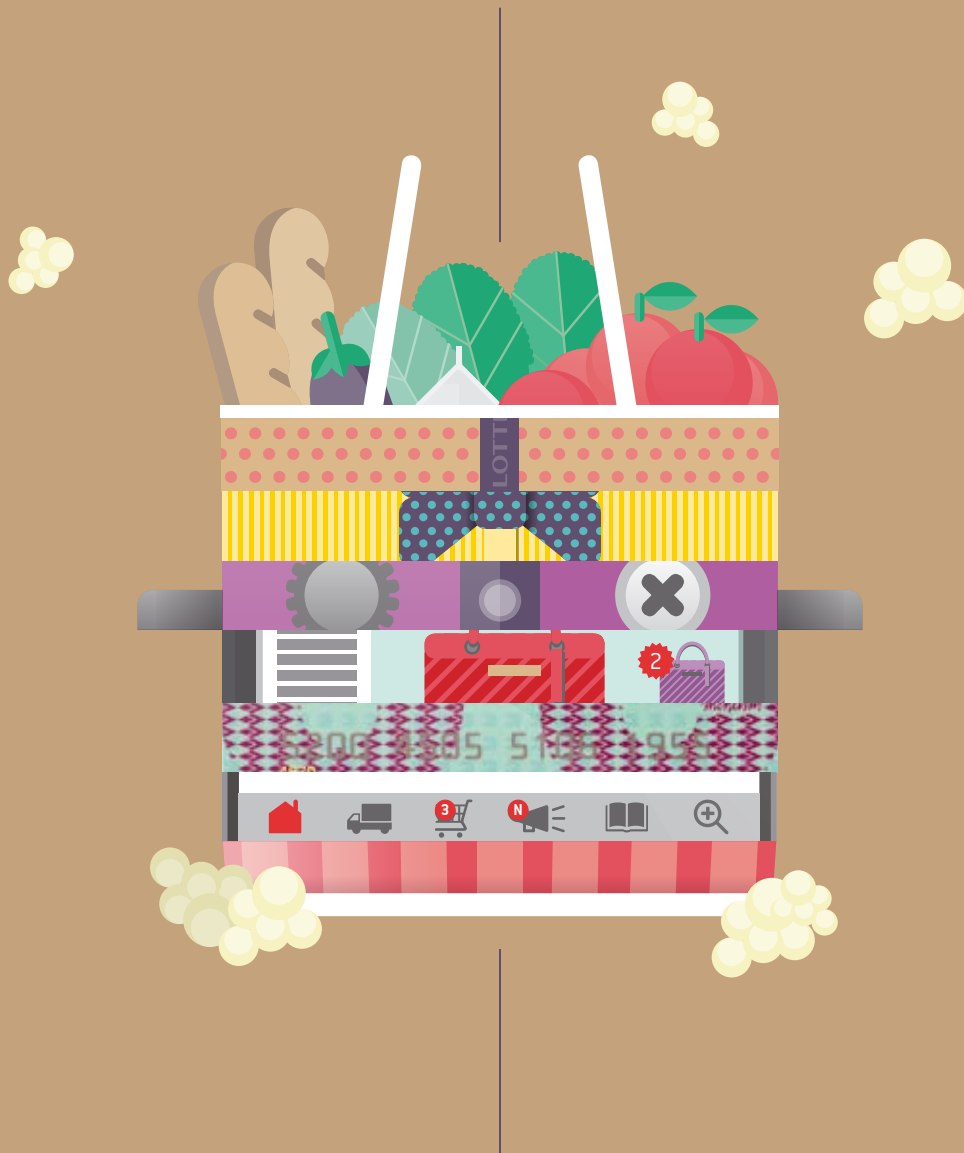


LOTTE SHOPPING 2013 ANNUAL REPORT
REDEFINING RETAIL 3

brilliant convergence



LOTTE SHOPPING

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brilliant

*Our busy lifestyles have changed the way we do our shopping, and
our changed shopping habits have changed the way we live.
Lotte Shopping believes that your shopping experiences should be happy, enriching,
and entertaining. It's what we mean by the term "brilliant convergence."
You'll be amazed by the new things we have in store for you
in terms of our channels, our products, and our services.*

convergence

value



shopping

LOTTE OUTLETS

Adding to your shopping satisfaction by operating a wide range of outlets, including premium-level and downtown venues

10

Number of stores in South Korea

ELLOTTE PREMIUM ONLINE MALL

Enriching your shopping experience with world-class brands, hard-to-find products, and the ultimate in customer service

+185.5%

Sales growth in 2013

LOTTE DEPARTMENT STORE

Using our thirty-five years of retail experience to be a shopping Mecca for fashion-conscious young people

45.8%

Market share in South Korea (No.1)

fresh



products

PRIVATE BRAND PRODUCTS

Offering thrifty shoppers the highest possible values and the industry's lowest prices through private brand products

choice L

Lotte Mart's private brand

TONGKEUN & SONKEUN BRANDS

Increasing customer satisfaction and adding to your savings with a growing range of value innovation products

90+

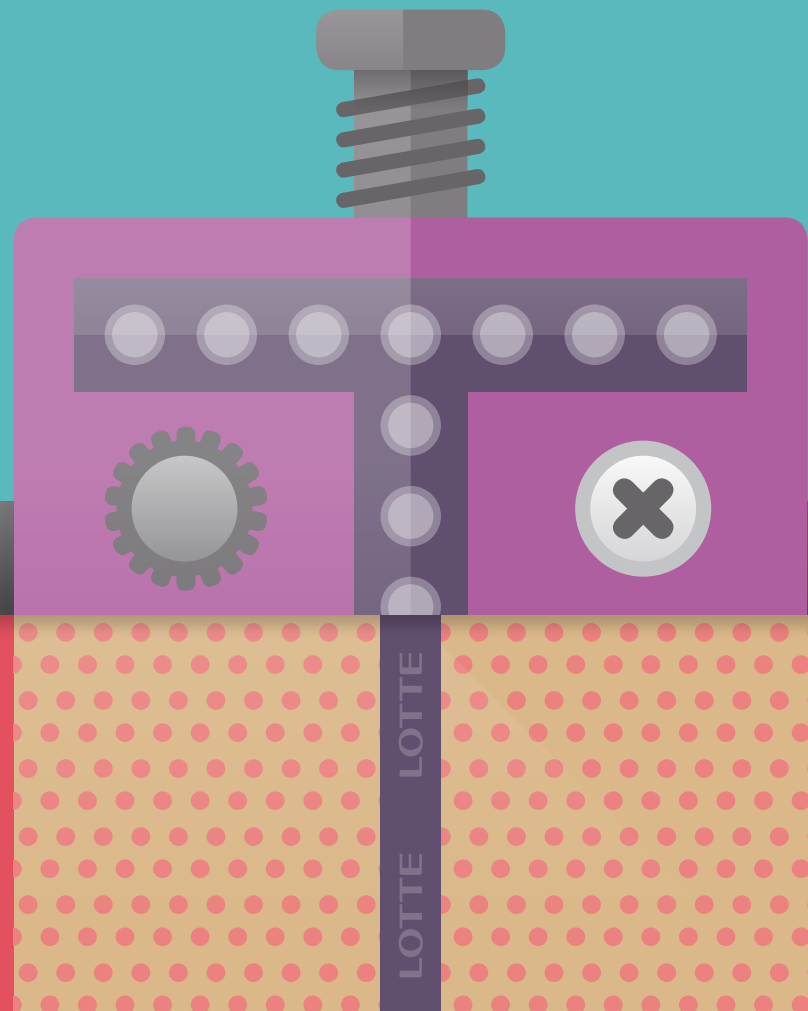
Current number of offerings

VIC MARKET

Offering shoppers low prices, products from around the world, and a wealth of convenient facilities

GLOBAL SOURCING

special



shopping

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Adding to your shopping satisfaction by operating a wide range of outlets, including premium-level and downtown venues

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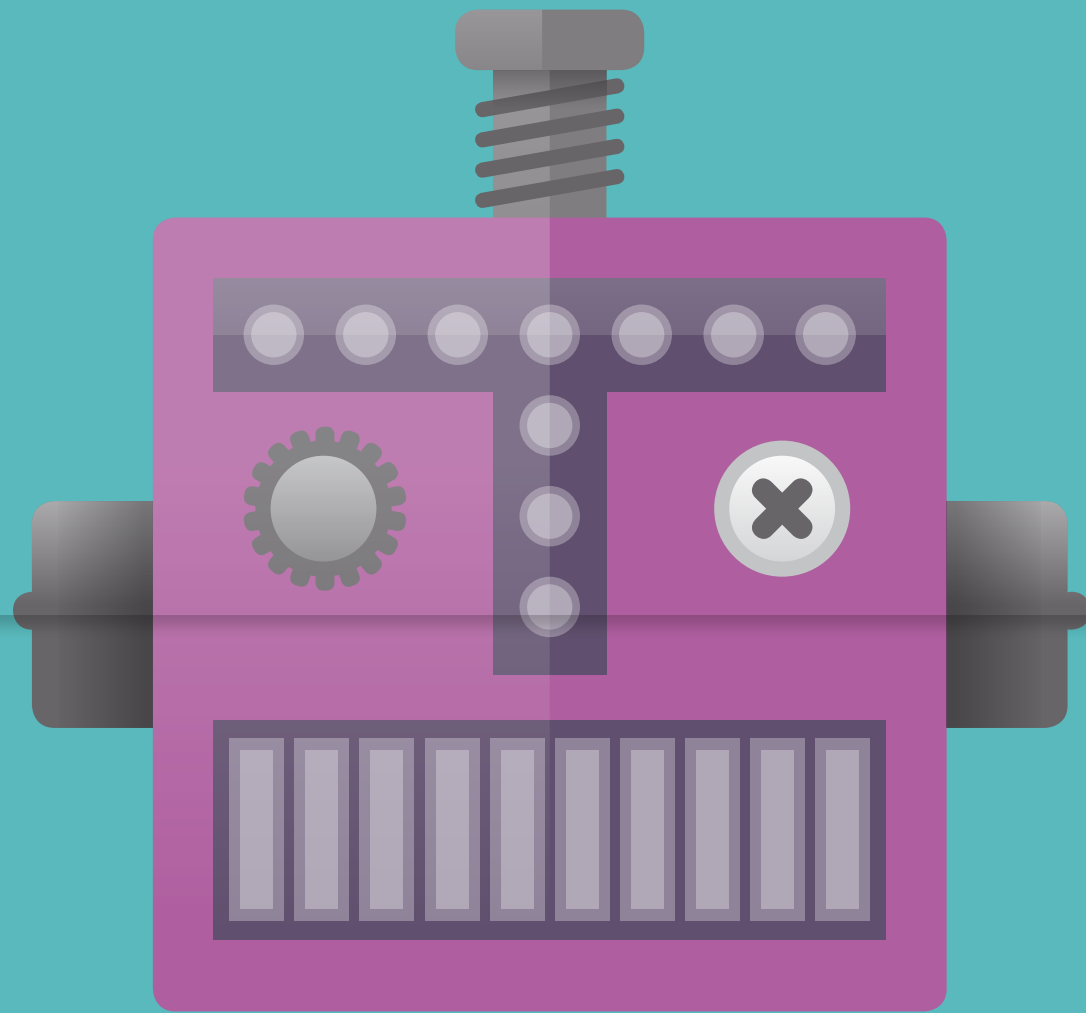
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Offering shoppers low prices, products from around the world, and a wealth of convenient facilities

GLOBAL SOURCING

special



choice

HIMART

Offering reasonably-priced electronic goods from many different manufacturers at a store that's always near you

No.1

Market share in South Korea

TOYS "R" US

Offering kids of all ages toys from around the world at stores across the country

28

Number of stores in South Korea

PET GARDEN

Offering pet lovers the country's best selection of pet products through a nationwide network of eighteen stores

18

Number of stores in South Korea

amazing



experience

LOTTE CINEMA

Offering the finest in high-tech video and sound systems to satisfy the demands of even the most demanding moviegoers

29.9%

Market share in South Korea

LOTTE CINEMA VIETNAM

Thrilling consumers in Vietnam with a combination of multiplex cinemas, shopping, entertainment, and cultural facilities

+89%

Sales growth in 2013

MULTIPURPOSE SHOPPING MALLS

Introducing consumers to a new type of retail experience combining shopping, leisure, entertainment, and culture

**SHOPPING+
ENTERTAINMENT**

convenient



choice

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Offering reasonably-priced electronic goods from many different manufacturers at a store that's always near you

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Introducing consumers to a new type of retail experience combining shopping, leisure, entertainment, and culture

**SHOPPING+
ENTERTAINMENT**

convenient



purchase

LOTTE HOME SHOPPING

Shopping with total comfort on TV, Internet, ITPV, digital multimedia broadcasting, and mobile platforms

+10.5%

Growth in TV home shopping transaction volume in 2013

OMNI-CHANNEL SHOPPING

Bringing consumers the future of retail today with omni-channel shopping combining both online and offline platforms

**ONLINE+
OFFLINE**

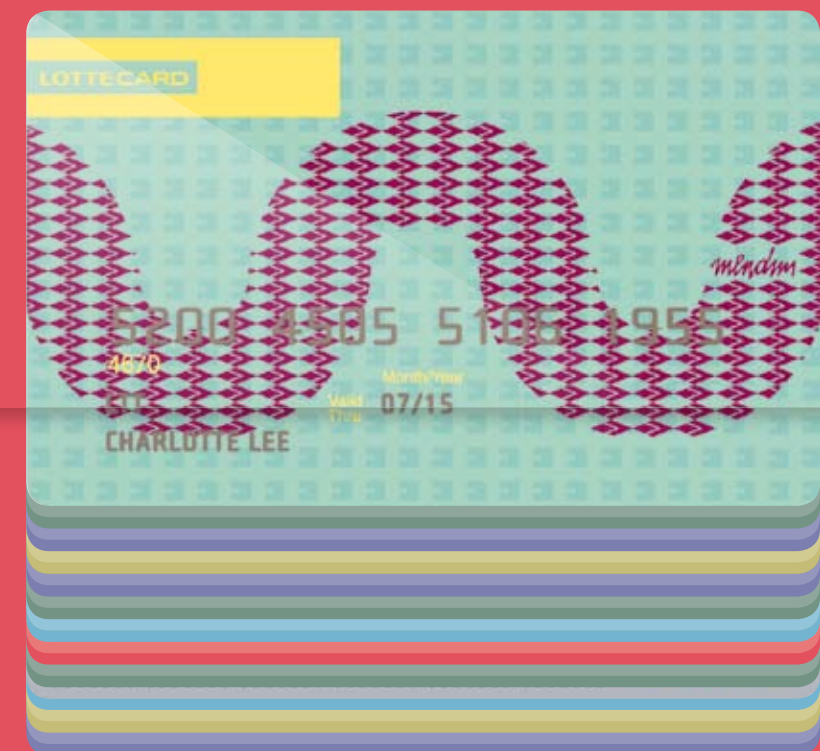
SMART SHOPPING

A new world of smart shopping, featuring cutting-edge services like Smart Pick, Smart Finder, and Gift Finder (at eLotte)

3,472,600

Number of eLotte members in 2013

wise



spending

LOTTE CARD

Featuring distinctive products, innovative services, and a wide range of membership benefits

8,078,000

Number of Lotte Card holders in 2013

LOTTE MEMBERS

Bringing a host of membership services, benefits, and convenience to overseas customers, beginning in Indonesia in 2013

FIRST

Exported to Indonesia first

MOBILE APP CARD

Boasting the ultimate in convenient access from mobile devices without the need for a separate card

290,000

Number of mobile app cards issued in 2013

young



purchase

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Shopping with total comfort on TV, Internet, ITPV, digital multimedia broadcasting, and mobile platforms

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Number of mobile app cards issued in 2013

young



fashion

YOUNG PLAZA

Meeting young people's fashion and cultural demands with both brick and mortar and online platforms

RENEWAL

A fashion store designed exclusively for young people

LOTTE YOUNG CARD

Providing younger shoppers with plus points, discounts at F&B facilities, invitations to events, and other benefits

24,000

Number of Lotte Young Card holders in 2013

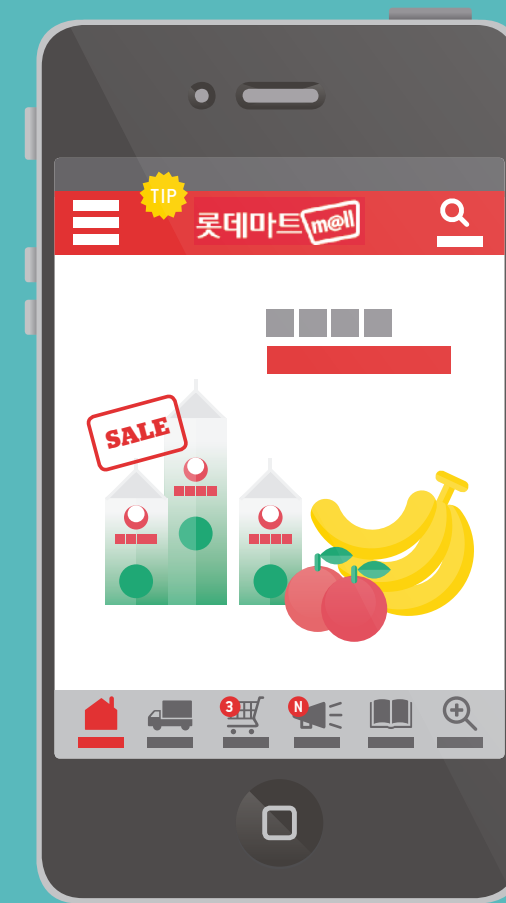
MULTI-SHOPS

Adding to our product mix while helping SMEs develop markets in our multi-shops for up-and-coming South Korean designer brands

YOUNIQ#

For up-and-coming designer brands

new



stores

LOTTE MART MALL MOBILE APP

Having sales that multiplied by over four times and number of users that rose by over two times in 2013

+411.3%

Sales growth in mobile shopping on the online Lotte Mart Mall in 2013

LOTTE SUPER APP

Offering the ultimate in 24/7 shopping convenience by launching Lotte Super App, the industry's first mobile app

FIRST

First in the industry to launch a mobile app

BARO TV APP

Enabling users to watch live TV home shopping broadcasts, order products, and pay for them with their smartphones

+261.1%

Sales growth in mobile shopping at Lotte Home Shopping in 2013



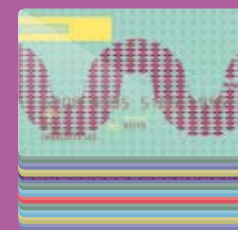
*value
shopping*



*fresh
products*



*convenient
purchase*



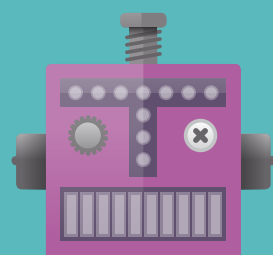
*wise
spending*

Our brilliant convergence is

Lotte Shopping offers customers a host of happy and entertaining shopping experiences through a wide mix of channels, products, and services. It's all contained in the term "brilliant convergence."



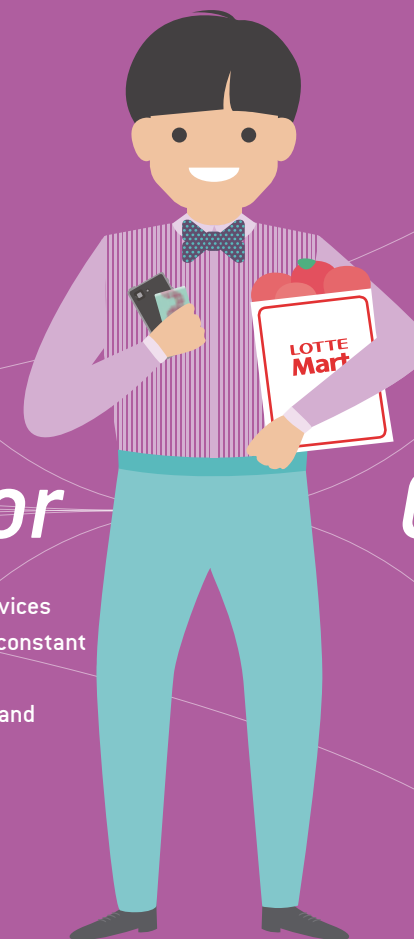
*amazing
experience*



*special
choice*

Innovation for Customers

The endless mix of high-quality products and services that we offer shoppers is the direct result of our constant innovations for increased customer satisfaction. Please watch us as we continue making exciting and creative changes for you!



*young
fashion*



*new
stores*





REDEFINING RETAIL 3

Leading the way for future retail with new convergences that are transcending boundaries

DJSI

GLOBAL SUPERSECTOR LEADER

Lotte Shopping was included in the Dow Jones Sustainability Index World Sector for the fifth consecutive year. It was also named the "Global Supersector Leader" in the retail category for the fourth straight year.

