Lotte Confectionery Co., Ltd. for ₩36,692 million and shares of Hotel Lotte Co., Ltd. to Hotel Lotte Pusan Co., Ltd. for ₩43,193 million. Meanwhile, the Group acquired shares of Lotte Trading Co., Ltd. from Lotte Chilsung Beverage Co., Ltd., Lotte Engineering & Construction Co., Ltd. and others for ₩42,980 million.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

42. Transactions and Balances with Related Companies, Continued

- (c) Significant financial transactions with related companies for the years ended December 31, 2015 and 2014 are summarized as follows:

Related company	Korean won (millions)			
	2015			
	Borrowings	Repayment	Capital increase	Capital decrease
Associates:				
Lotte Europe Holdings B.V.	₩ -	-	10,855	-
Lotte Asset Development Co., Ltd.	-	-	19,571	-
Shandong Longzhile Cinema Co., Ltd.	-	-	437	-
Hemisphere Film Investors II LLC	-	-	-	7,012
LOTTE Town Dongtan Co., LTD	-	-	35,000	-
LOTTE CAPITAL CO., LTD.	15,000	10,000	-	-
Mybi.Co.Ltd	10,000	-	-	-
Others	-	-	3,450	636
Subtotal	25,000	10,000	69,313	7,648
Others:				
Lotte Capital Lease & Finance (China) Co., Ltd. and others	25,513	17,824	2,000	-
Total	₩ 50,513	27,824	71,313	7,648

Related company	Korean won (millions)				
	2014				
	Collection	Borrowings	Repayment	Capital increase	Capital decrease
Associates:					
PT. Lotte Capital Indonesia	₩ -	4,534	2,943	-	-
Shandong Longzhile Cinema Co., Ltd.	1,741	-	-	4,123	-
Eunpyeong PFV	-	-	-	3,500	-
Others	-	-	-	858	750
Subtotal	1,741	4,534	2,943	8,481	750
Joint ventures:					
STL Co., Limited	-	-	-	1,500	-
Yunnan Maile TV Shopping Media Co., Ltd.	-	-	-	838	-
Subtotal	-	-	-	2,338	-
Others:					
Lotte Capital Lease & Finance (China) Co., Ltd.	-	30,086	-	-	-
Total	₩ 1,741	34,620	2,943	10,819	750

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

42. Transactions and Balances with Related Companies, Continued

(d) Account balances with related companies as of December 31, 2015 and 2014 are summarized as follows:

Related company	Korean won (millions)				
	2015				
	Receivables		Payables		
	Trade receivables	Other receivable s	Trade payables	Borrowings	Other payables
Shareholders:					
Hotel Lotte Co., Ltd.	₩ 4,211	73,043	2	-	31,934
Lotte Confectionery Co., Ltd.	304	12,659	20,181	-	2,113
Lotte Chilsung Beverage Co., Ltd.	724	55,443	7,338	-	6,270
Lotte Engineering & Construction Co., Ltd.	-	39,842	-	-	112,970
Hotel Lotte Pusan Co., Ltd.	171	10,863	3	-	3,919
LOTTE DATA COMMUNICATION COMPANY	5	12,725	359	-	53,918
Korea Fuji Film Co., Ltd.	5	90	78	-	1,560
Subtotal	5,420	204,665	27,961	-	212,684
Associates:					
DAEHONG COMMUNICATIONS INC.	4,696	798	-	-	24,372
Lotte Station Building Co., Ltd.	9,111	12,630	-	-	11,180
Lotteria Co., Ltd.	343	1,598	389	-	11,224
Lotte Trading Co., Ltd.	26	978	8,756	-	78
Others	2,290	6,467	17,303	15,000	38,107
Subtotal	16,466	22,471	26,448	15,000	84,961
Others:					
LOTTE FOOD CO., LTD.	97	3,887	21,143	-	8,358
Lotte Aluminum Co., Ltd.	-	18,448	1,747	-	10,578
Lotte Logistics Co., Ltd.	2	2,629	236,535	-	25,537
Others	2,610	109,188	4,073	21,159	61,859
Subtotal	2,709	134,152	263,498	21,159	106,332
Total	₩ 24,595	361,288	317,907	36,159	403,977

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

42. Transactions and Balances with Related Companies, Continued

- (d) Account balances with related companies as of December 31, 2015 and 2014 are summarized as follows;
continued