DEAR LOTTE SHOPPING CUSTOMERS AND SHAREHOLDERS:

In 2013, Lotte Shopping strengthened its position as the number one retail industry player in South Korea, and consolidated its status as a global player even more. We did this by constantly pursuing innovation and change, even in the face of a very difficult operating environment. Our efforts included opening new stores, expanding our number of channels, instituting new and exciting marketing techniques, and developing a host of promising new growth engines.

These accomplishments were made possible by the constant support and trust of our customers and shareholders, giving Lotte Shopping's employees even more incentive to work their hardest for you. As the newly-appointed president and CEO of Lotte Shopping, I am approaching my duties with a sense of diligence and responsibility and a commitment to a better future for everyone. Now I want to tell you about our achievements in 2013 and our plans for 2014.

ACHIEVEMENTS IN 2013

Building new growth foundations by enhancing our core competencies

A slowing economy led to repeated low retail growth in 2013. Consumption contracted significantly, due to rising household debts and lower incomes. In addition, government regulations regarding how large retail players should operate continued to be strengthened, while competition intensified dramatically. Consumers also made appreciable changes in their buying patterns, with more of them purchasing goods online or in smaller but more frequent quantities in their own neighborhoods.

+12.6%

SALES GROWTH RATE

Lotte Shopping's sales in 2013 were KRW 28.2 trillion, up 12.6% over the year. We did this by expanding our networks, diversifying our channels and formats, innovating our stores and products, and developing new convergence services.

Lotte Shopping took a number of steps to meet this challenging operating environment. We expanded our network of domestic and overseas stores, developed a wide range of convergence services, diversified our retail channels and formats, and innovated our stores and products. As a result, we had sales of KRW 28,211.7 billion, up 12.6% over the year, while our operating profit increased by 1.2% to KRW 1,485.3 billion. Our net profit remained steady at KRW 880.6 billion.

Our department store business carried out a host of renovations and improvements to its product mix and facilities in 2013, with an increasing emphasis on appealing to young, fashion-conscious shoppers. Business at our ten outlets enjoyed sharp growth, particularly in recording sales of more than KRW 1,500.0 billion. We also accelerated our overseas expansion strategy, opening two independently operated stores in China and another in Indonesia.

Our hypermarket business focused its efforts on customer satisfaction. We added more hypermarket stores, and continued developing our range of PB offerings and adding to our stock of globally sourced products. Online sales posted impressive growth, while our specialty stores, including Toys “R” Us and Pet Garden, experienced continuing high growth. We also increased our number of overseas stores to 149, with those in Vietnam and Indonesia experiencing especially remarkable growth.

In the consumer electronics retail sector, Himart realized increased economies of scale by opening thirty-seven new stores. Gross sales increased by 9.2%, while its YoY operating profit was up by 14.4%. It is generating impressive new synergies by opening its stores inside Lotte Mart stores.

In terms of the finance business, Lotte Card saw its operating profit decrease over the year, even though its volume of transactions grew. This was mainly caused by lower sales commissions and higher operating expenses. We tried to counter this trend by launching a series of specialized card products, such as the Lotte App Card, and adding to the profitability of our new undertakings. We are also taking steps to raise the efficiency of our operations.

Our supermarket business, which operates 488 stores nationwide, added to its industry-leading status both in terms of store numbers and volume of sales. It also increased its efforts to support local economies, merchants, and communities, and to assist in the growth of small and medium-sized enterprises. Its overseas expansion plans were buttressed by the addition of several new stores in China.

The convenience store business experienced repeated growth in its role as a service that provides handy access for busy shoppers. It continued with its policy of growing together with its franchise owners, while also disposing of poorly performing stores and opening high-quality new ones. Lotte Home Shopping added to its profit and its volume of transactions by actively responding to changing home shopping trends. Lotte Cinema boasted both higher sales and profits, backed by new cinema openings and the setting of both domestic and overseas box office records.

No.3

FORBES GLOBAL 2000 RANKING DEPARTMENT STORES CATEGORY

Forbes Global 2000 confirmed Lotte Shopping's status as the world's third-largest retailer in the department stores category, further proof of how quickly and consistently the company has grown into one of the world's leading retailers.

PLANS FOR 2014

Helping to develop a more sustainable society

Personal consumption should rise in 2014, leading to a gradual economic recovery. Competition will intensify further in response to changing shopping trends. Consumers will become even more value-oriented, and their buying patterns will change due to a rise in the number of small households and the popularity of online shopping. The entry of large foreign-based retail players into the market will also accelerate.

Our department store business will enhance its competitiveness by applying differentiated concepts to each store. It will also optimize its outlet business system, strengthen the foundations for the multipurpose shopping mall business, and continue innovating its overseas operations. We will also open new hypermarkets and take a number of steps to increase their sales, including developing new products and increasing our online sales results. Overseas, we will improve its revenue structure and continue building the foundations for sustainable growth. Our consumer electronics business will open new stores and increase its collaboration with the Lotte Group, while our finance and supermarket businesses will focus on boosting their profitability and sales.

We will continue to fulfill our corporate social responsibilities, developing plans, processes, and programs that will ensure mutually beneficial growth with our business partners, the communities in which we work and live, and small- and medium-sized businesses. We will also do our utmost to assist in resolving a variety of societal issues, such as South Korea's low birthrate and social bipolarization, and continue with our environmental management operations. This will include greenhouse gas reductions and developing more eco-friendly workplaces.

Lotte Shopping will celebrate its 35th anniversary in 2014. We are now preparing for a new era of accomplishments, building on our past successes and using them as a stepping-stone to further achievements. As always, we will retain our commitment to earning the trust of our customers and our society through the practice of open, honest, and principled management. This includes growing with all of our stakeholders by enhancing our communications and cooperation at our frontline offices. Although we must always remember what we did to grow so fast and so far in such a short time, we must also take steps to keep abreast of the future by retaining our commitment to change and innovation. It's what our customers deserve. Thank you.



President & CEO Lee Won-Joon

Enhancing corporate and shareholder value through transparent and responsible management



1
SHIN KYUK-HO
General Chairman,
Lotte Group

2
SHIN DONG-BIN
Chairman,
Lotte Group

3
LEE IN-WON
Vice Chairman,
Lotte Group

4
SHIN YOUNG-JA
Chairman,
Lotte Foundation

5
LEE WON-JOON
President & CEO,
Lotte Shopping



6
LIM SAM-JIN
Vice Chairman,
Korea Railway Association

7
BAEK MYEONG-HYEON
Vice Chairman,
Korea M&A Investment Association

8
KIM TAE-HYEON
Lawyer,
Yulchon LLC

9
PARK DONG-YUL
Chairman,
Ho Ram Tax Accounting Corporation

10
KWAK SU-KEUN
Professor, Seoul National University
Business School

11
KO BYUNG-KEE
Former Executive of
Lotte Aluminum

The Board of Directors of Lotte Shopping consists of eleven people, six of whom are outside directors. Park Dong-yul, Kwak Su-keun, and Ko Byung-kee were named new outside directors at the company's general shareholders' meeting in March 2014. The BOD operates an Audit Committee, an Outside Directors Committee and an Internal Transaction Committee to guarantee total transparency and a full range of expertise in all its deliberations.

In 2013, South Korea's retail industry faced the twin challenges of ongoing economic slowdowns and a decline in consumer consumption both at home and abroad. In response, Lotte Shopping increased the efficiency levels of its management, expanded its domestic and overseas networks, and developed new retail channels.

CONDENSED CONSOLIDATED FINANCIAL POSITION STATEMENTS

[Based on K-IFRS and consolidated financial statements, In billions of KRW]

	2013	2012	2011
ASSETS	38,973	36,857	33,061
Current assets	14,291	13,071	12,728
Non-current assets	24,682	23,786	20,333
LIABILITIES	22,047	21,139	18,382
Current liabilities	12,332	11,089	9,911
Non-current liabilities	9,715	10,050	8,471
SHAREHOLDERS' EQUITY	16,925	15,718	14,679
Controlling shareholders' equity holdings	16,224	14,878	13,966
Capital stock	158	145	145
Capital surplus	3,911	3,622	3,622
Hybrid Security	269	-	-
Capital adjustments	(72)	(49)	(31)
Retained earnings	11,895	11,093	10,092
Accumulated other comprehensive income	63	67	138
Non-controlling shareholders' equity holdings	701	840	713

CONDENSED CONSOLIDATED COMPREHENSIVE INCOME STATEMENTS

[Based on K-IFRS and consolidated financial statements, In billions of KRW]

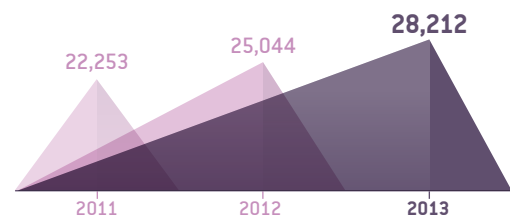
	2013	2012	2011
SALES	28,212	25,044	22,253
SALES COST	19,547	17,415	15,377
GROSS PROFIT	8,665	7,628	6,876
SELLING AND ADMINISTRATIVE EXPENSES	7,179	6,161	5,181
OPERATING PROFIT	1,485	1,467	1,695
PROFIT BEFORE INCOME TAX	1,318	1,631	1,555
NET PROFIT	881	1,158	1,013

KEY OPERATING RESULTS

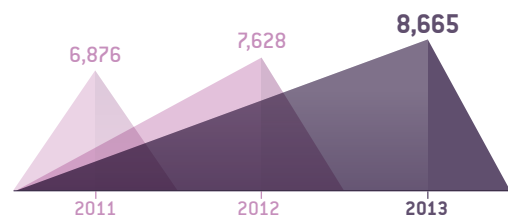
[Based on K-IFRS and consolidated financial statements, In billions of KRW]

Lotte Shopping posted KRW 28,211.7 billion in sales in 2013, up 12.6% over the year. Operating profit rose by 1.2% to KRW 1,485.3 billion, while net profit remained at KRW 880.6 billion. Although earnings decreased following a rise in investment expenses due to new store openings both at home and abroad, these moves are expected to contribute markedly to the company's "bottom line" going forward.

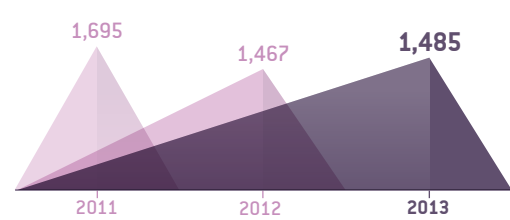
SALES



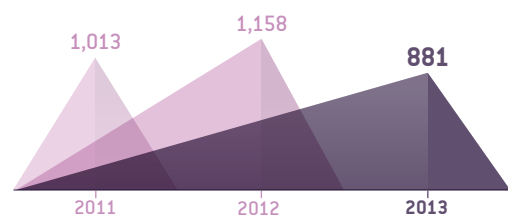
GROSS PROFIT



OPERATING PROFIT



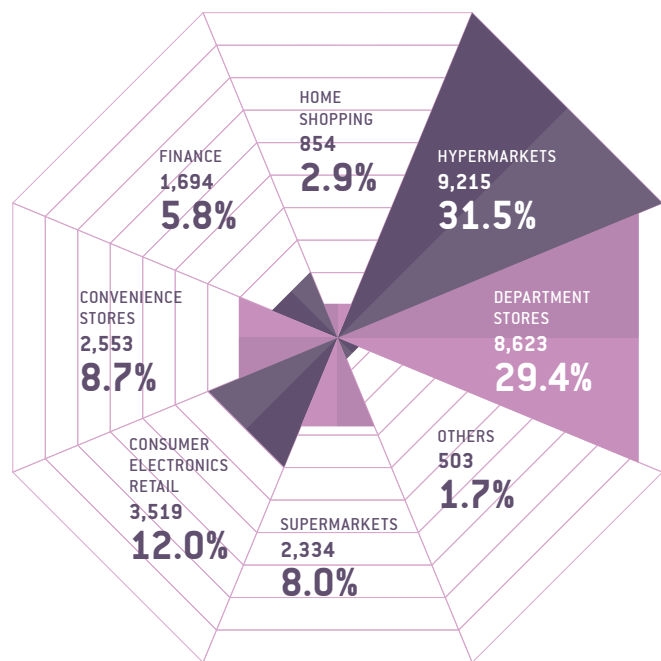
NET PROFIT



SALES BY BUSINESS DIVISION

[Based on K-IFRS and consolidated financial statements, In billions of KRW]

Lotte Shopping has interests in a wide variety of businesses, ranging from department stores and hypermarkets to supermarkets, finance, consumer electronics, convenience stores, and home shopping. Department stores and hypermarkets account for the lion's share of our sales, making up 29.4% and 31.5% respectively. While our department stores and supermarkets boast the largest market share in South Korea, our other enterprises are also gaining strength in their fields, ranking within the top third in their respective markets.



2013

There are no limits on our path towards a new world of shopping.
South Korea's retail shopping industry has
grown dramatically through constant change and innovation,
offering customers the very finest in value and satisfaction
in terms of both products and service.

at a glance



JANUARY 2013.
OPENED LOTTE OUTLETS
SEOUL STATION

location	SEOUL STATION, SEOUL
format	DOWNTOWN OUTLET
total area	37,000㎡
number of brands	OVER 120

Lotte Department Store opened Lotte Outlets Seoul Station in downtown Seoul in January. In addition to offering a convenient shopping venue for busy consumers, including quick access to railroads, subways, and buses, it gives them a choice of over 120 fashion brands.



APRIL 2013.
OPENED LOTTE DEPARTMENT STORE

WEIHAI

location	WEIHAI CITY, SHANDONG PROVINCE, CHINA
format	DEPARTMENT STORE
total floor area	340,000㎡
number of brands	OVER 280

Lotte Department Store Weihai opened in April. The third store in China to be 100% independently operated by Lotte Department Store, it is especially targeting young shoppers.

MAY 2013.
LAUNCHED EOKKAEDONGMU SHARED BRAND

Eokkaedongmu was launched in May. It is a shared brand between Lotte Mart and three small- and medium-sized tofu makers. With sales of 25,000 packages in an average month, the brand demonstrates the value of shared growth. Four more companies joined together in August to establish the Eokkaedongmu Cooperative.

JUNE 2013.
RANKED THIRD IN DEPARTMENT STORES CATEGORY BY
FORBES MAGAZINE

No.3

Lotte Department Store ranked third in the department stores category in 2013 in *Forbes Magazine's* Global 2000 list of leading global public companies.



JUNE 2013. OPENED LOTTE SHOPPING AVENUE	
location	JAKARTA, INDONESIA
format	MULTIPURPOSE SHOPPING MALL
total floor area	537,800㎡
number of brands	OVER 480

Lotte Department Store opened Lotte Shopping Avenue, a multipurpose shopping mall in downtown Jakarta, in June. It is being operated as a combined department store and shopping mall.



AUGUST 2013. OPENED LOTTE DEPARTMENT STORE CHENGDU	
GLOBAL CENTER	
location	CHENGDU, SICHUAN PROVINCE, CHINA
format	DEPARTMENT STORE
total floor area	78,000㎡
number of brands	OVER 370

Lotte Department Store Chengdu Global Center opened inside The New Century Global Center in Chengdu, Sichuan Province, China, in August. The store is filled with brands favored by Chinese customers, but also boasts Korean-style features.

SEPTEMBER 2013.
INCLUDED IN DOW JONES SUSTAINABILITY INDEX
WORLD SECTOR FOR FIFTH CONSECUTIVE YEAR

DJSI

Lotte Shopping was included in the 2013 DJSI World Sector for the fifth consecutive year. It was also named the Supersector Leader in the retail category for the fourth straight year. Twenty-three South Korean companies were included in the list, with Lotte Shopping being the sole retailer.

GLOBAL OPERATIONS

RUSSIA

1 DEPARTMENT STORE

Our very first overseas store opened in Moscow in 2007, and has become very popular with Russian shoppers. We are planning to expand into other areas of the country, including St. Petersburg.

CHINA

4 DEPARTMENT STORES

107 HYPERMARKETS

13 SUPERMARKETS

11 CINEMAS

1 HOME SHOPPING NETWORK

We expanded our operations in China in 2013 by opening two Lotte Department Stores, five Lotte Mart stores, nine Lotte Super stores, and four Lotte Cinemas.

INDONESIA

1 DEPARTMENT STORE

36 HYPERMARKETS

Lotte Department Store first entered Indonesia in 2013, opening a multipurpose shopping mall. Lotte Mart also opened five new stores there, bringing its total to thirty-six.

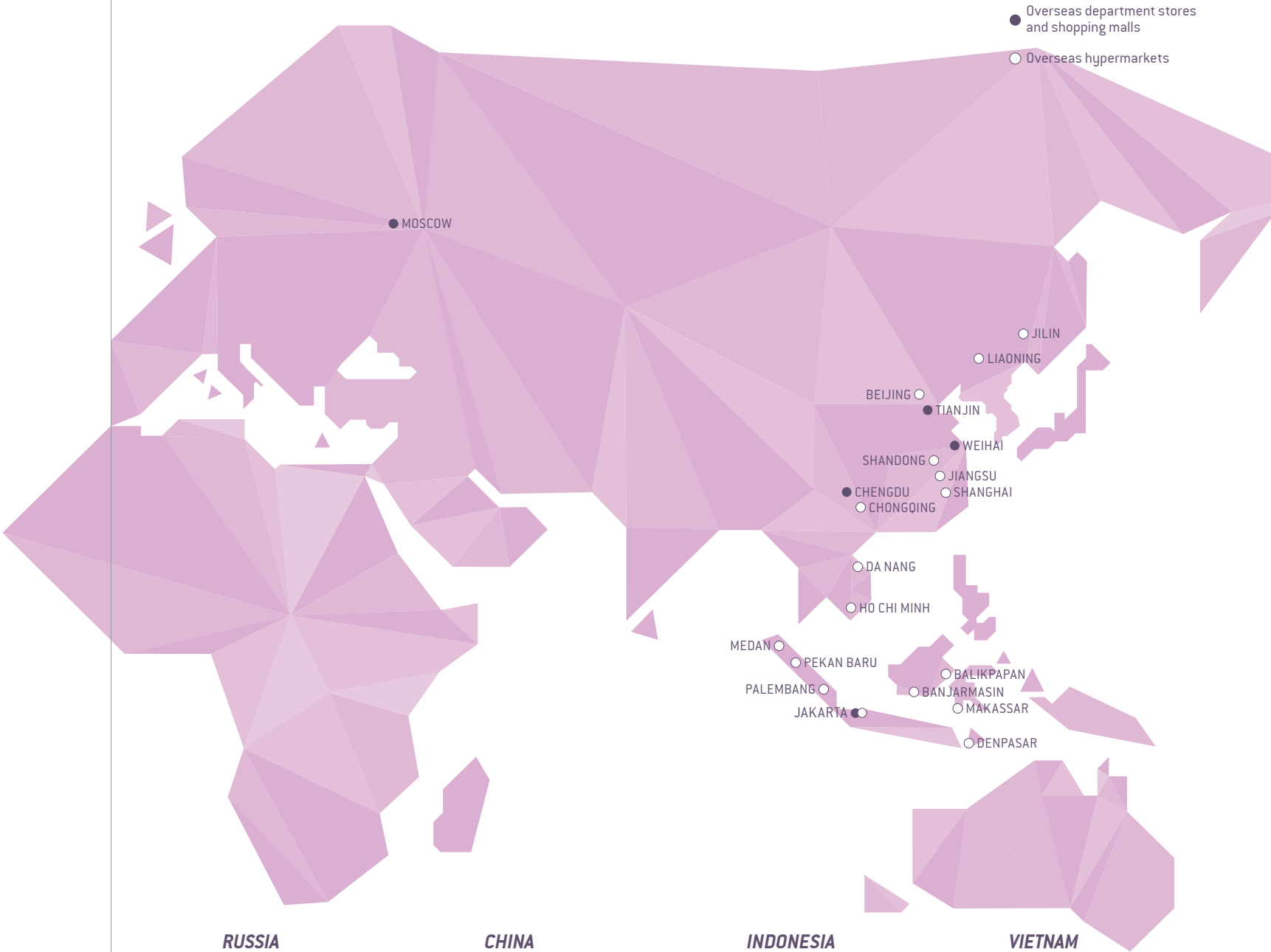
VIETNAM

6 HYPERMARKETS

11 CINEMAS

1 HOME SHOPPING NETWORK

Lotte Mart opened two stores in Vietnam in 2013. Lotte Cinema also opened three cinemas. Lotte Department Store is planning to open its first store in Hanoi in 2014.





SEPTEMBER 2013. OPENED LOTTE OUTLETS BUYEO	
location	BUYEO, CHUNGCHEONGNAM-DO, KOREA
format	DOWNTOWN OUTLET
total floor area	29,000㎡
number of brands	OVER 120

Lotte Department Store opened its Lotte Outlets Buyeo in Buyeo, Chungcheongnam-do Province, in September. Boasting a total floor area of 29,000㎡, its architectural style is a replica of the Baekje Kingdom period, including a fortress and Baeheul-rim-styled pillars.

OCTOBER 2013.
CONVERTED ALL DIGITAL PARK
STORES INTO HIMARTS

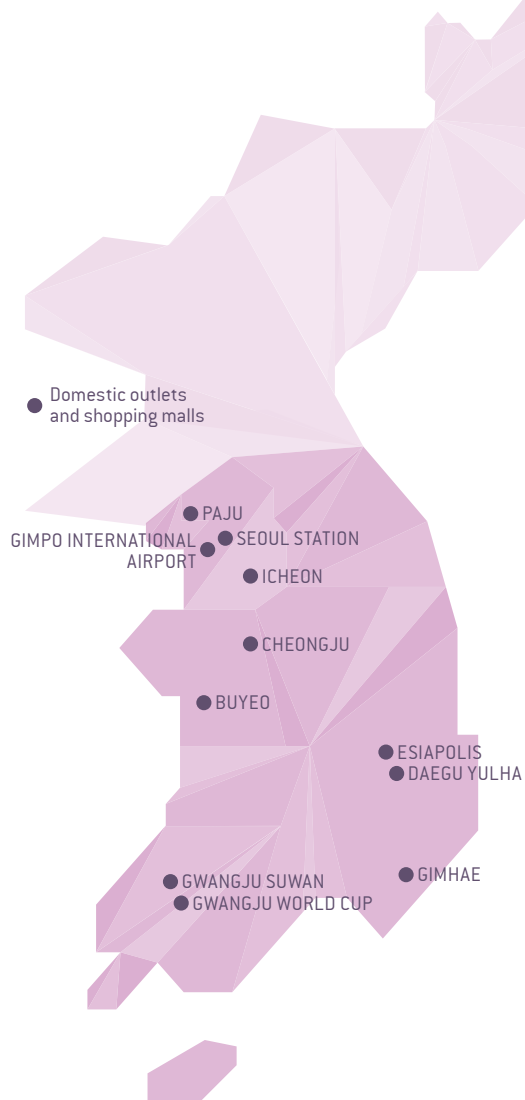
Lotte Mart completed the conversion of all its Digital Park stores into Himarts at the end of October. This allowed Himart to expand its number of customer contact points in major downtown areas across the country, while adding to its synergies with Lotte Mart.



DECEMBER 2013. OPENED LOTTE MART PHAN THIET	
location	PHAN THIET IN VIETNAM
format	HYPERMARKET
floor Area	11,680㎡
scale	FIVE LEVELS ABOVE-GROUND

Lotte Mart opened its sixth store in Vietnam in the five years since it entered the country. Located in Phan Thiet, a seaside town, the store includes a variety of convenience facilities, including a Lotte Cinema.





DIVERSIFIED DEPARTMENT STORE CHANNELS

MULTIPURPOSE SHOPPING MALLS

Lotte Department Store added to its number of multipurpose shopping malls both at home and abroad. In 2014, it will open Lotte Avenuel World Tower and Lotte Mall Suwon in South Korea and Lotte Mall Shenyang in China.

SUBURBAN OUTLETS

3 OUTLETS

Lotte Department Store's premium outlets boast a wide range of brands from both home and abroad. It opened Lotte Premium Outlets Icheon, the largest such facility in Asia, in 2013.

DOWNTOWN OUTLETS

7 OUTLETS

Lotte Department Store's Lotte Outlets Seoul Station and Lotte Outlets Buyeo opened in 2013. They joined the already-operating Lotte Outlets Cheongju, Gwangju World Cup, Gwangju Suwan, Daegu Yulha, and Esiapolis.

DECEMBER 2013.

OPENED LOTTE PREMIUM OUTLETS ICHEON

ASIA'S BIGGEST

location	ICHEON, GYEONGGI-DO, KOREA
format	PREMIUM OUTLET
area	53,000㎡
number of brands	OVER 350

Lotte Department Store opened Lotte Premium Outlets Icheon in December. With a floor space of 53,000 m² and more than 350 brands, it is Asia's largest such facility, gaining increasing popularity as a shopping and leisure venue.

Our brilliant convergence is Influential Leadership



CONSOLIDATED AFFILIATES

Lotte Shopping has fifty-five affiliates: twenty-one in South Korea and thirty-four abroad. Twenty-three of them are subsidiaries, including Lotte Card and Himart. They are included in our consolidated financial statements because they meet at least one of three criteria: their total assets in the previous fiscal year were worth more than 10% of the parent company's, their assets amounted to more than KRW 50 billion, or they exercised a significant influence on the operations of the parent company.

DOMESTIC

- | | |
|--|---|
| Lotte Card Co., Ltd. | Lotte Suwon Station Shopping Town Co., Ltd. |
| eB Card Co., Ltd. | Lotte Songdo Shopping Town Co., Ltd. |
| Gyeonggi Smartcard Co., Ltd. | CS Mart Co., Ltd. |
| Inchon Smartcard Co., Ltd. | LOTTE Himart Co., Ltd. |
| Chungnam Smartcard Co., Ltd. | Himart Logitech Co., Ltd. |
| Woori Home Shopping & Television Co., Ltd. | Himart Shopping Mall Co., Ltd. |
| Korea Seven Co., Ltd. | The 3rd Supreme |
| Buy the Way Inc. | The 4th Supreme |
| Lotte Boulangerie Co., Ltd. | The 5th Supreme |
| NCF Co., Ltd. | The 6th Supreme |
| Lotte Gimhae Development Co., Ltd. | |

OVERSEAS

- | | |
|--|---|
| Lotte Shopping Holdings (Hong Kong) Co., Ltd. | Lucky Pai Limited and its subsidiaries |
| Lotte Mart China Co., Ltd. and its subsidiaries | Kotobuki Holding (HK) Ltd. |
| Lotte Properties (Chengdu) Limited | Lottemart Danang Co., Ltd. |
| PT. Lotte Shopping Indonesia | Lotte Cinema Vietnam Co., Ltd. |
| LOTTE SHOPPING HOLDINGS (SINGAPORE) PTE. LTD. | Lotte Business Management (Tianjin) Co., Ltd. |
| LOTTE PROPERTIES (CHENGDU) HK LIMITED | LOTTE DEPARTMENT STORE (CHENGDU) CO., LTD. |
| Lotte Vietnam Shopping Co., Ltd. | Lotte International Department Store (Weihai) Co., Ltd. |
| PT. Lotte Mart Indonesia | LOTTESHOPPING Avenue INDONESIA |
| Lotte Mart Co., Ltd. | Lottemart (ChongQing) Commercial Company Limited |
| LHSC Limited | Lotte (China) Company Management Co., Ltd. |
| Qingdao Lotte Mart Commercial Co., Ltd. | Lotte Datviet Homeshopping Co., Ltd. |
| Lotte Hotel & Retail Vietnam Pte. Ltd. | Lotte Department Store (Shenyang) Co., Ltd. |
| Hai Thanh - Kotobuki Joint Venture Company | Lottemart C&C India Pvt. Ltd. |
| Liaoning Lotte Mart Co., Ltd. | Lotte Shopping India Pvt. Ltd. |
| Lotte Shopping Business Management (Hong Kong) Limited | Lotte Shopping Plaza Vietnam Co., Ltd. |
| LOTTE DEPARTMENT STORE (TIANJIN) CO., LTD. | PT. Lotte Members Indonesia |
| Jilin Lotte Mart Co., Ltd. | Lotte Shopping Reit Management Singapore Pte. Ltd. |

Lotte Department Store

2013 RESULTS

GROSS SALES Based on K-IFRS and consolidated financial statements
In billions of KRW

13 **8,623**
12 **8,667**
11 **8,310**

OPERATING PROFIT Based on K-IFRS and consolidated financial statements
In billions of KRW

13 **699**
12 **746**
11 **881**

MAJOR BUSINESS PORTFOLIO



The South Korean department store industry in 2013 continued to suffer from the effects of worldwide economic slowdowns. The industry's overall sales and profit levels were basically stagnant, due mainly to an increasing level of household debt and falling sales. Competition among industry players intensified even further. However, its outlet, online, and multipurpose shopping mall businesses experienced continuing growth.

In response to this challenging operating environment, Lotte Department Store carried out a number of innovations to its existing stores and focused on developing such new channels as outlets, multipurpose shopping malls, and online malls. As a result, its gross sales edged down by a mere 0.5% over the year to KRW 8,622.7 billion. Operating profit declined by 6.2% to KRW 698.7 billion, primarily due to the cost of new store openings both at home and abroad.

Lotte Department Store strengthened its brand strategy of being a fashion-conscious department store even further. This included introducing a number of new product concepts, such as multi-shops and fast fashion brands, carrying out innovative marketing activities, and focusing on the youth demographic. All of them proved to be extremely popular with customers.

Lotte's outlet business, which especially targets value-oriented shoppers, continued to grow rapidly, with sales at its ten stores exceeding the KRW 1,500.0 billion mark. Sales at the company's seven already-existing outlets increased by 19.5% over the year, and newly-opened Lotte Outlets in Seoul Station, Buyeo, and Icheon also proved to be extremely popular.

Lotte Outlets Seoul Station, a downtown outlet that opened in January, enticed a large number of both South Korean and foreign shoppers due to its central location in Seoul and its extreme ease of access. Lotte Outlets Buyeo, which opened in September, is rapidly becoming a prime shopping attraction in the central parts of South Korea. Lotte Premium Outlets Icheon, which opened in December, boasting Asia's largest scale in terms of both business area and number of brands, quickly became a prime draw for both tourists and shoppers, while Lotte Premium Outlets Gimhae, which reopened following extensive renovations, is adding to its reputation as a leading premium outlet in the Busan/Gyeongsangnam-do area.

The company's online business, including both PC and mobile platforms, also experienced strong growth. The eLotte premium online mall (www.ellotte.com) is becoming especially popular among young customers due to its wide product mix of over 1,000 domestic and overseas brands, hard-to-find products, and helpful services such as Smart Finder and Gift Finder. It is also strengthening its range of online and offline-linking services. These include the Mobile Store, a virtual store using QR codes, and mobile-only direct mails.

Lotte also added to its overseas operations, opening two new stores in China and one in Indonesia. Its new venues in China included Lotte Department Store Weihai in Weihai, Shandong Province, and Lotte Department Store Chengdu Global Center in Chengdu, Sichuan Province. Both stores are operated 100% independently by Lotte Department Store. In Indonesia, the company opened a Lotte Shopping Avenue, including a department store and a shopping mall. The new stores contain features that appeal to local consumers, backed by the operating acumen that the company has developed over many years at home.

PLANS FOR 2014

The South Korean economy is expected to enjoy a gradual recovery in 2014. In response to this, Lotte Department Store will continue strengthening its levels of sales and profitability, including opening eight new stores at home and abroad. The company will accelerate its advance into the multipurpose shopping mall sector by opening Lotte Avenuel World Tower and Lotte Mall Suwon Station, and will add outlet businesses in Goyang, Guri, Gwangmyeong, and East Busan.

We are also preparing to open our first store in Hanoi, Vietnam. Our strategy for developing solid growth foundations for our overseas operations includes adding a local flavor to every store, hiring only fully professional and highly trained human resources, and carrying out a wide range of differentiated marketing and risk management activities.

NUMBER OF OVERSEAS STORES

1

RUSSIA

4

CHINA

1

INDONESIA

NUMBER OF DOMESTIC STORES

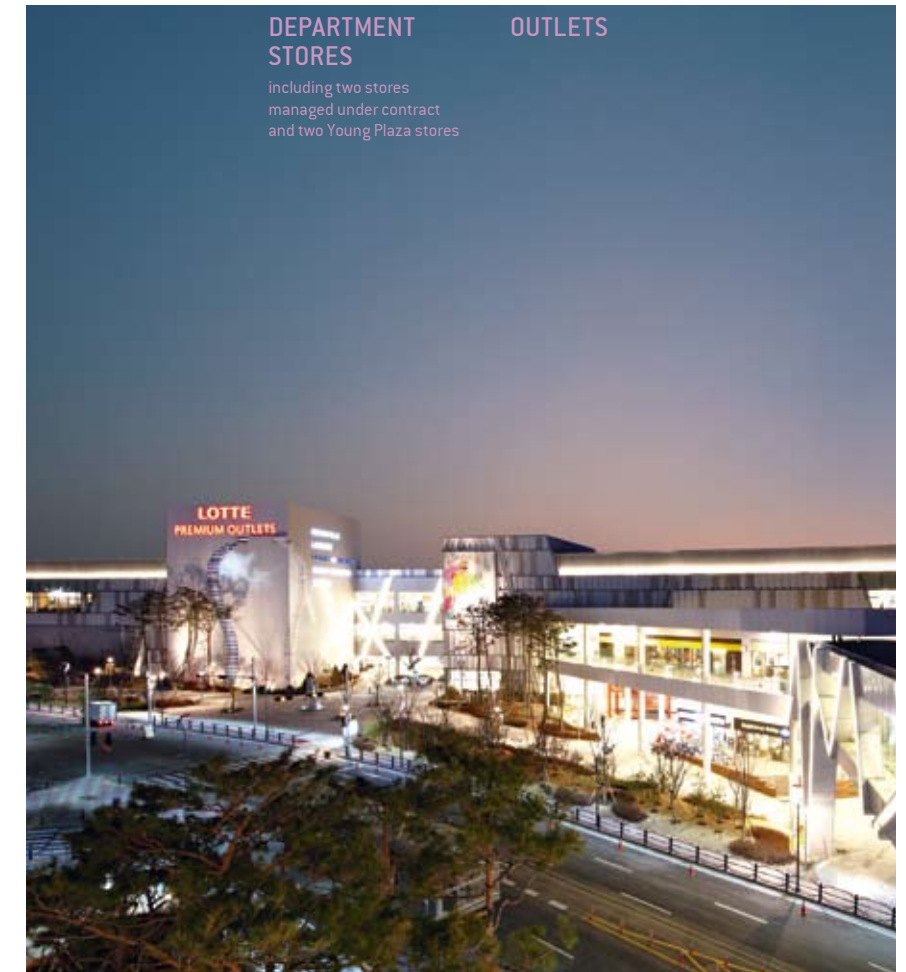
33

DEPARTMENT STORES

including two stores managed under contract and two Young Plaza stores

10

OUTLETS



JUNE 2013. OPENED LOTTE SHOPPING AVENUE IN INDONESIA

Lotte Department Store opened Lotte Shopping Avenue, a multipurpose shopping mall in downtown Jakarta, Indonesia, in June. Its many attractions include a department store and a shopping mall.

DECEMBER 2013. RANKED FIRST IN NCSI SURVEY FOR ELEVENTH CONSECUTIVE YEAR

Lotte Department Store ranked first in the department store category in the 2013 National Customer Satisfaction Index survey for the eleventh consecutive year. The award reaffirmed both the company's competitiveness and its dedication to customer satisfaction.

Lotte Mart

GROSS SALES Based on K-IFRS and consolidated financial statements
In billions of KRW

13 **9,215**
12 **9,069**
11 **8,583**

OPERATING PROFIT Based on K-IFRS and consolidated financial statements
In billions of KRW

13 **233**
12 **319**
11 **344**

MAJOR BUSINESS PORTFOLIO



2013 RESULTS

In 2013, South Korea's hypermarket industry was faced with a very difficult operating environment, including an ongoing economic depression, changes in consumer buying patterns in favor of online and small-quantity purchases, and tighter government regulations. Lotte Mart responded to these problems by increasing its number of membership wholesale club and category killer stores, adding to its product mix, and bolstering its efficiency. As a result, the company posted gross sales of KRW 9,215.4 billion in 2013, up 1.6% from the year before. Operating profit was KRW 232.6 billion.

The VIC Market membership wholesale club added four stores to its roster in 2013. This included converting Lotte Mart Yeongdeungpo and Lotte Mart Dobong stores into VIC Markets. The company contributed to price stabilization throughout the country by retaining its lowest-price policy. This was done by increasing its economies of scale, sourcing directly from overseas and using parallel imports, and adding to its menu of private brands. It also introduced a three-year-long membership system. Its membership exceeded 279,000 as of the end of 2013.

Our category killer stores, including Toys "R" Us and Pet Garden, also added to our competitiveness. We opened five new Toys "R" Us stores in 2013, bringing the total to twenty-eight. It posted an 8.8% YoY growth rate, helped by its ability to order "hot" items in advance, gain exclusive selling rights to in-demand brand products, and develop a wide range of popular in-house products.

We also opened eleven new Pet Garden stores, bringing the total to eighteen. Pet Garden also enjoyed healthy growth. In addition, we introduced a new operating format by opening Lotte Mart Majang in the Majang Service Area of the Jungbu Expressway.

Lotte Mart's commitment to the sale of low-priced value innovation products continued in 2013. This included bringing our total of Tongkeun and Sonkeun private brand products to ninety. Our Tongkeun products, including Tongkeun Kimchi, Tongkeun Almond, and Tongkeun Choco Pie, received very favorable responses from consumers. In May, we laid a new foundation for mutually beneficial growth by launching Eok-kaedongmu in collaboration with three small- and medium-sized tofu manufacturers. We also added more private brand products to our stock and strengthened our direct sourcing abilities.

The Lotte Mart Mall online shopping mall (www.lottemart.com) also enjoyed impressive growth. South Korea's online shopping using the Internet or smartphones has been growing continuously, due to increasing consumer awareness, ongoing improvements to mobile devices, and a rise in the number of one- or two-member households. We increased our number of clothing and consumer electronics products and revamped our mobile app to take advantage of this ongoing trend. As a result, our sales surged by 52.4% over the year.

We also made a series of improvements to our overseas operations. They included opening five new stores in China, innovating our products and our logistics operations, enhancing our profitability by developing new Tongkeun and other private brand products, and operating our own bakeries. We also opened five new stores in Indonesia and two in Vietnam. Sales there increased by 5.9% and 7.6% respectively YoY, thanks to favorable market conditions and our ongoing commitment to appealing to the tastes of local consumers.

PLANS FOR 2014

The South Korean economy is forecast to grow steadily in 2014. In the hypermarket industry, channel and format diversification are both expected to continue, while product and price competition will intensify further in response to changes in the overall operating environment.

In response to this situation, Lotte Mart will enhance the competitiveness of its MWC stores, its category killer stores, and its online malls. We will also continue developing new and innovative products, enhance our range of Tongkeun and Sonkeun private brand goods, make improvements to all our PB products, and import more globally-sourced merchandise. Outside of South Korea, we will concentrate on increasing our sales, improving our profitability, continuing with our commitment to product innovation, and opening more new stores.

NUMBER OF
OVERSEAS STORES

107

CHINA

36

INDONESIA

6

VIETNAM

NUMBER OF
DOMESTIC STORES

105

LOTTE
MART

4

VIC
MARKET



FEBRUARY 2013. LAUNCHED DADUNGI CLUB TO HELP FAMILIES WITH LARGE NUMBERS OF CHILDREN

Lotte Mart launched the Dadungi Club to assist households with two children or more aged thirteen or younger and pregnant women who already have more than one child. It offers discounts on layette sets and other baby goods. Its membership exceeded 200,000 as of the end of 2013.

APRIL 2013. OPENED NATION'S FIRST STORE IN HIGHWAY SERVICE AREA

Lotte Mart Majang opened in the Majang Service Area of the Jungbu Expressway in April 2013. In addition to offering a custom-tailored product mix for service area users, it also operates an online pick-up service that enables shoppers to pick up their purchases from the online Lotte Mart Mall.

Lotte Card

CREDIT CARD USE

In trillions of KRW

13 **54.1**
12 **50.7**
11 **47.1**

OPERATING PROFIT

Based on K-IFRS and consolidated financial statements
In billions of KRW

13 **201**
12 **219**
11 **250**

2013 RESULTS

The South Korean credit card industry experienced a very low 1.4% rise in credit purchases and financing in 2013. Although the overall rate of credit card usage increased only marginally and the utilization of credit products actually decreased, debit cards saw a rise in popularity. The industry also suffered from reduced customer expenditures, intensifying competition, and reductions in sales commissions. Its profitability was also affected by tightening government regulations in such areas as loan rates.

Lotte Card users charged a total of KRW 54,068.8 billion to their accounts in 2013, up 6.6% over the year. Despite this, operating profit fell by 8.5% to KRW 200.7 billion. Most of this was caused by lower sales commissions as mandated by the central government and increased credit card-related costs. The total number of cardholders rose by 0.2% over the year to 8,078,000. One reason for the lower growth was the company's decision to liquidate its number of inactive credit cards. Its market share grew by 0.4% points to 9.2%, fifth-best in the industry.

Lotte Card continued with its efforts to enhance its profitability by strengthening its risk management practices, adding to its revenues from new businesses, and responding to an increasing range of governmental regulations. It also concentrated on new business undertakings. This included expanding its Lotte Members business overseas and developing a membership system for use in such countries as Indonesia, China, and Vietnam. It also increased its number of affiliated stores and enhanced its Dynamic Currency Conversion operations.