Related company	Korean won (millions)				
	2014				
	Receivables		Payables		
	Trade receivables	Other receivables	Trade payables	Borrowings	Other payables
Shareholders:					
Hotel Lotte Co., Ltd.	₩ 101	67,207	-	-	59,121
Lotte Confectionery Co., Ltd.	472	11,352	18,102	-	2,502
Lotte Chilsung Beverage Co., Ltd.	118	54,126	5,102	-	4,497
Lotte Engineering & Construction Co., Ltd.	44	49,383	-	-	197,912
Hotel Lotte Pusan Co., Ltd.	-	10,618	-	-	2,929
LOTTE DATA COMMUNICATION COMPANY	147	12,482	327	-	44,016
Korea Fuji Film Co., Ltd.	4	78	178	-	1,260
Subtotal	886	205,246	23,709	-	312,237
Associates:					
DAEHONG COMMUNICATIONS INC.	4,421	838	-	-	21,621
Lotte Station Building Co., Ltd.	10,759	14,921	-	-	7,329
Lotteria Co., Ltd.	25	1,531	568	-	10,933
Lotte Trading Co., Ltd.	6	1,163	7,507	-	61
Others	77,528	7,820	15,981	-	60,203
Subtotal	92,739	26,273	24,056	-	100,147
Others:					
LOTTE FOOD CO., LTD.	240	1,622	13,717	-	7,800
Lotte Aluminum Co., Ltd.	39	18,377	1,307	-	7,524
Lotte Logistics Co., Ltd.	-	1,138	181,676	-	20,204
Others	3,599	150,995	2,589	9,925	49,372
Subtotal	3,878	172,132	199,289	9,925	84,900
Total	₩ 97,503	403,651	247,054	9,925	497,284

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

42. Transactions and Balances with Related Companies, Continued

- (e) The Group has provided guarantees for related companies as of December 31, 2015 as follows:

Related company	Guarantee recipient	Type of borrowings	Guaranteed amount (thousand)
Associates:			
Lotte Shopping Rus Ltd.	Korea Exchange Bank	Working capital	USD 5,000
Shandong Longzhile Cinema Co., Ltd.	Shinhan Bank	Working capital	CNY 24,000
Joint ventures:			
International Business Center Company Limited	The Export-Import Bank of Korea	Working capital	USD 18,500
	KEXIM (Vietnam)	Working capital	USD 1,500

- (f) The fulfillment of the VPF contract between D-Cinema of Korea Co., Ltd. and Twentieth Century Fox Film Corporation was equally guaranteed by CGV and the Group in October 2008.
- (g) The fulfillment of the loyalty contract between Burger King Japan Co., Ltd. and BK Asiapac, Pte. Ltd. was guaranteed by the Group.
- (h) The Group entered into an agreement to jointly provide financial support for HND able 2nd limited ("HND able") and Invest Farmland Co., Ltd. in default of the principal and interest on the Asset Backed Commercial Paper ("ABCP", ₩700,000 million of par value in maturing in 57 months) issued by HND able on May 27, 2013, which is collateralized with the assets of Lotte Incheon Development Co., Ltd. and on the electronics a short-term debenture (₩34,000 million of par value in maturing in 14 months) issued by Lotte Incheon Town Co., Ltd on October 26, 2015.
- (i) In 2015, Lotte Incheon Town Co., Ltd., which is the Group's associate, entered into a land sale and purchase contract with the government of Incheon city. As a result of the contract, the Group collected a security deposit of ₩30,600 million, which was previously paid by the Group to the Incheon city from Lotte Incheon Town Co., Ltd.
- (j) In 2013, the Group issued hybrid securities, among which ₩20,000 million is held by Lotte Non-Life Insurance Co., Ltd.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

43. Risk Management

(a) Management of financial risks

Objectives and Policies of the Group

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

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

Credit Risk

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

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

1) Exposure to credit risk

The book value of a financial asset represents the maximum exposure to credit risk. The maximum exposures to credit risk as of December 31, 2015 and 2014 are as follows:

Account		Korean won (millions)	
		December 31, 2015	December 31, 2014
Cash equivalent (*1)	₩	1,714,025	1,885,284
Trade and other receivables		918,851	912,952
Other financial assets (current)		9,672,512	8,598,854
Other financial assets (non-current) (*2)		1,527,522	1,328,751
Total	₩	13,832,910	12,725,841