Another very meaningful achievement was the launch of the Lotte App Card mobile card. More than 290,000 cards were issued in the first three months following its inception in September 2013. Customers can use their credit or debit cards at any of the company's affiliated offline stores by registering them on the app without the need for a separate card. Smart Lotte, which combines its credit card services with those of Lotte Members, and the Smart Consumer app, which members directly participate in, also gained in popularity. Lotte Card will also launch a product called Lotte Mobile Wallet going forward.

PLANS FOR 2014

South Korea's credit card industry will probably experience a lower rate of profitability in 2014 due to continuously tightening government regulations, even though personal consumption is forecast to improve in a growing economy. Lotte Card will pursue a policy of safe and stable growth by operating an emergency management system and focusing on three main strategies: generating increased profits from new businesses, enhancing its marketing capabilities, and raising the efficiency of its operations. Other plans include the launch of an installment financing business, and responding to the growing number of mobile users.

NUMBER OF CARDHOLDERS

8,078,000

MARKET SHARE

9.2%



DECEMBER 2013. WON GRAND PRIZE AT SMART APP AWARDS FOR SMART LOTTE

Lotte Card's Smart Lotte won the grand prize in the credit card category at the Smart App Awards 2013. It was especially praised for its enhanced convenience and accessibility by combining the services of Lotte credit cards and Lotte Members.

DECEMBER 2013. LAUNCHED LOTTE MEMBERS IN INDONESIA

Lotte Members was launched in Indonesia in December. It provides a wide range of centralized services by integrating the membership benefits of each Lotte affiliate operating there. The service will be extended to China and Vietnam in 2014.

Himart

2013 RESULTS

GROSS SALES Based on K-IFRS and consolidated financial statements
In billions of KRW

13 **3,519**
12 **3,221**
11 **3,411**

OPERATING PROFIT Based on K-IFRS and consolidated financial statements
In billions of KRW

13 **185**
12 **161**
11 **251**

Demand for consumer electronics in South Korea slowed in 2013, mainly due to buyers waiting to purchase items like UHD TVs that were not on sale yet and issues concerning subsidies for mobile phones. On the plus side, consumer interest in home appliances remained positive. Sales of seasonal items like air conditioners and kimchi refrigerators were affected by weather conditions and a stable price for cabbages.

In its second year as a member of the Lotte Shopping group of companies, Himart posted noteworthy results in terms of both sales and profits. Gross sales rose by 9.2% over the year to KRW 3,519.1 billion, while operating profit climbed by 14.4% to KRW 184.8 billion.

The company's number of stores rose to 359, including thirty-seven new ones that were opened during the year. We also strengthened our foundations for future growth by advancing into major downtown commercial districts across the country. This was done by entering into twenty-seven stores, including eleven Lotte Mart stores and fifteen Digital Park stores, in a "shop-in-shop" format.

We also enhanced our online business. Sales at the Himart Shopping Mall (www.e-himart.co.kr) rose, and we increased our online sales and strengthened the potential for greater intra-company synergies by collaborating with Lotte Mart's online malls, eLotte, Lotte i-Mall, and Lotte.com. Following our registration as an officially authorized Apple store, we created an "Apple Zone" in one hundred of our stores.

PLANS FOR 2014

We expect to see the sluggish market for TV sales rebound in 2014 due to a marked improvement in consumer sentiment and spending. On the other hand, demand for PCs is expected to remain lackluster. We will accelerate our entry into Lotte Mart stores to continue our high rate of growth, and are preparing to open thirty-five new stores in the first quarter alone. We also intend to launch our own private brands for home appliances, AV devices, and digital peripherals.

NUMBER OF
DOMESTIC STORES

359

MARKET SHARE

47%

INDUSTRY RANKINGS FROM 2010 TO 2013

No.1

Based on public disclosures in 2013 by four major South Korean consumer electronics retailers: Himart, Living Plaza, Hi Plaza, and Electro Land



DECEMBER 2013. STARTED SELLING APPLE PRODUCTS

Himart started selling Apple products in one hundred of our stores across the country in December 2013, becoming the largest Apple reseller in South Korea. We created a "store-within-a-store" called the Apple Zone inside these stores. This is expected to help us attract an increasing number of young people who like products made by Apple.

FEBRUARY 2014. LAUNCHED FIRST PRIVATE BRAND

Himart began selling its first private brand products in February 2014. We offer customers living anywhere in South Korea the ultimate in speedy after-sales service for these goods, which include home appliances, AV devices, and digital peripherals.

Lotte Super

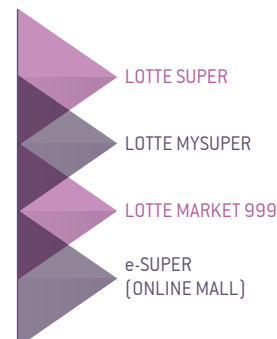
GROSS SALES Based on K-IFRS and consolidated financial statements
In billions of KRW

13 **2,334**
12 **2,310**
11 **1,696**

OPERATING PROFIT Based on K-IFRS and consolidated financial statements
In billions of KRW

13 **36**
12 **56**
11 **44**

MAJOR BUSINESS PORTFOLIO



2013 RESULTS

South Korea's supermarket industry grew by 4.9% in 2013, thanks to a rising trend towards small-quantity, neighborhood-located shopping. The super-supermarket sector, however, experienced lower increases in terms of both sales and profits due to strengthened government regulations and intensified competition among different business types and formats within the sector.

Lotte Super recorded gross sales of KRW 2,334.5 billion in 2013, up 1.1% over the year. Although operating profit fell to KRW 35.5 billion, the company maintained its industry-first ranking in terms of both number of stores and sales, operating a total of 488 stores. We also increased our number of franchise stores and Harmony Mart chain stores.

Our efforts to help local economies and store owners grow continued. This included the introduction of new-concept, "win-win"-model stores that allow SSMs and small- and medium-sized supermarkets to work together. We also added to our number of stores selling locally-produced foods, offering customers a range of super-fresh products grown on nearby farms. This move also helped the "bottom line" of agricultural producers living nearby.

Our efforts to meet the challenge of changing consumer lifestyles and buying patterns included becoming the first player in South Korea's retail shopping industry to launch a mobile app. This helped our online sales to surge by 32.2% over the previous year. We also increased our stock of small-quantity, small-package fresh foods for sale to one- or two-member households.

Our presence activities included opening nine new stores in Beijing, bringing our total there to thirteen. We also expanded our range of business sites from downtown areas to include sub-central business districts, and diversified our mix of products to better suit the characteristics of our business areas and customers. A good example of this was selling more fresh foods in residential areas, and more prepared foods and snacks in commercial ones.

PLANS FOR 2014

Although the economy as a whole is expected to grow slightly in 2014, the supermarket sector will likely only grow slowly, as consumers continue to count their pennies. On the plus side, the trend toward small quantity, neighborhood-based shopping should continue apace, due to a rise in the number of one- or two-member households.

In response to this situation, Lotte Super will continue innovating the structure of its franchise operations. This will include enhancing our business and logistical efficiencies, revamping our operational concepts in terms of business format, and building more positive relationships with our franchisees. We will also continue developing new businesses and expanding overseas.

NUMBER OF
OVERSEAS STORES

13
CHINA

DOMESTIC
MARKET SHARE

46.3%

based on four major companies and sales in the domestic SSM market

NUMBER OF
DOMESTIC STORES

488

NUMBER OF STORES IN THE
DOMESTIC SSM MARKET

No.1



MARCH 2013. LAUNCHED SOUTH KOREA'S FIRST MOBILE APP IN SSM INDUSTRY

Lotte Super App, the SSM industry's first smartphone app, was launched in March 2013. It enables shoppers to complete all their purchasing processes, from ordering something to paying for it, on single screen. Same-day delivery is available if payments are made before 7 PM.

OCTOBER 2013. WON MANAGEMENT GRAND AWARDS FOR THIRD CONSECUTIVE YEAR

Lotte Super won the Management Grand Awards, presented to companies showing remarkable business performances, for the third consecutive year. The honor was given in recognition of the company's achievements in a wide array of areas, especially customer satisfaction.

7-Eleven

GROSS SALES Based on K-IFRS and consolidated financial statements
In billions of KRW

13 **2,553**
12 **2,448**
11 **1,993**

OPERATING PROFIT Based on K-IFRS and consolidated financial statements
In billions of KRW

13 **54**
12 **63**
11 **67**

2013 RESULTS

South Korea's convenience store sector faced numerous difficulties in 2013, including sluggish private consumption, strengthening government regulations, and a saturated market. Most store openings took place in small- and medium-sized cities, due to governmental regulations regarding the number of stores that are permitted to open. In response, companies focused on enhancing their product and price competitiveness to increase their sales.

7-Eleven's gross sales in 2013 rose by KRW 2,552.9 billion. Operating profit decreased to KRW 53.6 billion, led by a downturn in new store openings due to the governmental regulations referenced above and increased store closings due to the sluggish economy.

In line with the industry's ongoing shift towards qualitative growth, we shut down a number of poorly performing stores to enhance our profitability and aid in our restructuring efforts. We also took steps to ensure the profitability of our new stores by upgrading our sales forecasting system and adopting new types of franchising agreements. In addition, we increased our product development activities in collaboration with 7-Eleven in the US and Japan.

We also added to our stores' functions, including the opening of cafe, bakery, and supermarket-type stores and "shop-in-shop" franchises. Another very meaningful step that we took was to continue lowering our prices, helping people on limited budgets to enjoy less stressful lives.

Our efforts to improve our relationships with the owners of franchise stores also continued. They included new programs to ensure mutually beneficial growth, such as the creation of "win-win growth funds" and helping franchisees with their children's school expenses. We also stopped subsidizing less profitable stores and seeking repayment when their sales improved.

PLANS FOR 2014

South Korea's CVS industry needs to be radically reorganized in response to new governmental regulations, such as the prohibition of 24-hour operations. 7-Eleven will promote qualitative growth in the sector by developing a profit-oriented growth system and continuing to cope with a rapidly changing operating environment. We will also continue to strive for mutually beneficial growth with our franchise owners, shuttering poorly performing stores, and developing high-quality new ones. Other steps that we will take include exploring new store formats to meet the challenge of changing consumption patterns, strengthening our product mix, and continuing with price cuts.

MARKET SHARE

29.6%

following the acquisition
of Buy The Way



MAY 2013. INTRODUCED MUTUALLY BENEFICIAL GROWTH PROGRAMS WITH FRANCHISE OWNERS

7-Eleven's new programs for mutually beneficial growth with its franchise owners included the creation of "win-win" funds, giving preferential treatment to their children when we need to hire new employees, and offering them overseas field trips and an improved benefits package.

JUNE 2013. CLOSED POORLY PERFORMING STORES

7-Eleven announced that it will not impose financial penalties on any franchise owners if their stores are forced to close because of poor sales. There are about five hundred stores in this category.

Lotte Home Shopping

2013 RESULTS

Online shopping transaction volume in South Korea exceeded KRW 50 trillion for the first time ever in 2013. The country's home shopping industry took a number of steps to cope with a deteriorating business environment, caused by a prolonged economic slowdown, the entry of a sixth player into the market, and intensifying competition among already-existing competitors. They included developing new products to meet changing consumer trends, and upgrading their existing ones.

Lotte Home Shopping responded to changes in customers' lifestyles by enhancing its product mix and expanding its range of mobile shopping platforms. Its total transaction volume rose by 6.5% over the year to KRW 2,582.2 billion, although that of its Internet shopping mall increased by a mere 2.2%. Purchases on its TV home shopping transaction volume surged by 10.5%, leading the company's growth. Mobile shopping grew by a very satisfactory 261.1%. Operating profit rose by 5.8% to KRW 78.1 billion.

Our businesses include Lotte TV Home Shopping, Lotte i-Mall Internet shopping, the Lotte IPTV shopping mall, and Lotte m-Mall mobile shopping. We strive to maximize our synergies through the convergence of various media outlets. We are also seizing the initiative in adapting to the online shopping trend, adding to our range of fashion, beauty, and rental products and reorganizing Mobile Lotte Home Shopping. We are also committed to providing a more convenient and pleasant shopping experience for our customers.

Our overseas operations are also expanding. We entered Taiwan in 2005, China in 2010, and Vietnam in 2011. In February 2012, we instituted 24-hour home shopping broadcasts in Vietnam, targeting 1.5 million viewers in Hanoi and Ho Chi Minh City. In 2013, we took a series of steps to improve our performance in that country, mainly by making improvements to local TV channels and upgrading our mix of products.

PLANS FOR 2014

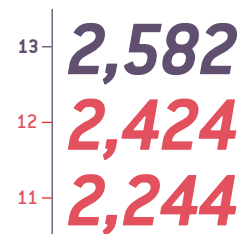
Online shopping is forecast to enjoy both quantitative and qualitative growth in 2014. Lotte Home Shopping will expand into new markets by diversifying its channels and upgrading the products and services it offers on its current media outlets, such as TV and Internet. We will also raise our profitability by increasing our range of fashion, beauty, and rental products, and focus on developing new products. In addition, we will continue to grow internationally, mainly through our strategy of differentiation and concentration.

GROWTH IN
MOBILE SHOPPING IN 2013

+261.1%

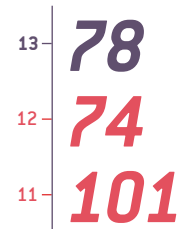
TOTAL TRANSACTION VOLUME

In billions of KRW

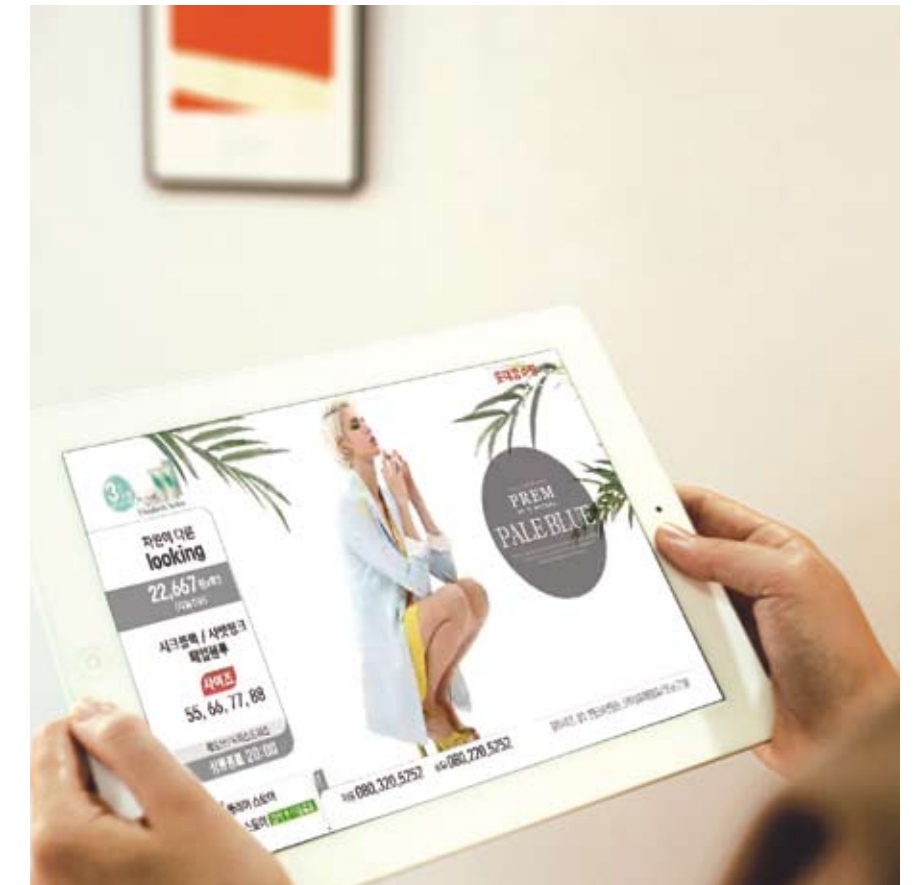
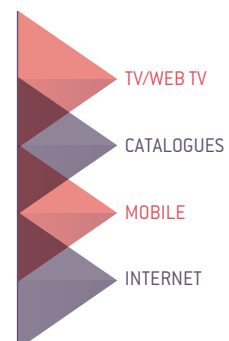


OPERATING PROFIT

Based on K-IFRS and consolidated financial statements
In billions of KRW



MAJOR BUSINESS INTERESTS



JUNE 2013. OPENED SEOUL SMART CONTACT CENTER

Lotte Home Shopping opened its third smart contact center in Seoul in June, joining the two others that were already in operation in Busan and Daegu. The center offers its customers the experience and expertise of 450 consultants.

JULY 2013. OPENED NEW LOGISTICS CENTER IN GUNPO

Lotte Home Shopping opened a new logistics center in the city of Gunpo. It offers more than double the scale, product coverage, and warehousing capacity of other logistics sites, while shortening average delivery times by half a day.

Lotte Cinema

2013 RESULTS

The South Korean movie industry continued to grow in 2013, resulting in a grand total of over 200,000,000 viewers. Domestically produced films gained in popularity, with their number of viewers increasing by approximately 11% over the year. The number of families watching movies also increased, reflecting the popularity of foreign-made animation films.

Lotte Cinema posted strong results in terms of both sales and profits in 2013. In South Korea, sales surged by 20.3% over the year to KRW 509.5 billion, largely due to new cinema openings, a rise in revenues following the acquisition of snack bar concessions in our locations, and the popularity of such films as *Miracle in Cell No.7*, *Iron Man 3*, *Snowpiercer*, *Face Reader*, and *The Attorney*. Our operating profit rose by 110.5% to KRW 52.0 billion.

We opened ten new cinemas in 2013, giving us a grand total of 99 in South Korea. Our market share rose by 1.4% points over the year to 29.9%. Some of the steps that we took to increase customer satisfaction included installing the world's first Sonic Tier Audio 3D sound system at Lotte Cinema Broadway and introducing 4D screens at our multiplex cinemas. In addition, we adopted digital seating charts, Ciromi ticketing service robots, and IMM Sound with 23.1 channels.

We also enjoyed remarkable growth in terms of overseas sales. We opened four new cinemas in China and three in Vietnam, where the movie industry is rapidly growing. Much of our success resulted from our ability to offer our audiences there technologies and services that were custom-tailored to suit their tastes. Sales grew by 265.8% in China and by 89.0% in Vietnam.

PLANS FOR 2014

The South Korean movie industry is forecast to continue growing in 2014, and Lotte Cinema will open twelve new cinemas to meet the demand. We will also strengthen our industry leadership in such areas as film distribution and the snack bar business, and explore new means to increase the investment income of Lotte Entertainment. Our operations in China and Vietnam will also be expanded.

NUMBER OF OVERSEAS
MULTIPLEX CINEMAS/SCREENS

11/78

CHINA

11/54

VIETNAM

NUMBER OF DOMESTIC
MULTIPLEX CINEMAS/SCREENS

99/663

DOMESTIC
MARKET SHARE

29.9%



FEBRUARY 2013. LAUNCHED MORE CONVENIENT NEW-CONCEPT MOBILE APP

Lotte Cinema launched a new-concept mobile app in February. Its features, which include enhanced utilization and convenience and more convenient interfaces, have been gaining in popularity among users by allowing enhanced communications through real-time SNS.

APRIL 2013. INTRODUCED WORLD'S FIRST STA 3D SOUND SYSTEM

Lotte Cinema started using the world's first Sonic Tier Audio 3D sound system in April. Its multiplex cinemas are equipped to delight moviegoers with such state-of-the-art sound systems as Dolby ATMOS, AURD, and IMM Sound.

GROSS SALES Based on K-IFRS and consolidated financial statements
In billions of KRW

13 **510**
12 **423**
11 **323**

OPERATING PROFIT Based on K-IFRS and consolidated financial statements
In billions of KRW

13 **52**
12 **25**
11 **25**

I gave birth to my baby without any worries after seeing how my workmates were able to keep their jobs after they had their babies. It was the best choice I ever made in my life.

PROMOTING
A HIGHER BIRTH-RATE

We have been working with the Ministry of Health and Welfare since 2009, carrying out a project to encourage higher birth-rates. In 2013, we focused on helping working mothers.



Our brilliant convergence is

I often hear people saying that our market has gotten better lately. We also have a lot more customers. Lotte Shopping is helping traditional markets to remain prosperous.

MUTUALLY BENEFICIAL
PROGRAM WITH
TRADITIONAL MARKETS

We offer a number of support programs for traditional markets, and entered into a mutually beneficial assistance agreement with eight of them in 2013.



Sustainable Society

*It was one of
my dreams to see
my products sold in a
department store.
I hope that many people
will be happy wearing
the clothes I made.*

HELPING OUR
SMALL BUSINESS PARTNERS

Our efforts for mutually beneficial growth with our small business partners include developing new brands and giving them opportunities to place their products in our stores.



Our brilliant convergence is

*I painted beautiful flowers
and butterflies to show how
much I care about
the environment.
I'd like to live in a world
that is always green—
just like my painting.*

ENVIRONMENTAL
ART CONTEST

We help children understand and appreciate the environment by hosting the Green Lotte Environmental Art Contest every year.



Sustainable Society

Volunteers from Lotte Shopping planted trees and installed lights in our village. Now it's a much better place to live in.

SHARING PROJECT
IN MONGOLIA

We carried out a number of sharing activities in Mongolia in 2013. They included planting trees to reduce the effect of desertification, installing solar powered lighting, and providing no-cost medical services.



Our brilliant convergence is

I got an interest-free loan from a win-win growth fund to develop new products and help with my marketing activities. Now I can focus on managing, without worrying about interest rates.

WIN-WIN
GROWTH FUNDS

We offer our small- and medium-sized business partners a wide range of financial assistance to enhance their operations, including funds worth KRW 100 billion and KRW 85 billion each.



Sustainable Society

Social Contributions

WON CERTIFICATE FOR BEST FAMILY FRIENDLY MANAGEMENT

In 2009, Lotte Department Store became the first player in the South Korean retail industry to obtain a Best Family Friendly Management Certificate from the Ministry of Gender Equality & Family. The certificate recognizes companies that take extra steps to allow their workers to manage their work and home-life activities. Some of its evaluation indicators include the observance of childbirth and child-care-related requirements and offering “flex time” and health-related employee assistance programs. It was recertified in December 2012.



“Room with Mom” promoting higher birth-rates

PROMOTING HIGHER BIRTH-RATES

Lotte Department Store has been carrying out a “Giving Birth, Wonderful World” project in tandem with the Ministry of Health & Welfare since 2009. Its goal is to encourage a higher national birth-rate. In 2013, it focused on helping working mothers. Program offerings included a “Room with Mom” bus offering women information on childbirth, a variety of services for would-be and working mothers, and coordinating with the Ministry to co-host a “Mother Plus” festival to encourage fathers to participate more in caring for their children.

WON BEST FAMILY FRIENDLY MANAGEMENT AWARD

Lotte Department Store won the Ministry of Gender Equality & Family prize at the Best Family Friendly Management Awards organized by KBS and the Ministry of Gender Equality & Family. The company was lauded for its commitment to families, such as operating healing centers and a substitute holiday system, helping with school expenses, and providing company housing for its employees.



Best Family Friendly Management Award

OVERSEAS SHARING AND CARING ACTIVITIES

Lotte Shopping is committed to helping people in the countries in which it operates. In 2013, for example, we delivered solar powered lighting facilities to three hundred households in the village of Pasar Mingu in Indonesia, and carried out environmental cleanup activities there in tandem with the Korea Green Foundation. We also offered no-cost medical services to people living in the cities of Kampung Melayu and Chip-ayung, in collaboration with the Korean Open Doctors Society, the MVG Customer Volunteer Group, and employees of our local stores. Lotte Mart participates in a “Healthy and Happy Dream” no-cost medical service for people in Beijing, including an orphanage. It has been supporting young soccer players and national Taekwondo players in Vietnam since 2010. It also offers scholarships to three Vietnamese universities.



Free Medical Services in Jakarta

Environmental Management

GREEN CARD FOR ECO-FRIENDLY CONSUMPTION

Lotte Shopping is carrying out a “Green Card” campaign with the Ministry of Environment. When customers holding Green Cards buy Ministry-certified eco-friendly products at Lotte Shopping stores, the manufacturers or distributors of the products add “Eco Money” points that are equivalent to 1 to 7% of the total amount. The points can then be exchanged for gift certificates. Lotte Shopping also engages in other activities to encourage the use of green products, including an “Eco-Friendly Consumption Festival” from June 1-14, 2013.



Rooftop Ecological Park at Lotte Department Store Ilsan

GREEN MANAGEMENT SYSTEM CERTIFICATION

In 2005, Lotte Department Store became the first player in South Korea’s retail industry to be awarded an ISO 14001 Environmental Management System certification. Since then, the company has been gaining certifications in additional stores every year. The ISO 14001 is an advanced management system for monitoring and reducing environmental loads caused by business activities. Lotte Mart obtained a Green Management System certification from the Ministry of Knowledge Economy in November 2011 in recognition of its many environmental management activities. The Green Management System certification includes environmental management, greenhouse gas reductions, and corporate social responsibilities.

REFORESTATION PROJECT IN MONGOLIA TO PREVENT DESERTIFICATION

In May 2013, Lotte Department Store partnered with the Korea Forest Service, the Korea Green Foundation, NAMUDEUL, and the Korean Open Doctors Society to carry out sharing activities in Mongolia. They included planting trees, developing solar powered lighting, and offering free medical services. They helped to reduce the effect of desertification by planting 500 poplar saplings in Lun Sum, the site of the Green Belt Project between South Korea and Mongolia since 2007.



Sharing project in Mongolia for solar powered lighting

ENVIRONMENTAL ART CONTEST

Lotte Department Store’s Green LOTTE Environmental Art Contest is the South Korean retail industry’s largest art event for children, as well as Lotte Shopping’s leading environmental campaign. More than 10,000 children participate in it every year. A number of organizations, including the Ministry of Environment, the Korea Green Foundation, and the Korean Fine Arts Association, sponsor it.



Lotte Department Store’s Green LOTTE Environmental Art Contest

CHARLOTTE GREEN DREAMERS

Lotte Department Store has operated an organization called the Charlotte Green Dreamers since 2011, helping university students carry out a variety of environmental activities. They attend lectures by environmental experts, participate in surveys about green businesses both at home and abroad, and make presentations regarding plans for eco-friendly projects. The best students and teams are eligible for Minister of Environment awards and overseas training programs in the environment.

Win-Win Partnerships

MANAGEMENT ASSISTANCE AND FINANCIAL AID

Our small- and medium-sized business partners can access a number of financial assistance programs to enhance their operations. They include a KRW 100 billion mutually beneficial growth fund that offers zero-interest loans for their management activities, a second one worth KRW 85 billion that provides them with loans at a 2% interest reduction, and a product development fund.



Win-win marketing strategy seminar

FAIR TRADE AND WIN-WIN GROWTH AGREEMENT

Lotte Shopping established an Office of Mutual Growth Promotion in 2010. It focuses on the development of systematic and practical corporate partnerships. In April 2011, we signed a fair trade and mutually beneficial growth agreement with all our business partners, declaring our willingness to observe retail-related fair trade laws and regulations and work for mutually beneficial growth. It was attended by the chairmen of the National Commission for Corporate Partnerships and the Fair Trade Commission, and representatives of our business partners.



Lotte win-win growth CEO seminar

HELPING OUR BUSINESS PARTNERS BECOME MORE COMPETITIVE

We offer our business partners a broad range of educational and training programs to enhance their competitiveness. They include the Win-Win Growth Academy, which gives them access to our own human resources training programs. We also hold meetings with and participate in workshops for their CEOs, and provide their workers with long- and short-term service, job, and overseas training opportunities.

HELPING OUR BUSINESS PARTNERS ACCESS NEW MARKETS

Our efforts to help our business partners enhance the value of their brands and make them more competitive in overseas markets include a KRW 20 billion mutually beneficial growth fund that supplements their supply of working capital when they agree to “go global” with us. We also help them to access new markets and develop new brands and products.

WEBSITES TO PROMOTE MUTUALLY BENEFICIAL GROWTH

We established win-win growth websites, enabling our business partners to communicate with us easily. Lotte Department's Product Division homepage outlines assistance programs for our business partners, including financial and educational assistance. We also offer advice regarding products and events, and a website page that people can use to learn about our fair trade and ethical management programs.

MUTUALLY BENEFICIAL DEVELOPMENT WITH TRADITIONAL MARKETS

Lotte Department Store's commitment to sharing with the communities in which it operates includes the creation of a KRW 5 billion fund for mutually beneficial growth with traditional markets, and the signing of a contract with eight of them. The agreement spans such core operating areas as human resources training and education, the planning and coordination of special events, store renovations, and facilities maintenance.

financial

*Our brilliant convergence is
Value Creation*

statements

Independent Auditors’ Report

March 10, 2014



Based on a report originally issued in Korean

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

We have audited the accompanying consolidated statements of financial position of Lotte Shopping Co., Ltd. and its subsidiaries (the “Group”) as of December 31, 2013 and 2012, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended. Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Korean International Financial Reporting Standards. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of certain subsidiaries, whose financial statements represent 14.81% and 12.90% of the consolidated total assets as of December 31, 2013 and 2012, respectively, and 30.92% and 21.86% of the consolidated sales for the years then ended, respectively. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for those companies, is based solely on the reports of the other auditors.

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

In our opinion, based on our audits and other auditors’ reports, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Group as of December 31, 2013 and 2012 and its consolidated financial performance and its consolidated cash flows for the years then ended, in accordance with Korean International Financial Reporting Standards.

Without qualifying our opinion, we draw attention to the following:

The procedures and practices utilized in the Republic of Korea to audit such consolidated financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report is for use by those knowledgeable about Korean auditing standards and their application in practice.

KPMG Samjong Accounting Corp.

KPMG Samjong Accounting Corp.
Seoul, Korea

This report is effective as of March 10, 2014, 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.

Consolidated Statements of Financial Position

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

As of December 31, 2013 and 2012

Korean won (millions)

	Notes	December 31, 2013	December 31, 2012
Assets			
Cash and cash equivalents	8 36 42	₩ 1,309,484	₩ 933,997
Trade and other receivables	6 8 41 42	937,496	915,693
Other financial assets	7 8 23 42	8,469,947	8,002,000
Inventories	9	3,114,492	2,750,304
Income tax refund receivable		1,273	492
Other non-financial assets	10	436,291	468,156
Non-current assets held for sale	11	22,109	-
Total current assets		₩ 14,291,092	₩ 13,070,642
Investments in associates and joint ventures	12 13	₩ 1,064,346	₩ 998,432
Other financial assets	7 8 23 42	1,747,193	1,845,655
Property, plant and equipment, net	14	15,788,548	14,825,918
Investment property, net	15	477,311	508,257
Goodwill	16	3,407,535	3,488,824
Other intangible assets, net	16	933,852	919,612
Other non-financial assets	10	1,220,270	1,160,198
Deferred tax assets	35	42,419	39,507
Total non-current assets		₩ 24,681,474	₩ 23,786,403
Total assets		₩ 38,972,566	₩ 36,857,045

Continued

Consolidated Statements of Financial Position

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

As of December 31, 2013 and 2012

Korean won (millions)			
	Notes	December 31, 2013	December 31, 2012
Liabilities			
Borrowings and debentures, net of debenture issuance costs	8 14 18 39 41 42	₩ 4,773,933	₩ 4,111,136
Trade and other payables	8 17 41 42	5,269,926	4,934,368
Other financial liabilities	8 23 42	589,614	495,899
Income tax payables		334,492	255,155
Unearned revenues	19	233,110	207,145
Provisions	20	46,230	40,367
Other non-financial liabilities	21	1,084,578	1,044,949
Total current liabilities		₩ 12,331,883	₩ 11,089,019
Borrowings and debentures, net of debentures issuance costs	8 14 18 39 41 42	₩ 7,901,064	₩ 8,014,280
Other financial liabilities	8 23 42	310,478	337,826
Employee benefit liabilities	22	82,310	164,367
Deferred tax liabilities	35	1,307,734	1,449,447
Unearned revenues	19	14,632	27,020
Provisions	20	32,613	31,625
Other non-financial liabilities	21	66,610	25,136
Total non-current liabilities		₩ 9,715,441	₩ 10,049,701
Total liabilities		₩ 22,047,324	₩ 21,138,720
Equity			
Common stock of ₩5,000 par value			
Authorized - 60,000,000 shares			
Issued and outstanding – 31,490,892 shares	1 24	₩ 157,454	₩ 145,217
Capital surplus	24	3,910,752	3,622,183
Hybrid securities	25	269,118	-
Capital adjustments	26	(72,155)	(49,325)
Retained earnings	27	11,895,378	11,092,726
Accumulated other comprehensive income	28	63,130	67,577
Stockholders' equity attributable to owners of the Company		₩ 16,223,677	₩ 14,878,378
Non-controlling interests		₩ 701,565	₩ 839,947
Total equity		₩ 16,925,242	₩ 15,718,325
Total liabilities and equity		₩ 38,972,566	₩ 36,857,045
See accompanying notes to the consolidated financial statements.			

Consolidated Statements of Comprehensive Income

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

For the years ended December 31,
2013 and 2012

Korean won (millions, except for earnings per share)			
	Notes	2013	2012
Sales	30 38 41	₩ 28,211,703	₩ 25,043,680
Cost of sales	30 33 41	(19,547,021)	(17,415,492)
Gross profit		₩ 8,664,682	₩ 7,628,188
Selling, general and administrative expenses	31 33 41	₩ (7,179,421)	₩ (6,160,720)
Operating profit		₩ 1,485,261	₩ 1,467,468
Other income	32	₩ 62,116	₩ 65,509
Other expenses	32	(243,403)	(91,018)
Finance income	34	360,120	441,002
Finance costs	34	(350,219)	(322,210)
Equity method income of investments in associates	12 13	4,537	69,929
Profit before income tax		₩ 1,318,412	₩ 1,630,680
Income tax expense	35	₩ (437,778)	₩ (473,042)
Profit for the year		₩ 880,634	₩ 1,157,638
Other comprehensive income (loss) :			
Items that will not be reclassified to profit or loss:			
Remeasurements of net defined benefit liability	22	₩ 73,551	₩ (42,035)
Net change in equity of equity method investments		1,224	(6,283)
Income tax on items that will not be reclassified to profit or loss		(18,360)	11,512
Total items that will not be reclassified to profit or loss		₩ 56,415	₩ (36,806)
Items that may be reclassified subsequently to profit or loss:			
Net change in unrealized fair value of available for-sale financial assets		₩ (8,008)	₩ 26,732
Exchange rate differences on translating foreign operations		(36,043)	(102,374)
Effective portion of unrealized changes in fair values of cash flow hedges	23	13,747	3,950
Net change in equity of equity method investments		19,812	13,175
Income tax on items that may be reclassified subsequently to profit or loss		(9,424)	(9,606)
Total items that may be reclassified subsequently to profit or loss		₩ (19,916)	₩ (68,123)
Other comprehensive income (loss) for the year, net of tax		₩ 36,499	₩ (104,929)
Total comprehensive income for the year		₩ 917,133	₩ 1,052,709
Profit attributable to:			
- Owners of the Company		₩ 788,445	₩ 1,080,261
- Non-controlling interests		92,189	77,377
		₩ 880,634	₩ 1,157,638
Total comprehensive income attributable to:			
- Owners of the Company		₩ 824,022	₩ 974,166
- Non-controlling interests		93,111	78,543
		₩ 917,133	₩ 1,052,709
Earnings per share in won	29		
- Basic earnings per share (in won)		₩ 26,674	₩ 37,195
- Diluted earnings per share (in won)		₩ 23,632	₩ 32,915
See accompanying notes to the consolidated financial statements.			

Korean won (millions)								
	Capital stock	Capital surplus	Capital adjustments	Retained earnings	Accumulated other comprehensive income	Stockholders' equity attributable to owners of the Company	Non-controlling interests	Total equity
Balance at January 1, 2012	₩ 145,217	₩ 3,622,183	₩ (30,867)	₩ 10,091,896	₩ 137,806	₩ 13,966,235	₩ 712,770	₩ 14,679,005
Total comprehensive income (loss) for the year								
Profit for the year	-	-	-	1,080,261	-	1,080,261	77,377	1,157,638
Other comprehensive income (loss):								
Net change in unrealized fair value of available-for-sale financial assets	-	-	-	-	5,495	5,495	11,012	16,507
Exchange differences on translating foreign operations	-	-	-	-	(90,542)	(90,542)	(8,627)	(99,169)
Effective portion of unrealized changes in fair values of cash flow hedges	-	-	-	-	3,021	3,021	(177)	2,844
Remeasurements of net defined benefit liability	-	-	-	(30,279)	-	(30,279)	(745)	(31,024)
Change in equity of equity method investments	-	-	-	(5,587)	11,797	6,210	(297)	5,913
Sub total	₩ -	₩ -	₩ -	₩ (35,866)	₩ (70,229)	₩ (106,095)	₩ 1,166	₩ (104,929)
Total comprehensive income (loss) for the year	₩ -	₩ -	₩ -	₩ 1,044,395	₩ (70,229)	₩ 974,166	₩ 78,543	₩ 1,052,709
Transactions with owners of the Company, recognized directly in equity:								
Dividends to owners of the Company	₩ -	₩ -	₩ -	₩ (43,565)	₩ -	₩ (43,565)	₩ (10,548)	₩ (54,113)
Capital increase from non-controlling interest	-	-	(23,846)	-	-	(23,846)	31,516	7,670
Business combination and initial consolidation of subsidiary	-	-	-	-	-	-	26,397	26,397
Other	-	-	5,388	-	-	5,388	1,269	6,657
Sub total	₩ -	₩ -	₩ (18,458)	₩ (43,565)	₩ -	₩ (62,023)	₩ 48,634	₩ (13,389)
Balance at December 31, 2012	₩ 145,217	₩ 3,622,183	₩ (49,325)	₩ 11,092,726	₩ 67,577	₩ 14,878,378	₩ 839,947	₩ 15,718,325
Continued								

	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, 2013	₩ 145,217	₩ 3,622,183	₩ -	₩ [49,325]	₩ 11,092,726	₩ 67,577	₩ 14,878,378	₩ 839,947	₩ 15,718,325
Total comprehensive income (loss) for the year									
Profit for the year	-	-	-	-	788,445	-	788,445	92,189	880,634
Other comprehensive income (loss):									
Net change in unrealized fair value of available-for-sale financial assets	-	-	-	-	-	[10,527]	[10,527]	3,907	[6,620]
Exchange differences on translating foreign operations	-	-	-	-	-	[33,661]	[33,661]	[3,264]	[36,925]
Effective portion of unrealized changes in fair values of cash flow hedges	-	-	-	-	-	9,418	9,418	97	9,515
Remeasurements of net defined benefit liability	-	-	-	-	55,106	-	55,106	181	55,287
Change in equity of equity method investments	-	-	-	-	1,127	14,113	15,240	1	15,241
Sub total	₩ -	₩ -	₩ -	₩ -	₩ 56,233	₩ [20,657]	₩ 35,576	₩ 922	₩ 36,498
Total comprehensive income (loss) for the year	₩ -	₩ -	₩ -	₩ -	₩ 844,678	₩ [20,657]	₩ 824,021	₩ 93,111	₩ 917,132
Transactions with owners of the Company, recognized directly in equity:									
Dividends to owners of the Company	₩ -	₩ -	₩ -	₩ -	₩ [43,565]	₩ -	₩ [43,565]	₩ [19,356]	₩ [62,921]
Issuance of hybrid securities	-	-	269,118	-	-	-	269,118	-	269,118
Interests of hybrid securities	-	-	-	-	[174]	-	[174]	-	[174]
Merger of subsidiaries	12,237	243,600	-	[11,237]	-	16,210	260,810	[186,454]	74,356
Consideration for exchange rights	-	44,944	-	-	-	-	44,944	-	44,944
Acquisition of treasury stocks	-	-	-	[1,806]	-	-	[1,806]	-	[1,806]
Acquisition of treasury stocks in subsidiaries	-	-	-	[5,921]	-	-	[5,921]	[21,552]	[27,473]
Capital contribution from (distribution to) non-controlling interest	-	-	-	[3,646]	-	-	[3,646]	[1,807]	[5,453]
Changes in consolidation	-	-	-	-	-	-	-	[1,804]	[1,804]
Other	-	25	-	[220]	1,715	-	1,518	[520]	1,000
Sub total	₩ 12,237	₩ 288,569	₩ 269,118	₩ [22,830]	₩ [42,026]	₩ 16,210	₩ 521,278	₩ [231,493]	₩ 289,785
Balance at December 31, 2013	₩ 157,454	₩ 3,910,752	₩ 269,118	₩ [72,155]	₩ 11,895,378	₩ 63,130	₩ 16,223,677	₩ 701,565	₩ 16,925,242

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

For the years ended December 31,
2013 and 2012

Korean won (millions)