(*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.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

43. Risk Management, Continued

(a) Management of financial risks, continued

2) Impairment loss

Trade and other receivables, other financial assets (current), and other financial assets (non-current), before deducting the allowance for doubtful accounts as of December 31, 2015 and 2014 are summarized as follows:

		Korean won (millions)			
		December 31, 2015			
Description		Receivables that are neither past due nor impaired	Receivables that are past due as at the end of the reporting period but not impaired	Receivables impaired(*)	Total
Trade and other receivables	₩	882,488	36,363	51,228	970,079
Other financial assets (current)		9,296,172	316,064	267,265	9,879,501
Other financial assets (non-current)		1,527,522	-	4,057	1,531,579
Total	₩	<u>11,706,182</u>	<u>352,427</u>	<u>322,550</u>	<u>12,381,159</u>

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

		Korean won (millions)			
		December 31, 2014			
Description		Receivables that are neither past due nor impaired	Receivables that are past due as at the end of the reporting period but not impaired	Receivables impaired(*)	Total
Trade and other receivables	₩	895,725	17,227	16,131	929,083
Other financial assets (current)		8,116,624	420,415	240,921	8,777,960
Other financial assets (non-current)		1,323,382	5,369	4,000	1,332,751
Total	₩	<u>10,335,731</u>	<u>443,011</u>	<u>261,052</u>	<u>11,039,794</u>

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

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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December 31, 2015 and 2014

43. Risk Management, Continued

(a) Management of financial risks, continued

3) Allowance for doubtful trade and other receivables

The movement in the allowance for doubtful trade and other receivables for the years ended December 31, 2015 and 2014 are summarized as follow:

		Korean won (millions)	
		2015	2014
Balance at beginning of the year	₩	16,131	17,087
Impairment loss		38,334	5,206
Reversal of Impairment loss		(144)	(220)
Write-offs		(3,310)	(5,253)
Recoveries		83	27
Others		134	(716)
Balance at end of the year	₩	51,228	16,131

The movement in the allowance for doubtful other financial assets (current) for the years ended December 31, 2015 and 2014 are summarized as follow:

		Korean won (millions)	
		2015	2014
Balance at beginning of the year	₩	179,106	220,727
Impairment loss		211,963	197,360
Write-offs		(198,400)	(250,811)
Recoveries		14,321	11,830
Balance at end of the year	₩	206,990	179,106

The movement in the allowance for doubtful other financial assets (non-current) for the years ended December 31, 2015 and 2014 are summarized as follow:

		Korean won (millions)	
		2015	2014
Balance at beginning of the year	₩	4,000	2,000
Impairment loss		5,400	2,000
Write-offs		(5,368)	-
Business combination		25	-
Balance at end of the year	₩	4,057	4,000

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43. Risk Management, Continued

(a) Management of financial risks, continued

4) Financial assets that are past due as at the end of the reporting period but not impaired

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

		Korean won (millions)				
		December 31, 2015				
Description		Carrying amount	3 months or less	3 ~ 6 months	6 ~ 12 months	More than 1 year
Trade and other receivables	₩	36,363	27,275	2,472	3,240	3,376
Other financial assets (current)		316,064	315,324	740	-	-
Total	₩	352,427	342,599	3,212	3,240	3,376

		Korean won (millions)				
		December 31, 2015				
Description		Carrying amount	3 months or less	3 ~ 6 months	6 ~ 12 months	More than 1 year
Trade and other receivables	₩	17,227	6,847	3,539	5,111	1,730
Other financial assets (current)		420,415	419,906	509	-	-
Other financial assets (non-current)		5,369	-	-	-	5,369
Total	₩	443,011	426,753	4,048	5,111	7,099

5) Guarantees

As of December 31, 2015, the Group has provided financial guarantees to associates and joint ventures. Should the Group be liable for payment upon defaults of the associates and joint ventures, the expected amounts which the Group is liable to pay within 1 year are ₩33,633 million.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

43. Risk Management, Continued

(a) Management of financial risks, continued

Liquidity Risks

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

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

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

Aggregate maturities of financial liabilities, including estimated interest, as of December 31, 2015 are as follows:

		Korean won (millions)					
		December 31, 2015					
Description		Carrying amount	Contractual cash flows	3 months or less	3 ~ 6 months	6 ~ 12 months	More than 1 year
Current portion of borrowings and debentures	₩	4,267,139	4,349,571	1,862,398	1,110,379	1,376,794	-
Trade and other payables		5,465,907	5,465,908	5,410,428	50,450	5,030	-
Other financial liabilities (current)		533,789	534,657	445,126	38,263	51,268	-
Borrowings and debentures		9,816,438	10,579,071	56,903	64,840	130,047	10,327,281
Other financial liabilities (non-current)		279,552	294,827	2,323	1,580	2,307	288,617
Total	₩	20,362,825	21,224,034	7,777,178	1,265,512	1,565,446	10,615,898

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

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

43. Risk Management, Continued

(a) Management of financial risks, continued

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.

Assets and liabilities denominated in foreign currencies other than the Group functional currencies as of December 31, 2015 and 2014 are as follows:

		Korean won (millions)			
		December 31, 2015		December 31, 2014	
		Assets	Liabilities	Assets	Liabilities
USD	₩	11,685	3,104,347	18,538	2,274,432
EUR		65	2,191	32	1,832
JPY		257	188,310	28,520	423,187
CNY		1,249	-	80	-
Total	₩	13,256	3,294,848	47,170	2,699,451

The closing rates as of December 31, 2015 and 2014 and the average rates for the years ended December 31, 2015 and 2014 are as follows:

		Average rate		Closing rate	
		2015	2014	December 31, 2015	December 31, 2014
USD	₩	1,131.49	1,053.22	1,172.00	1,099.20
EUR		1,255.16	1,398.82	1,280.53	1,336.52
JPY		9.3456	9.9619	9.7201	9.2014
CNY		180.06	171.00	180.55	177.23

43. Risk Management, Continued

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

(a) Management of financial risks, continued

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, 2015 and 2014 are summarized as follows:

		Korean won (millions)			
		December 31, 2015		December 31, 2014	
		10% increase	10% decrease	10% increase	10% decrease
USD	₩	684	(684)	(42,575)	42,575
EUR		(213)	213	(180)	180
JPY		(9,695)	9,695	(27,604)	27,604
CNY		125	(125)	8	(8)
Total	₩	(9,099)	9,099	(70,351)	70,351

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, 2015 and 2014 of the Group entities in Korea.

2) Interest rate risk

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

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

At the reporting date the interest rate profile of the Group's variable interest-bearing financial instruments was:

		Korean won (millions)	
		December 31, 2015	December 31, 2014
Variable rate instruments:			
Financial assets	₩	820,038	587,834
Financial liabilities		3,424,414	3,245,438

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

43. Risk Management, Continued

(a) Management of financial risks, continued

Sensitivity analysis of interest income and expenses from changes in interest rates as of December 31, 2015 and 2014 are summarized as follows:

		Korean won (millions)			
		December 31, 2015		December 31, 2014	
		100bps up	100bps down	100bps up	100bps down
Interest income	₩	8,200	(8,200)	5,878	(5,878)
Interest expense		5,900	(5,900)	6,460	(6,460)

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

3) Price risk

The Group is exposed to fluctuations of price in available-for-sale financial assets. The book values of the marketable available-for-sale financial assets as of December 31, 2015 and 2014 are ₩282,887 million and ₩390,009 million, respectively.

The Group assumes that prices of the marketable available-for-sale financial assets fluctuate 10% at the end of reporting period, and others variables are not changed. Sensitivity analysis of other comprehensive income from changes of price as of December 31, 2015 and 2014 are as summarized as follows:

		Korean won (millions)			
		December 31, 2015		December 31, 2014	
		10% increase	10% decrease	10% increase	10% decrease
Other comprehensive income	₩	28,289	(28,289)	39,001	(39,001)

(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, 2015 and 2014 are as follows:

		Korean won (millions)	
		December 31, 2015	December 31, 2014
Liabilities (a)	₩	23,605,524	22,528,449
Equity (b)		17,087,842	17,543,877
Financial instruments (*) (c)		2,998,383	2,627,788
Borrowings (d)		14,083,577	12,726,564
Liabilities to equity ratio (a/b)		138.14%	128.41%
Net borrowings to equity ratio ((d-c)/b)		64.87%	57.56 %

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