	2013	2012
Cash flows from operating activities		
Profit for the year	₩ 880,634	₩ 1,157,638
Income tax expense	437,778	473,042
Post-employment benefits	116,418	87,304
Long-term employee benefits	(5,196)	4,110
Depreciation	713,159	591,008
Amortization	107,731	133,260
Impairment loss of intangible assets	76,248	4,268
Loss on foreign currency translation	7,517	2,002
Loss on disposal of property, plant and equipment	23,186	12,935
Impairment loss of property, plant and equipment	17,838	-
Impairment loss of Investment Property	27,916	1,285
Loss on valuation of financial liabilities at fair value through profit or loss	11,860	-
Loss on valuation of derivative instruments	68,506	89,815
Loss on derivatives transactions	129	2,788
Equity method loss of investments in associates and joint ventures	76,678	13,784
Impairment loss of investments in associates	7,581	-
Rental expenses (Amortization of discount on deposit, etc.)	92,967	91,831
Other expenses	11,309	25,870
Gain on foreign currency translation	(148,185)	(209,754)
Gain on disposal of property, plant and equipment	(5,029)	(1,688)
Equity method gain of investments in associates and joint ventures	(81,215)	(83,713)
Gain on derivatives transactions	(4,320)	(50)
Gain on valuation of financial liability at fair value through profit or loss	(70,678)	(98,586)
Gain on disposal of available-for-sale financial assets	(25,432)	(1,210)
Gain on disposal of investments in associates	(11,074)	(522)
Other income	(11,650)	(9,691)
Income of card business	(755,110)	(786,082)
Cost of card business	453,386	512,957
Interest expense	248,483	206,048
Interest income	(93,565)	(114,608)
Dividends income	(5,885)	(8,948)
Trade receivables	(60,121)	(192,453)
Other receivables	(4,353)	(46,956)
Other financial assets	(669,473)	(621,992)
Inventories	(380,491)	(344,307)
Other non-financial assets	(34,042)	(148,528)
Trade payables	234,192	(37,972)
Other payables	80,782	148,164
Other financial liabilities	45,424	8,610
Unearned revenues	29,301	12,614
Provisions	(26,418)	(16,667)
Other non-financial liabilities	21,135	125,432
Payment of post-employment benefits	(37,452)	(47,179)
Plan assets	(83,012)	(99,037)
Income tax paid	(451,726)	(363,019)
Interest received	693,328	658,454
Interest paid	(188,503)	(229,951)
Dividends received	109	3,669
Net cash provided by operating activities	₩ 1,330,665	₩ 903,975

Continued

Korean won (millions)

	2013	2012
Cash flows from investing activities		
Proceeds from sale of financial assets	₩ 1,042,253	₩ 747,437
Collection of loan	11,408	17,138
Proceeds from sale of available-for-sale financial assets	171,715	63,639
Proceeds from sale of investments in associates and joint ventures	166	10,817
Proceeds from disposal of property, plant and equipment	26,790	58,161
Proceeds from disposal of intangible assets	2,594	49,061
Decrease of other non-financial assets	26	6,398
Purchase of financial assets	(1,010,578)	(718,577)
Increase of loans	(13,493)	(26,462)
Purchase of available-for-sale financial assets	(37,839)	(53,915)
Purchase of investments in associates and joint ventures	(71,936)	(64,037)
Acquisition of property, plant and equipment	(1,833,675)	(1,778,530)
Acquisition of investment properties	(5,904)	-
Acquisition of intangible assets	(125,596)	(107,898)
Acquisition of other investments	(186)	(1,939)
Business combination, net of cash acquired	-	(1,431,660)
Exclusion from consolidation	(3,616)	-
Interest received	66,269	79,106
Dividends received	45,975	77,618
Net cash used in investing activities	₩ (1,735,627)	₩ (3,073,643)
Cash flows from financing activities		
Proceeds from borrowings	₩ 9,347,997	₩ 5,490,052
Proceeds from issuance of debentures	2,943,758	2,873,351
Capital contribution from non-controlling interests	12,182	61,921
Preceeds from issuance of hybrid securities	269,118	-
Cash inflows from other financing activities	25	155
Repayment of borrowings	(9,472,071)	(5,226,349)
Redemption of debentures	(1,970,073)	(1,799,535)
Acquisition of additional ownership in subsidiaries	(3,531)	(28,367)
Acquisition of treasury stocks	(1,806)	-
Distribution to non-controlling interest	(45,738)	-
Cash outflows from other financing activities	(383)	-
Interest paid	(244,356)	(155,563)
Dividends paid	(62,921)	(54,113)
Net cash provided by financing activities	₩ 772,201	₩ 1,161,552
Net increase (decrease) in cash and cash equivalents	₩ 367,239	₩ (1,008,116)
Cash and cash equivalents at beginning of the year	₩ 933,997	₩ 1,958,204
Impact of foreign currency exchange rates on cash and cash equivalents	₩ 1,226	₩ (231)
Exchange differences on translating foreign operations	₩ 7,022	₩ (15,860)
Cash and cash equivalents at end of the year	₩ 1,309,484	₩ 933,997

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

December 31, 2013 and 2012

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

1 General Description of Reporting Entity

(a) Organization and Description of the Company

Lotte Shopping Co., Ltd. [the “Company”) was established on July 2, 1970 in the Republic of Korea to engage in retail operations through department stores, discount stores and supermarkets. In addition to the retail operations, the Company’s business includes a chain of multiplex movie theaters under the brand name of Lotte Cinema and a clothing retail division. The Company was listed on the Korea Exchange and the London Stock Exchange through an initial public offering in February 2006.

The stockholders of the Company as of December 31, 2013 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 jointly controlled entities. A summary of the subsidiaries of the Company as of December 31, 2013 and 2012 is as follows:

Subsidiaries	December 31, 2013			
	Location	Products or services	Fiscal year	Percentage of ownership (%)
Lotte Card Co., Ltd.	Korea	Credit card, capital	Dec. 31	93.70
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 3rd Supreme (*1)	Korea	SPC	Dec. 31	0.90
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
PT. Lotte Members Indonesia	Indonesia	Business support service	Dec. 31	100.00
Woori Home Shopping & Television Co., Ltd.	Korea	Distribution	Dec. 31	53.03
Lotte DatViet Homeshopping Co., Ltd.	Vietnam	Distribution	Dec. 31	85.58
Korea Seven Co., Ltd.	Korea	Distribution	Dec. 31	51.14
Buy the way Inc.	Korea	Distribution	Dec. 31	100.00
Continued				

Subsidiaries	December 31, 2013			
	Location	Products or services	Fiscal year	Percentage of ownership (%)
Lotte Boulangerie Co., Ltd.	Korea	Bakery	Dec. 31	90.54
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
Himart Logitech Co., Ltd.	Korea	Freight transport agency	Dec. 31	100.00
Himart Shopping Mall Co., Ltd.	Korea	Electronic commerce	Dec. 31	100.00
Lotte Mart Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte [China] Company Management Co., Ltd.	China	Business management	Dec. 31	70.00
Lotte Shopping Holdings (Hong Kong) Co., Ltd.	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	Dec. 31	100.00
Jilin Lotte Mart Co., Ltd.	China	Distribution	Dec. 31	100.00
Lottemart (ChongQing) Commercial Company Limited	China	Distribution	Dec. 31	100.00
Lotte Business Management (Tianjin) Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Department Store (Shenyang) Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte International Department Store (Weihai) Co., Ltd.	China	Distribution	Dec. 31	100.00
LOTTE DEPARTMENT STORE (TIANJIN) CO., LTD.	China	Distribution	Dec. 31	100.00
LOTTE DEPARTMENT STORE (CHENGDU) CO., LTD.	China	Distribution	Dec. 31	100.00
Lotte Shopping Business Management (Hong Kong) Limited	Hong Kong	SPC	Dec. 31	100.00
Lotte Home Shopping Company Limited	Cayman	Holding company	Dec. 31	91.01
Lucky Pai Limited. and its subsidiaries	China	Distribution	Dec. 31	94.65
LOTTE PROPERTIES (CHENGDU) HK LIMITED	Hong Kong	Holding company	Dec. 31	73.46
Lotte Properties (Chengdu) Limited	China	Distribution	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
LOTTESHOPPING Avenue INDONESIA	Indonesia	Distribution	Dec. 31	100.00
Lotte Shopping India Pvt., Ltd.	India	Distribution	Dec. 31	100.00
Lottemart C&C India Pvt. Ltd.	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	Investment company	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. In case all of the 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, 2013, the total number of the common stocks of LOTTE Himart Co., Ltd. under securities lending agreements is 1,769,112 shares. The Company does not have voting right and disposal for the lent shares are restricted.

Notes to the Consolidated Financial Statements

December 31, 2013 and 2012

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Subsidiaries	December 31, 2012			
	Location	Products or services	Fiscal year	Percentage of ownership (%)
Lotte Midopa Co., Ltd.	Korea	Distribution	Dec. 31	79.01
Lotte Card Co., Ltd.	Korea	Credit card, capital	Dec. 31	92.54
eB Card Co., Ltd.	Korea	Electronic banking business	Dec. 31	95.00
Gyeonggi Smartcard Co., Ltd.	Korea	Electronic banking business	Dec. 31	100.00
Inchon Smartcard Co., Ltd.	Korea	Electronic banking business	Dec. 31	100.00
Chungnam Smartcard Co., Ltd.	Korea	Electronic banking business	Dec. 31	100.00
The 2nd Supreme [*]	Korea	SPC	Dec. 31	0.90
The 3rd Supreme [*]	Korea	SPC	Dec. 31	0.90
The 4th Supreme [*]	Korea	SPC	Dec. 31	0.90
The 5th Supreme [*]	Korea	SPC	Dec. 31	0.90
Woori Home Shopping & Television Co., Ltd.	Korea	Distribution	Dec. 31	53.03
Lotte DatViet Homeshopping Co., Ltd.	Vietnam	Distribution	Dec. 31	86.17
Korea Seven Co., Ltd.	Korea	Distribution	Dec. 31	51.14
Buy the way Inc.	Korea	Distribution	Dec. 31	100.00
Lotte Boulangerie Co., Ltd.	Korea	Bakery	Dec. 31	90.54
NCF Co., Ltd.	Korea	Apparel manufacturing	Dec. 31	94.50
Lotte Gimhae Development Co., Ltd.	Korea	Service company	Dec. 31	100.00
Lotte Suwon Station Shopping Town Co., Ltd.	Korea	Real estate development	Dec. 31	95.00
Lotte Songdo Shopping Town Co., Ltd.	Korea	Real estate development	Dec. 31	58.82
CS Mart Co., Ltd.	Korea	Distribution	Dec. 31	99.94
LOTTE Himart Co., Ltd.	Korea	Consumer electronics	Dec. 31	65.25
Himart Logitech Co., Ltd.	Korea	Freight transport agency	Dec. 31	100.00
Himart Shopping Mall Co., Ltd.	Korea	Electronic commerce	Dec. 31	100.00
Himart 1st ABS Specialty Co., Ltd. [*]	Korea	SPC	Dec. 31	0.10
Lotte Mart Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte [China] Company Management Co., Ltd.	China	Business management	Dec. 31	70.00
Lotte Shopping Holdings (Hong Kong) Co., Ltd.	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	Dec. 31	100.00
Jilin Lotte Mart Co., Ltd.	China	Distribution	Dec. 31	100.00
Lottemart (ChongQing) Commercial Company Limited	China	Distribution	Dec. 31	100.00
Lotte Business Management (Tianjin) Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Mart Global Sourcing Center Co., Ltd.	China	Trading company	Dec. 31	100.00
Lotte Department Store (Shenyang) Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte International Department Store (Weihai) Co., Ltd.	China	Distribution	Dec. 31	100.00
LOTTE DEPARTMENT STORE (TIANJIN) CO., LTD.	China	Distribution	Dec. 31	100.00
LOTTE DEPARTMENT STORE (CHENGDU) CO., LTD.	China	Distribution	Dec. 31	100.00
Lotte Shopping Business Management (Hong Kong) Limited	Hong Kong	SPC	Dec. 31	100.00
Lotte Home Shopping Company Limited	Cayman	Holding company	Dec. 31	89.91
Lucky Pai Limited. and its subsidiaries	China	Distribution	Dec. 31	89.21
LOTTE PROPERTIES (CHENGDU) HK LIMITED	Hong Kong	Holding company	Dec. 31	73.46
Lotte Properties (Chengdu) Limited	China	Distribution	Dec. 31	100.00
Lotte Vietnam Shopping Co., Ltd.	Vietnam	Distribution	Dec. 31	100.00
Continued				

Subsidiaries	December 31, 2012			
	Location	Products or services	Fiscal year	Percentage of ownership (%)
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
LOTTESHOPPING Avenue INDONESIA	Indonesia	Distribution	Dec. 31	100.00
Lotte Shopping India Pvt., Ltd.	India	Distribution	Dec. 31	100.00
Lottemart C&C India Pvt. Ltd.	India	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

[*] 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.

Notes to the Consolidated Financial Statements

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

December 31, 2013 and 2012

(c) Financial information of significant subsidiaries as of and for the years ended December 31, 2013 and 2012 are summarized as follows:

Korean won (millions)

Subsidiaries	December 31, 2013					
	Assets	Liabilities	Equity	Sales	Net income (loss)	Total comprehensive income (loss)
Lotte Card Co., Ltd.	₩ 8,416,824	₩ 6,636,665	₩ 1,780,160	₩ 1,592,438	₩ 146,270	₩ 148,314
eB Card Co., Ltd.	160,072	104,519	55,553	60,609	176	181
Woori Home Shopping & Television Co., Ltd.	783,168	297,967	485,201	773,218	67,117	75,540
Korea Seven Co., Ltd.	875,827	622,218	253,609	2,133,915	22,195	23,752
Buy the way Inc.	228,404	70,421	157,984	420,347	7,201	7,222
Lotte Suwon Station Shopping Town Co., Ltd.	189,605	90,078	99,528	-	286	288
Lotte Songdo Shopping Town Co., Ltd.	259,347	161,230	98,117	70	(7,510)	(7,512)
CS Mart Co., Ltd.	160,403	79,544	80,859	410,411	13,097	13,018
LOTTE Himart Co., Ltd.	2,751,826	1,159,192	1,592,635	3,511,022	124,429	121,942
Lotte Mart Co., Ltd.	179,069	186,927	(7,858)	378,364	(35,644)	(34,499)
Qingdao Lotte Mart Commercial Co., Ltd.	104,734	156,461	(51,727)	71,155	(66,685)	(65,013)
Lotte Shopping Holdings (Hong Kong) Co., Ltd.	1,247,416	265,701	981,715	-	(12,532)	(14,576)
Lotte Mart China Co., Ltd. and its subsidiaries	844,472	682,503	161,969	1,059,846	(64,018)	(66,617)
LOTTE PROPERTIES (CHENGDU) HK LIMITED	360,499	141,263	219,236	-	(2,183)	7,134
Lotte Properties (Chengdu) Limited	356,154	6,477	349,677	-	(1,945)	(2,857)
Lotte Vietnam Shopping Co., Ltd.	277,516	204,362	73,154	91,347	(1,303)	(14,004)
LOTTE SHOPPING HOLDINGS (SINGAPORE) PTE., LTD.	238,404	20	238,384	-	(44)	(214)
PT. Lotte Shopping Indonesia	220,521	121,523	98,998	825,641	14,541	(11,222)
PT. Lotte Mart Indonesia	₩ 168,207	₩ 141,092	₩ 27,115	₩ 238,928	₩ (14,005)	₩ (22,446)

Korean won (millions)

Subsidiaries	December 31, 2012					
	Assets	Liabilities	Equity	Sales	Net income (loss)	Total comprehensive income (loss)
Lotte Card Co., Ltd.	₩ 7,948,615	₩ 6,287,404	₩ 1,661,210	₩ 1,548,567	₩ 162,356	₩ 155,181
eB Card Co., Ltd.	172,096	116,724	55,372	46,098	(6,806)	(5,153)
Woori Home Shopping & Television Co., Ltd.	715,750	288,089	427,661	670,127	66,897	86,067
Korea Seven Co., Ltd.	888,701	640,779	247,921	1,900,264	41,638	40,379
Buy the way Inc.	238,041	87,279	150,761	548,787	12,350	12,323
Lotte Suwon Station Shopping Town Co., Ltd.	64,870	15,128	49,742	-	281	283
Lotte Songdo Shopping Town Co., Ltd.	190,179	94,497	95,682	-	(5,457)	(5,458)
CS Mart Co., Ltd.	155,590	87,749	67,841	396,626	11,694	11,259
LOTTE Himart Co., Ltd.	2,604,671	1,128,075	1,476,595	3,212,151	71,378	69,143
Lotte Mart Co., Ltd.	177,892	151,251	26,641	348,748	(11,972)	(13,883)
Qingdao Lotte Mart Commercial Co., Ltd.	119,178	105,893	13,285	53,163	(34,264)	(358,400)
Lotte Shopping Holdings (Hong Kong) Co., Ltd.	1,059,440	130,373	929,067	-	(50,596)	69
Lotte Mart China Co., Ltd. and its subsidiaries	779,069	557,374	221,695	1,033,092	(9,245)	(13,914)
LOTTE PROPERTIES (CHENGDU) HK LIMITED	212,105	3	212,102	-	(302)	(5,485)
Lotte Properties (Chengdu) Limited	317,515	218,581	98,933	-	(1,655)	(131)
Lotte Vietnam Shopping Co., Ltd.	208,095	131,653	76,442	67,639	(992)	(4,179)
LOTTE SHOPPING HOLDINGS (SINGAPORE) PTE., LTD.	229,004	11	228,993	-	(15)	(44)
PT. Lotte Shopping Indonesia	242,376	131,754	110,622	839,394	12,377	(2,715)
PT. Lotte Mart Indonesia	₩ 191,310	₩ 141,995	₩ 49,315	₩ 195,107	₩ (18,897)	₩ (27,034)

(d) The entities included in subsidiaries for consolidation in 2013 are as follows:

Description	Subsidiaries
Established entity in 2013	Lotte Shopping Plaza Vietnam Co., Ltd.
	PT. Lotte Members Indonesia
	Lotte Shopping Reit Management Singapore Pte. Ltd.
	The 6th Supreme
	SUZHOU LotteMart CO., LTD.
	XUZHOU Lottemart CO., LTD.

(e) The entities excluded from subsidiaries for consolidation in 2013 are as follows:

Description	Subsidiaries
Statutory merger into the Company in 2013	Lotte Midopa Co., Ltd.
Liquidation in 2013	Himart 1st ABS Specialty Co., Ltd.
	The 2nd Supreme
	Lotte Mart Global Sourcing Center Co., Ltd.
Loss of control in 2013	Yunnan Maile TV Shopping Media Co., Ltd. (*)
	Yunnan Travel Co., Ltd. (*)
	Yunnan Chunxiaqiudong Commercial Trading Co., Ltd. (*)
Decrease in ownership percentage	Chongqing Yujia Co., Ltd.
	Chongqing Shishang TV Shopping Media Co., Ltd.

(*) Companies described above had been subsidiaries of Lucky Pai Ltd., but they were excluded from consolidation due to loss of control as of December 31, 2013.

Notes to the Consolidated Financial Statements

December 31, 2013 and 2012

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

(f) Non-controlling interests

Financial informations related to significant non-controlling interests for subsidiaries as of and for the years ended December 31, 2013 and 2012 are as follows:

Description	December 31, 2013			
	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%	6.30%	48.86%	34.75%
Current assets	599,516	8,060,141	204,256	529,085
Non-current assets	184,263	477,217	671,571	755,232
Current liabilities	292,688	3,019,691	281,386	401,630
Non-current liabilities	6,412	3,732,268	340,832	810,113
Net assets	484,679	1,785,399	253,609	72,574
Net assets attributable to non-controlling interests	228,201	113,537	123,918	25,222
Dividends paid to non-controlling interests during the year	8,454	-	8,851	2,051
Revenue	776,825	1,694,060	2,133,915	3,519,060
Profit	67,707	152,153	22,195	125,031
Total comprehensive income	76,154	153,765	23,752	122,461
Profit attributable to non-controlling interests	31,597	10,256	10,845	43,452
Total comprehensive income attributable to non-controlling interests	35,566	10,245	11,606	42,559
Cash flows from operating activites	56,155	(88,307)	110,723	156,729
Cash flows from investing activites	(45,144)	(57,596)	(41,063)	(59,262)
Cash flows from financing activites	(18,000)	181,119	(73,925)	(93,226)
Effect of currency exchange rate	133	(1,044)	-	-
Net increase (decrease) in cash and cash equivalents	(6,856)	34,172	(4,265)	4,241

Description	December 31, 2012			
	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%	7.46%	48.86%	34.75%
Current assets	555,129	7,681,638	181,816	403,579
Non-current assets	159,159	405,472	706,885	734,186
Current liabilities	284,841	2,982,144	442,834	793,044
Non-current liabilities	3,901	3,444,013	197,945	388,697
Net assets	425,546	1,660,953	247,922	(43,976)
Net assets attributable to non-controlling interests	200,126	124,799	121,139	(15,286)
Dividends paid to non-controlling interests during the year	9,393	-	-	-
Revenue	670,979	1,672,961	1,900,264	604,662
Profit	65,716	154,751	41,638	9,368
Total comprehensive income	84,711	152,360	40,379	9,087
Profit attributable to non-controlling interests	30,652	11,455	20,345	3,256
Total comprehensive income attributable to non-controlling interests	39,869	11,276	19,730	3,158
Cash flows from operating activites	30,437	(251,639)	81,886	86,365
Cash flows from investing activites	(24,709)	(27,540)	(119,314)	(5,990)
Cash flows from financing activites	(20,000)	274,017	46,124	(132,004)
Effect of currency exchange rate	(125)	-	-	-
Net increase (decrease) in cash and cash equivalents	(14,397)	(5,162)	8,696	(51,629)

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

1) Details of the parent's additional investments in subsidiaries for the years ended December 31, 2013 and 2012 are summarized as follows:

Korean won (millions)

Subsidiaries	2013				
	Korean won (millions)	Percentage of ownership [%]		Parent's portion in net assets	
		Before additional acquisition	After additional acquisition	Before additional acquisition	After additional acquisition
Lotte Suwon Station Shopping Town Co., Ltd.	₩ 28,500	95.00%	95.00%	₩ 47,215	₩ 75,715
	18,763	95.00%	95.00%	75,699	94,462
Lotte Songdo Shopping Town Co., Ltd.	-	58.82%	53.57%	53,486	54,067
LOTTE SHOPPING Avenue INDONESIA	15,936	100.00%	100.00%	17,602	33,538
	7,833	100.00%	100.00%	33,428	41,261
Lotte International Department Store (Weihai) Co.,Ltd.	11,134	100.00%	100.00%	15,907	27,041
Lottemart (ChongQing) Commercial Company Limited	10,815	100.00%	100.00%	9,750	20,565
Lotte Department Store (Shenyang) Co.,Ltd.	18,732	100.00%	100.00%	1,566	20,298
LOTTE DEPARTMENT STORE (TIANJIN) CO., LTD.	10,944	100.00%	100.00%	20,501	31,445
Lotte Properties (Chengdu) Limited	104,678	100.00%	100.00%	98,933	203,611
	148,923	100.00%	100.00%	209,975	358,898
Lotte Shopping Plaza Vietnam Co.,Ltd.	2,241	100.00%	100.00%	245	2,486
	3,832	100.00%	100.00%	1,755	5,587
LOTTE DEPARTMENT STORE (CHENGDU) CO., LTD.	18,931	100.00%	100.00%	15,138	34,069
LHSC Limited	16,833	90.07%	91.01%	112,254	128,746
Lotte DatViet Homeshopping Co., Ltd.	5,549	86.17%	85.58%	889	6,514
NCF Co., Ltd.	839	94.50%	98.30%	16,361	17,019
CS Mart Co., Ltd.	9	99.94%	99.95%	75,608	75,613
Lucky Pai Limited	2,682	89.21%	94.65%	(2,798)	(2,968)
Total	₩ 427,174			₩ 803,514	₩ 1,227,967

Korean won (millions)

Subsidiaries	2012				
	Korean won (millions)	Percentage of ownership [%]		Parent's portion in net assets	
		Before additional acquisition	After additional acquisition	Before additional acquisition	After additional acquisition
Lotte Suwon Station Shopping Town Co., Ltd.	₩ 33,250	95.00%	95.00%	₩ 13,807	₩ 47,193
Lotte DatViet Homeshopping Co., Ltd.	4,008	63.03%	86.17%	1,233	3,236
Lotte International Department Store (Weihai) Co., Ltd.	18,717	100.00%	100.00%	2,907	20,720
LOTTESHOPPING Avenue INDONESIA	8,029	100.00%	100.00%	12,751	20,781
Lottemart Danang Co., Ltd.	15,261	100.00%	100.00%	5,751	20,808
LOTTE DEPARTMENT STORE (TIANJIN) CO., LTD.	34,168	100.00%	100.00%	10,141	40,017
Lotte Shopping Holdings (Singapore) Co., Ltd.	79	100.00%	100.00%	260,211	260,290
Lotte Vietnam Shopping Co., Ltd.	72,497				
	5,081	94.55%	100.00%	7,523	79,950
Lucky Pai Limited	14,245	73.80%	89.21%	8,390	1,528
CS Mart Co., Ltd.	9,041	97.37%	99.94%	62,294	63,938
Total	₩ 214,376			₩ 385,008	₩ 558,461

Notes to the Consolidated Financial Statements

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

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2) Details of reduction in a parent's investments in subsidiaries from capital reductions and acquisitions of treasury stocks in subsidiaries for the years ended December 31, 2013 and 2012 are summarized as follows:

Subsidiaries	2013				
	Korean won [millions]	Percentage of ownership [%]		Parent's portion in net assets	
		Before capital reductions	After capital reductions	Before capital reductions	After capital reductions
Lotte Card Co., Ltd.	₩ 29,364	92.54%	93.70%	₩ 1,567,001	₩ 1,559,189
Lotte Songdo Shopping Town Co., Ltd.	-	53.57%	56.30%	53,323	56,035
Lotte Hotel & Retail Vietnam Pte. Ltd.	24,561	60.00%	60.00%	67,755	43,194
Total	₩ 53,925			₩ 1,688,079	₩ 1,658,418

2 Basis of Preparation

(a) Statement of compliance

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

The consolidated financial statements were authorized for issue by the Board of Directors on February 27, 2014, which will be submitted for approval to the shareholders' meeting to be held on March 21, 2014.

(b) Basis of measurement

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

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

(c) Functional and presentation currency

These consolidated financial statements are presented in Korean won, which is the Company's functional currency and the currency of the primary economic environment in which the Group operates.

(d) Use of estimates and judgments

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

(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 39 — Contingent liabilities and financial commitments

Note 42 — Risk management

(ii) Measurement of fair value

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 valuation techniques should be classified.

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

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

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

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

Note 8 - Fair value of financial instruments

3 Changes in Accounting Policies

Except for the changes below, the Group has consistently applied the accounting policies set out in note 4 to all periods presented in these consolidated financial statements. The Group has adopted the following new standards and amendments to standards with a date of initial application of January 1, 2013.

K-IFRS No. 1001, "Presentation of Financial Statements"

K-IFRS No. 1019, "Employee Benefits"

K-IFRS No. 1110, "Consolidated Financial Statements"

K-IFRS No. 1111, "Joint Arrangements"

K-IFRS No. 1112, "Disclosure of Interests in Other Entities"

K-IFRS No. 1113, "Fair Value Measurement"

The details of changes in accounting policies are as follows:

(a) Subsidiaries

The Group adopted K-IFRS No. 1110, 'Consolidated Financial Statements', since January 1, 2013. As a result, the Group has changed its accounting policy with respect to determining whether it has control over and consequently whether it consolidates its investees. K-IFRS No. 1110 introduces a new control model that focuses on whether the Group has power over an investee, exposure or right to variable returns from its involvement with the investee and ability to use its power to affect those returns. In accordance with the transitional provisions of K-IFRS No. 1110, the Group reassessed the control conclusions of its investees at January 1, 2013. As a result of the reassessment, there is no change in the consolidation scope of the Group.

(b) Joint Arrangements

Under K-IFRS No. 1111, the standard classifies joint arrangements into two types - joint operation and joint ventures. When making this assessment in accordance with this standard, the Group considered the structure of the arrangements, the legal form of any separate vehicles, the contractual terms of the arrangements and other facts and circumstances. Previously, the structure of the arrangement was the sole focus of classification.

The Group has re-evaluated its involvement in its only joint arrangement and has reclassified the investment from a jointly controlled enti-

ty to a joint venture. Notwithstanding the reclassification, the investment continues to be recognized by applying the equity method and there has been no impact on the recognized assets, liabilities and comprehensive income of the Group.

(c) Disclosure of Interests in Other Entities

As a result of K-IFRS No. 1112, the Group has expanded its disclosures about its interests in subsidiaries (see note 11) and equity-accounted investees (see notes 12 and 13).

(d) Fair value measurement

K-IFRS No. 1113, establishes a single framework for measuring fair value and making disclosures about fair value measurements when such measurements are required or permitted by other K-IFRSs. It unifies the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It replaces and expands the disclosure requirements about fair value measurements in other K-IFRSs, including K-IFRS No. 1107. As a result, the Group has included additional disclosures in this regard (Note 8). In accordance with the transitional provisions of K-IFRS No. 1113, the Group has applied the new fair value measurement guidance prospectively and has not provided any comparative information for new disclosures. Notwithstanding the above, the change had no significant impact on the measurements of the Group's assets and liabilities.

(e) Post-employment defined benefit plan

As a result of the amendments to K-IFRS No. 1019, the Group has changed its accounting policy with respect the basis for determining the income or expense related to its post-employment defined benefit plans. Under the amendments to K-IFRS No. 1019, 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. Consequently, the net interest on the net defined benefit liability (asset) now comprises: interest cost on the defined benefit obligation, interest income on plan assets, and interest on the effect on the asset ceiling. Previously, the Group determined interest income on plan assets based on their long-term rate of expected return. The impact of the amendments on the Group's consolidated financial statements is not significant.

(f) Classification of other comprehensive income

As a result of the amendments to K-IFRS No. 1001, the Group has modified the presentation of items of other comprehensive income in its statement of comprehensive income to present separately items that would be reclassified to profit or loss from those that would never be reclassified to profit or loss. Comparative information has been re-presented accordingly.

Notes to the Consolidated Financial Statements

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

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note 4

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 change in accounting policies as explained in Note 3.

The Group reclassified certain comparative amounts in the consolidated statement of comprehensive income as a result in amendments to the standard regarding the presentation of items of other comprehensive income.

(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 five reportable segments which consist of department stores, discount stores, credit card service, consumer electronics retail and others, as described in note 38.

(b) Basis of consolidation

(i) Business combination

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

The consideration transferred in the acquisition is generally measured at fair value, as are 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 payable is measured at fair value at the acquisition date. If the contingent consideration 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 ant the acquisition date.

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

(iii) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has ability to affect those returns through its power over the entity. The financial statements of subsidiaries are include 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 losses 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 interest 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 its assets and obligations for its liabilities.

Interests in associates and the joint venture are accounted for using the equity method. They are recognized initially 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 unrealized gains, but only to the extent that there is no evidence of impairment.

(vii) Business combination under common control

For business combination under common control, the Group recognized assets and liabilities acquired using carrying amount in the consolidated financial statement of the ultimate parent.

(c) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and short-term investments in highly liquid securities that are readily convertible to known amounts of cash with maturities of three months or less from the acquisition date and which are subject to an insignificant risk of changes in value. Equity investments are excluded from cash and cash equivalents.

(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

Financial assets are classified at fair value through profit or loss if they are held for trading or 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, is classified as held-to-maturity financial assets. Subsequent to initial recognition, held-to-maturity financial assets are measured at amortized cost using the effective interest method.

(iii) Loans and receivables

Loans and receivables are non-derivative 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 unless 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 financial assets or loans and receivables. Subsequent to initial recognition, they are measured at fair value, with changes in fair value, net of any tax effect, recorded in other comprehensive income in equity. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost. When a financial asset is derecognized or impairment losses are recognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. Dividends on an available-for-sale equity instrument are recognized in profit or loss when the Group's right to receive payment is established.

(v) Derecognition of financial assets

The Group derecognizes non-derivative financial assets when the contractual rights to the cash flows from the financial asset expire, or the Group transfers the rights to receive the contractual cash flows from the financial asset as well as substantially all the risks and rewards of ownership of the financial asset. Any interest in a transferred financial asset 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.

Notes to the Consolidated Financial Statements

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(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.

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

Fair value hedge

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

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

Cash flow hedge

When a derivative is designated to hedge the variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecasted transaction that could affect

profit or loss, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income, net of tax, and presented in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss.

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

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

(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.

In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

If financial assets have objective evidence that they are impaired, impairment losses should be measured and recognized.

(i) Financial assets measured at amortized cost
An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of its estimated future cash flows discounted at the asset’s original effective interest rate. If it is not practicable to obtain the instrument’s estimated future cash flows, impairment losses would be measured by using prices from any observable current market transactions. The Group can recognize impairment losses directly or establish a provision to cover impairment losses. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor’s credit rating), the previously recognized impairment loss shall be reversed either directly or by adjusting an allowance account.

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

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

(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 on a straight-line basis over estimated useful lives that appropriately reflect the pattern in which the asset’s future economic benefits are expected to be consumed. A component that is significant compared to the total cost of property, plant and equipment is depreciated over its separate useful life.

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

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

	Useful lives (years)
Buildings	5 ~ 50
Structures	5 ~ 50
Machinery	2 ~ 30
Vehicles	4 ~ 10
Furniture and fixtures	2 ~ 12
Tools and equipment	2 ~ 10
Display fixtures	2 ~ 12
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.

(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 are expected to be available for use, this intangible asset is determined as having indefinite useful lives and not amortized.

	Useful lives (years)
Industrial property rights	5 ~ 10
Rights to use facility	4 ~ 20
Film copyrights	Duration of related revenue to be realized
Other intangible assets	2 ~ 15

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

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(j) Investment property

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

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

Investment properties, except for land, are depreciated on a straight-line basis over 10 to 50 years, the estimated useful lives.

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

(k) Non-current assets held for sale

Non-current assets (or disposal group) are classified as held for distribution to owners when the Group is committed to distribute the asset (or disposal group) to the owners. For this to be the case, the assets must be available for immediate distribution in their present condition and the distribution must be highly probable. For the distribution to be highly probable, actions to complete the distribution must have been initiated and should be expected to be completed within one year from the date of classification.

The Group measures non-current assets (or disposal group) classified as held for distribution to owners at the lower of its carrying amount and fair value less costs to distribute.

The Group recognizes the liability to distribute non-current assets (or disposal group) as a dividend or the return investments to its owners at the fair value of the assets to be distributed. At the end of each reporting period and at the date of settlement, the Group reviews and adjusts the carrying amount of the liability, with any changes in the carrying amount of the liability recognized in equity as adjustments to the amount of the distribution.

When the Group settles the liability, it recognizes the difference, if any, between the carrying amounts of the assets distributed and liabilities in profit or loss.

(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 impair-

ment annually by comparing their recoverable amount to their carrying amount.

The Group estimates the recoverable amount of an individual asset, if it is impossible to measure the individual recoverable amount of an asset, then the Group estimates the recoverable amount of cash-generating unit ("CGU"). A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. The value in use is estimated by applying a pre-tax discount rate that reflect current market assessments of the time value of money and the risks specific to the asset or CGU for which estimated future cash flows have not been adjusted, to the estimated future cash flows expected to be generated by the asset or CGU.

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

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

(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.

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

(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).

(p) Employee benefits

(i) Short-term employee benefits

Short-term employee benefits are employee benefits that are due to be settled within 12 months after the end of the period in which the employees render the related service. When an employee has rendered service to the Group during an accounting period, the Group recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service.

(ii) Other long-term employee benefits

Other long-term employee benefits include employee benefits that are settled beyond 12 months after the end of the period in which the employees render the related service, and are calculated at the present value of the amount of future benefit that employees have earned in return for their service in the current and prior periods, less the fair value of any related assets. The present value is determined by discounting the expected future cash flows using the interest rate of corporate bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. Any actuarial gains and losses are recognized in profit or loss in the period in which they arise.

(iii) Retirement benefits: defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods, discounting that amount and deducting the fair value of plan assets.

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The calculation of defined benefit liability 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 assets ceiling (if any, excluding interest), are recognized immediately in other comprehensive income. The Group determines the net interest expense (income) on the net defined benefit liability (assets) 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 (assets), taking into account any change in the net defined benefit liability (assets) 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 plans are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailments is recognized immediately in profit or loss. The Group recognized gains and losses on the settlement of a defined benefit plan when the settlement occurs.

(q) Provisions

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

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

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

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

(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.

(s) Equity capital

(i) Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issuance of common 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 and are recognized as a reduction of revenue.

(i) Goods sold

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

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

(ii) Customer loyalty programs

For customer loyalty programs, the fair value of the consideration received or receivable from the initial sale is allocated between the award credits ("points") and the other components of the sale. The Group supplies all of the awards with its products. The amount allocated to the points is estimated by reference to the fair value of its products for which they could be redeemed, since the fair value of the points themselves is not directly measurable. The fair value of its products is estimated taking into account the expected redemption rate and the timing of such expected redemptions. Such amount is deferred and revenue is recognized only when the points are redeemed and the Group has fulfilled its obligations to supply its products.

(iii) Commissions

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

(iv) Rental income

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

(v) Income of card business

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

(u) Finance income and finance costs

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

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

(v) Income taxes

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

(i) Current tax

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

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(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 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. Deferred tax assets are recognized for deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period. And the Group 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 deferred tax asset to be utilized.

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

Deferred tax assets and liabilities are offset only if there is a legally enforceable right to offset the related current tax liabilities and assets, and they relate to income taxes levied by the same tax authority and they intend to settle current tax liabilities and assets on a net basis.

(w) Earnings per share

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

(x) 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, 2013, and the Group has not early adopted them. The Group believes the impact of the amendments on the Group's consolidated financial statements is not significant.

Amendments to K-IFRS No. 1032, 'Financial Instruments: Presentation'

The amendments clarified the application guidance related to 'offsetting a financial asset and a financial liability'. The amendment is mandatorily effective for periods beginning on or after January 1, 2014 with earlier application permitted.

5 Business Combination and Additional Acquisitions from Entities Under Common Control

There were no significant business combinations of the Group in 2013, and significant business combinations of the Group in 2012 are as follows:

(i) Acquisition of CS Mart Co., Ltd.

The Group obtained control of CS Mart Co., Ltd. by acquiring 97.37% of its capital stock on January 19, 2012, and then the Group acquired additional shares in 2013 and owns 99.95% interest as of December 31, 2013. In connection with the business combination, the Group incurred transaction costs of ₩2,387 million for legal commission, examination fee and etc., and the expenses were recognized as selling and administrative expense in the statement of comprehensive income in 2012.

(ii) Acquisition of Lotte Hi-mart

The Group obtained control of Hi-mart Co., Ltd. and its subsidiaries (Himart Logitech Co., Ltd., Himart Shopping Mall Co., Ltd., Himart 1st ABS Specialty Co., Ltd) by acquiring 65.25% of its capital stock on October 31, 2012, and then Hi-mart Co., Ltd. changed its name to Lotte Himart Co., Ltd. In connection with the business combination, the Group incurred transaction costs of ₩2,826 million for legal commission, examination fee and etc., and the expenses were recognized as selling and administrative expense in the statement of comprehensive income in 2012.

(iii) Acquisition of Kotobuki Holding (HK) Ltd.

The Group obtained control of Kotobuki Holding (HK) Ltd. and its subsidiaries (Hai Thanh - Kotobuki Joint Venture Company) by acquiring 100% of its capital stock on October 1, 2012. In connection with the business combination, the Group incurred transaction costs of ₩880 million for legal commission, examination fee and etc., and the expenses were recognized as selling and administrative expense in the statement of comprehensive income in 2012.

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note 4 5

The following summarizes major classes of consideration transferred.

Korean won (millions)

Description	CS Mart Co., Ltd.	LOTTE Himart Co., Ltd.	Kotobuki Holding (HK) Ltd.
Total consideration transferred	₩ 244,880	₩ 1,248,068	₩ 72,782
Cash and cash equivalents of subsidiary acquired	8,193	109,393	16,485
Net cash outflow	₩ 236,687	₩ 1,138,675	₩ 56,297

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

Korean won (millions)

Accounts	CS Mart Co., Ltd.	LOTTE Himart Co., Ltd.	Kotobuki Holding (HK) Ltd.
Current:			
Cash and cash equivalents	₩ 8,193	₩ 109,393	₩ 16,485
Trade and other receivables	11,738	54,201	705
Inventories	10,623	333,570	226
Other assets	1,426	36,174	586
Non-current:			
Property, plant and equipment	115,581	395,576	27,506
Investment property	12,713	35,452	22,371
Intangible assets	47,404	222,235	19,127
Other assets	15,575	81,083	72
Total assets	₩ 223,253	₩ 1,267,684	₩ 87,078
Current:			
Trade and other payables	₩ 33,346	₩ 206,477	₩ 788
Borrowings and debentures	35,349	195,476	229
Other liabilities	9,386	53,600	677
Non-current:			
Borrowings and debentures	18,132	773,251	5,003
Employee benefits	5,720	10,138	182
Deferred tax liabilities	16,904	62,118	6,986
Other liabilities	6,079	19,686	896
Total liabilities	₩ 124,916	₩ 1,320,746	₩ 14,761
Total identifiable net assets	₩ 98,337	₩ (53,062)	₩ 72,317

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

Korean won (millions)

	CS Mart Co., Ltd.	LOTTE Himart Co., Ltd.	Kotobuki Holding (HK) Ltd.
Total consideration transferred	₩ 244,880	₩ 1,248,068	₩ 72,782
Non-controlling interests	2,585	(18,434)	17,455
Subtotal	₩ 247,465	₩ 1,229,634	₩ 90,237
Less: Fair value of identifiable net assets	98,337	(53,062)	72,317
Goodwill	₩ 149,128	₩ 1,282,696	₩ 17,920

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

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6 Trade and Other Receivables

Trade and other receivables as of December 31, 2013 and 2012 are summarized as follows:

Korean won (millions)		
	December 31, 2013	December 31, 2012
Trade receivables	₩ 664,586	₩ 638,765
Other receivables	289,997	291,899
Allowance for doubtful accounts	[17,087]	[14,971]
Total	₩ 937,496	₩ 915,693

7 Restricted Deposits

Restricted deposits included in short-term and long-term financial instruments as of December 31, 2013 and 2012 are summarized as follows:

Korean won (millions)			
Description	Depository	December 31, 2013	December 31, 2012
Current:			
Time deposits	Woori Bank and others	₩ 72,852	₩ 42,056
Special deposits	Industrial Bank of Korea	129,500	89,500
Money Market Fund	Citibank and others	79,368	66,740
Non-current:			
Special deposits	Shinhan Bank and others	95	100
Available-for-sale financial assets	Gyeongsangnam-do Metropolitan Government and others	30,179	38,479
Total		₩ 311,994	₩ 236,875

8 Fair Value of Financial Instruments

(a)The carrying amount and the fair value of financial instruments as of December 31, 2013 and 2012 are summarized as follows:

Korean won (millions)

		December 31, 2013		December 31, 2012	
		Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	Cash and cash equivalents	₩ 1,309,484	₩ 1,309,484	₩ 933,997	₩ 933,997
Loans and receivables (*1)	Current :				
	Trade and other receivables	937,496	937,496	915,693	915,693
	Short-term financial instruments	708,350	708,350	740,966	740,966
	Short-term loans	12,453	12,453	4,285	4,285
	Accrued income	38,424	38,424	41,453	41,453
	Current portion of deposits	137,467	137,467	89,405	89,405
	Card financial assets	7,573,244	7,573,244	7,125,763	7,125,763
	Other financial assets	8	8	20	20
	Non-current :				
	Long-term financial instruments	95	95	300	300
	Long-term loans	70,246	70,246	76,399	76,399
	Deposits	1,131,976	1,131,976	1,102,309	1,102,309
	Long-term trade receivable	6,080	6,080	6,080	6,080
	Subtotal	₩ 10,615,839	₩ 10,615,839	₩ 10,102,673	₩ 10,102,673
Available-for-sale financial assets	Marketable available-for-sale financial assets (*2)	₩ 169,498	₩ 169,498	₩ 338,935	₩ 338,935
	Non-marketable available-for-sale financial assets (*3)	368,573	368,573	321,692	321,692
	Subtotal	₩ 538,071	₩ 538,071	₩ 660,627	₩ 660,627
Derivative assets held for the purpose of hedging	Non-current	₩ 726	₩ 726	₩ 48	₩ 48
	Total	₩ 12,464,120	₩ 12,464,120	₩ 11,697,345	₩ 11,697,345

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

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

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

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(b) Other financial assets as of December 31, 2013 and 2012 are summarized as follows:

Korean won (millions)		
Account	December 31, 2013	December 31, 2012
Current:		
Short-term financial instruments	₩ 708,350	₩ 740,966
Short-term loans	12,453	4,285
Available-for-sale financial assets	1	108
Accrued income	38,424	41,453
Deposits	137,467	89,405
Card business financial assets	7,573,244	7,125,763
Other	8	20
Subtotal	₩ 8,469,947	₩ 8,002,000
Non-current:		
Long-term financial instruments	₩ 95	₩ 300
Available-for-sale financial assets	538,070	660,519
Long-term loans	70,246	76,399
Deposits	1,131,976	1,102,309
Long-term trade receivables	6,080	6,080
Derivative assets held for the purpose of hedging	726	48
Subtotal	₩ 1,747,193	₩ 1,845,655
Total	₩ 10,217,140	₩ 9,847,655

(c) Available-for-sale financial assets as of December 31, 2013 and 2012 are summarized as follows:

Korean won (millions)					
	December 31, 2013				December 31, 2012
	Number of shares	Percentage of ownership	Acquisition cost	Carrying amount	Carrying amount
Marketable available-for-sale financial assets:					
BS Financial Group Inc.	5,259,597	2.72%	₩ 24,877	₩ 84,154	₩ 69,427
SHINHAN FINANCIAL GROUP CO., LTD	311,118	0.07%	2,247	14,716	12,087
LOTTE CHILSUNG BEVERAGE CO., LTD (Common stock)	19,732	1.59%	18,055	30,091	153,051
LOTTE CHILSUNG BEVERAGE CO., LTD (Preferred stock)	385	0.32%	179	177	124
LOTTE CONFECTIONARY CO., LTD	-	-	-	-	68,561
LOTTE FOOD CO.,LTD.	47,180	3.45%	10,167	35,196	31,044
Others			5,638	5,164	4,641
Subtotal			₩ 61,163	₩ 169,498	₩ 338,935
Continued					

Korean won (millions)

	December 31, 2013				December 31, 2012
	Number of shares	Percentage of ownership	Acquisition cost	Carrying amount	Carrying amount
Non-marketable available-for-sale financial assets:					
LOTTE INTERNATIONAL CO., LTD.	134,215	14.99%	₩ 34,465	₩ 52,190	₩ 45,785
Lotte Aluminum Co., Ltd.	125,016	12.05%	55,881	74,956	74,809
LOTTE LOGISTICS Corp.	66,308	4.64%	4,000	9,269	8,455
Cosmo Asset Management Co., Ltd.	149,807	17.70%	50,118	35,167	38,589
Lotte Properties (Shenyang) Limited	29,928,756	17.93%	41,919	41,919	41,919
FUBON Multimedia Technology Co., Ltd.	21,906,421	17.13%	40,499	76,731	61,173
Investment in government bonds			25,986	24,684	197
Others			55,131	53,657	50,765
Subtotal			₩ 307,999	₩ 368,573	₩ 321,692
Total			₩ 369,162	₩ 538,071	₩ 660,627

(d) The carrying amount and the fair value of financial liabilities as of December 31, 2013 and 2012 are summarized as follows:

		December 31, 2013		December 31, 2012	
		Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities at fair value through profit or loss	Overseas convertible bonds	₩ 849,815	₩ 849,815	₩ 908,633	₩ 908,633
Financial liabilities based on amortized cost (*)	Current :				
	Trade and other payables	5,269,926	5,269,926	4,934,368	4,934,368
	Short-term borrowings	1,268,463	1,268,463	2,171,551	2,171,551
	Current portion of long-term borrowings	380,312	380,312	83,112	83,112
	Current portion of long-term debentures	2,275,343	2,275,343	1,856,473	1,856,473
	Accrued expenses	245,939	245,939	222,281	222,281
	Current portion of withholding deposit	244,327	244,327	267,908	267,908
	Other liabilities	1,103	1,103	115	115
	Non-current :				
	Long-term borrowings	1,312,335	1,312,335	970,332	970,332
	Long-term debentures	6,588,729	6,588,729	6,135,315	6,135,315
	Withholding deposit	182,923	182,923	172,150	172,150
	Other liabilities	6,563	6,563	3,252	3,252
	Subtotal	₩ 17,775,963	₩ 17,775,963	₩ 16,816,857	₩ 16,816,857
Derivative liabilities held for the purpose of hedging	Current	₩ 98,245	₩ 98,245	₩ 5,595	₩ 5,595
	Non-current	110,780	110,780	162,424	162,424
	Subtotal	₩ 209,025	₩ 209,025	₩ 168,019	₩ 168,019
Derivative liabilities held for the purpose of trading	Non-current	₩ 10,212	₩ 10,212	₩ -	₩ -
	Total	₩ 18,845,015	₩ 18,845,015	₩ 17,893,510	₩ 17,893,510

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

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LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

December 31, 2013 and 2012

(e) Other financial liabilities as of December 31, 2013 and 2012 are summarized as follows:

	December 31, 2013	December 31, 2012
Current:		
Financial guarantee liabilities	₩ 493	₩ 115
Accrued expense	245,939	222,281
Deposit received	244,327	267,908
Finance lease liabilities	610	-
Derivative liabilities held for the purpose of hedging	98,245	5,595
Subtotal	₩ 589,614	₩ 495,899
Non-current:		
Deposit received	₩ 182,923	₩ 172,150
Other financial liabilities	6,563	3,252
Derivative liabilities held for the purpose of hedging	110,780	162,424
Derivative liabilities held for the purpose of trading	10,212	-
Subtotal	₩ 310,478	₩ 337,826
Total	₩ 900,092	₩ 833,725

(f) The fair value hierarchy

The fair value measurements classified by fair value hierarchy as of December 31, 2013 are as follows:

Description	Level I	Level II	Level III	Total
Available-for-sale financial assets	₩ 169,498	₩ 24,684	₩ 273,181	₩ 467,363
Derivative assets	-	726	-	726
Total financial assets	₩ 169,498	₩ 25,410	₩ 273,181	₩ 468,089
Financial liabilities at fair value through profit or loss	₩ -	₩ 849,815	₩ -	₩ 849,815
Derivative liabilities	-	209,498	9,739	219,237
Total financial liabilities	₩ -	₩ 1,059,313	₩ 9,739	₩ 1,069,052

The fair value measurements classified by fair value hierarchy as of December 31, 2012 are as follows:

Description	Level I	Level II	Level III	Total
Available-for-sale financial assets	₩ 338,935	₩ 197	₩ 258,085	₩ 597,217
Derivative assets	-	48	-	48
Total financial assets	₩ 338,935	₩ 245	₩ 258,085	₩ 597,265
Financial liabilities at fair value through profit or loss	₩ -	₩ 908,633	₩ -	₩ 908,633
Derivative liabilities	-	168,019	-	168,019
Total financial liabilities	₩ -	₩ 1,076,652	₩ -	₩ 1,076,652

For the measuring Level 2 fair values, the Group used Strip & Bootstrapping method and Binomial Tree model, etc. and the Group used the significant observable inputs of risk-free rate and stock price volatility, etc.

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

(g) Level 3 fair values

Changes in Level 3 fair values for the years ended December 31, 2013 and December 31, 2012 are as follows:

Description	December 31, 2013	December 31, 2012
Beginning of the year	₩ 258,085	₩ 218,009
Transfer into Level 3	14,328	40
Transfer out of Level 3	(18,914)	(2,856)
Loss included in finance costs		
- Loss on valuation of derivative instruments	(9,739)	-
Gain included in OCI		
- Net change in unrealized fair value of available-for-sale financial assets	19,682	4,118
Purchases	-	38,774
End of the year	₩ 263,442	₩ 258,085

(h) Sensitivity analysis

For the fair values of available for sale equity security investments and stock options, reasonably possible changes as of December 31, 2013 to one of the significant unobservable inputs, holding other inputs constant, would have the following effects.

(i) Equity securities

Description	Discount rate		Growth rate	
	1% Decrease	1% Increase	0.5% Increase	1% Increase
Available-for-sale financial assets	₩ 21,626	₩ (15,886)	₩ 6,413	₩ 13,994

(ii) Stock options

Description	Discount rate		Stock price volatility	
	10% Decrease	10% Increase	1% Decrease	1% Increase
Stock options	₩ (5,854)	₩ 5,815	₩ 0	₩ (9)

Notes to the Consolidated Financial Statements

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

December 31, 2013 and 2012

9 Inventories

(a) Inventories as of December 31, 2013 and 2012 are summarized as follows:

Korean won (millions)

	December 31, 2013			December 31, 2012		
	Acquisition cost	Allowance for inventory valuation	Book value	Acquisition cost	Allowance for inventory valuation	Book value
Merchandise	₩ 2,718,587	₩ (13,791)	₩ 2,704,796	₩ 2,366,184	₩ (9,322)	₩ 2,356,862
Finished goods	13,318	(4,015)	9,303	13,316	(3,955)	9,361
Goods in process	1,288	-	1,288	978	-	978
Raw materials	1,229	(63)	1,166	1,467	(13)	1,454
Subsidiary materials	712	-	712	452	-	452
Supplies	3,429	-	3,429	2,297	-	2,297
Materials-in-transit	496	-	496	303	-	303
Unfinished apartment units	358,172	-	358,172	23,931	-	23,931
Lots	35,130	-	35,130	354,666	-	354,666
Total	₩ 3,132,361	₩ (17,869)	₩ 3,114,492	₩ 2,763,594	₩ (13,290)	₩ 2,750,304

(b) During 2013 and 2012, changes of allowance for valuation reserve of inventories are summarized as follows:

Korean won (millions)

	2013	2012
Cost of goods sold:		
Increase of allowance for valuation losses of inventories	₩ 4,579	₩ 1,289

10 Other Non-financial Assets

Other non-financial assets as of December 31, 2013 and 2012 are summarized as follows:

Korean won (millions)

Description	December 31, 2013	December 31, 2012
Current:		
Advance payments	₩ 174,392	₩ 202,378
Prepaid expenses	171,984	188,668
Prepaid value added tax	89,849	76,765
Other	66	345
Subtotal	₩ 436,291	₩ 468,156
Non-current:		
Long-term advance payments	₩ 114,417	₩ 82,632
Long-term prepaid expenses (*)	1,099,945	1,069,914
Other	5,908	7,652
Subtotal	₩ 1,220,270	₩ 1,160,198
Total	₩ 1,656,561	₩ 1,628,354

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

11 Non-current assets held for sale

According to the resolution of board of directors dated March 5, 2013, Qingdao Lotte Mart Commercial Co., Ltd., which is a subsidiary, classified its investment property located in Cheng yang, China as non-current assets held for sale.

The details of non-current assets held for sale at the reporting date are as follows and the Group recognized the difference between book value and fair value less cost to sell of ₩27,916 million as impairment loss.

Korean won (millions)

Description	December 31, 2013
Investment property	₩ 22,109

12 Investments in Associates

(a) The details of associates as of December 31, 2013 and 2012 are summarized as follows:

Korean won (millions)

Company	December 31, 2013			
	Location	Principal business	Percentage of Ownership (%)	Balance at December 31, 2013
Lotte Station Building Co., Ltd.	Korea	Distribution	25.00	₩ 122,212
Daehong Communications Co., Ltd.	Korea	Advertisement agency	34.00	127,298
Lotte.Com Inc.	Korea	Distribution	34.39	8,214
Lotte Capital Co., Ltd.	Korea	Capital	22.36	138,666
Lotteria Co., Ltd.	Korea	Restaurant chain	38.68	244,228
FRL Korea Co., Ltd.	Korea	Retail	49.00	112,631
Lotte Asset Development Co., Ltd.	Korea	Real estate development	39.14	46,398
Zara Retail Korea Co., Ltd.	Korea	Retail	20.00	21,848
LOTTE Giants Co., Ltd.	Korea	Baseball club	30.00	4,618
Lotte Europe Holdings B.V.	Netherlands	Holding company	31.25	94,132
Coralis S.A.	Luxembourg	Holding company	45.00	42,219
S.M.CONTENTS INVESTMENT (Formerly M-Venture Culture Investment L.P)	Korea	Film producing company	25.00	2,299
Capital One Diversity Cinema Fund	Korea	Film producing company	20.00	777
Capital One Middle-Low Budget Cinema Fund	Korea	Film producing company	25.00	3,520
UNION INVESTMENT PARTNERS (Formerly Sovik Visual Contents Investment Fund)	Korea	Film producing company	26.67	4,791
Hubei XL Cinema Co., Ltd.	China	Cinema	49.00	5,691
CJ Venture Investment No.14 Culture Contents Fund	Korea	Film producing company	30.00	6,354
PT. Lotte Capital Indonesia	Indonesia	Capital	25.00	2,207
Hemisphere Film Investors II LLC (*1)	America	Film producing company	100.00	25,307
Shandong Longzhile Cinema Co., Ltd.	China	Cinema	49.00	1,947
Leading Asia Contents Fund	Korea	Film producing company	21.01	3,958
LOTTE Payment & settlement networks Inc.	Korea	Electronic financial service	31.91	7,090
Lotte Incheon Development Co., Ltd	Korea	Leasing service	37.50	11,290
Mybi.Co.Ltd (*2)	Korea	Electronic banking business	17.28	13,540
Total				₩ 1,051,235

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

(*2) Although the Group holds less than 20% of the voting power of Mybi.Co.Ltd, the Group has significant influence on the entity, since the CEO of Lotte Card, a subsidiary, is also the CEO and board member of the investee.

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Korean won (millions)

Company	December 31, 2012			
	Location	Principal business	Percentage of Ownership (%)	Balance at December 31, 2012
Lotte Station Building Co., Ltd.	Korea	Distribution	25.00	₩ 139,818
Daehong Communications Co., Ltd.	Korea	Advertisement agency	34.00	116,121
Lotte.Com Inc.	Korea	Distribution	34.39	7,860
Lotte Capital Co., Ltd.	Korea	Capital	22.36	125,123
Lotteria Co., Ltd.	Korea	Restaurant chain	38.68	215,716
FRL Korea Co., Ltd.	Korea	Retail	49.00	89,372
Lotte Asset Development Co., Ltd.	Korea	Real estate development	39.14	46,435
Zara Retail Korea Co., Ltd.	Korea	Retail	20.00	20,397
Lotte Buyeo Resort Co., Ltd.	Korea	Real estate development	22.22	11,677
LOTTE Giants Co., Ltd.	Korea	Baseball club	30.00	5,018
Lotte Europe Holdings B.V.	Netherlands	Holding company	34.26	97,080
Coralis S.A.	Luxembourg	Holding company	45.00	46,741
M-Venture Culture Investment L.P.	Korea	Film producing company	25.00	2,608
Capital One Diversity Cinema Fund	Korea	Film producing company	20.00	849
Capital One Middle-Low Budget Cinema Fund	Korea	Film producing company	25.00	3,454
Sovik Visual Contents Investment Fund	Korea	Film producing company	26.67	4,526
Hubei XL Cinema Co., Ltd.	China	Cinema	49.00	6,189
CJ Venture Investment No.14 Culture Contents Fund	Korea	Film producing company	30.00	5,643
PT. Lotte Capital Indonesia	Indonesia	Capital	25.00	2,817
Hemisphere Film Investors II LLC (*)	America	Film producing company	100.00	25,095
Shandong Longzhile Cinema Co., Ltd.	China	Cinema	49.02	1,614
Leading Asia Contents Fund	Korea	Film producing company	21.01	3,994
LOTTE Payment & settlement networks Inc.	Korea	Electronic financial service	30.58	12,315
Total				₩ 990,462

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

(b) Changes in investments in associates for the years ended December 31, 2013 and 2012 are as follows:

Korean won (millions)

Company	2013							
	Beginning balance	Adjustment to						Balance at December 31, 2013
		Acquisition	Dividends	Net income (loss)	Capital adjustment	Disposals	Other	
Lotte Station Building Co., Ltd.	₩ 139,818	₩ -	₩ (31,401)	₩ 14,200	₩ (405)	₩ -	₩ -	₩ 122,212
Daehong Communications Co., Ltd.	116,121	-	(7)	2,813	7,962	-	409	127,298
Lotte Capital Co., Ltd.	125,123	-	(1,861)	14,858	278	-	268	138,666
Lotteria Co., Ltd.	215,716	-	-	9,660	17,973	-	879	244,228
FRL Korea Co., Ltd.	89,372	-	(6,821)	33,803	(3,284)	-	(439)	112,631
Lotte Asset Development Co., Ltd.	46,435	-	-	(5,002)	4,919	-	46	46,398
Lotte Europe Holdings B.V.	97,080	7,479	-	(14,266)	(5,981)	-	9,820	94,132
Coralis S.A.	46,741	-	-	(2,705)	(1,817)	-	-	42,219
Others	114,056	21,816	-	(8,242)	153	(10,012)	5,680	123,451
	₩ 990,462	₩ 29,295	₩ (40,090)	₩ 45,119	₩ 19,798	₩ (10,012)	₩ 16,663	₩ 1,051,235

Korean won (millions)

Company	2012							
	Beginning balance	Adjustment to						Balance at December 31, 2012
		Acquisition	Dividends	Net income (loss)	Capital adjustment	Disposals	Other	
Lotte Station Building Co., Ltd.	₩ 192,645	₩ -	₩ (51,575)	₩ 2,959	₩ (4,218)	₩ -	₩ 7	₩ 139,818
Daehong Communications Co., Ltd.	93,806	1,500	(6)	15,645	5,592	-	(416)	116,121
Lotte Capital Co., Ltd.	111,280	-	(1,861)	15,304	620	-	(220)	125,123
Lotteria Co., Ltd.	210,427	-	-	10,244	(4,487)	-	(468)	215,716
FRL Korea Co., Ltd.	71,433	-	(11,760)	29,699	-	-	-	89,372
Lotte Asset Development Co., Ltd.	50,492	-	-	(1,845)	2,931	-	(5,143)	46,435
Lotte Europe Holdings B.V.	63,619	22,092	-	(3,794)	15,163	-	-	97,080
Coralis S.A.	49,178	-	-	(500)	(1,937)	-	-	46,741
Others	89,970	38,945	(3,469)	3,172	(2,215)	(11,959)	(388)	114,056
	₩ 932,850	₩ 62,537	₩ (68,671)	₩ 70,884	₩ 11,449	₩ (11,959)	₩ (6,628)	₩ 990,462

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(c) Financial information of significant associates as of and for the years ended December 31, 2013 and 2012 are summarized as follows:

Korean won (millions)

Company	2013							
	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.	₩ 240,445	₩ 499,462	₩ 231,850	₩ 19,209	₩ 674,120	₩ 76,967	₩ (1,620)	₩ 55,181
Daehong Communications Co., Ltd.	175,058	437,408	182,354	55,782	333,564	16,432	26,272	34,625
Lotte Capital Co., Ltd. [*]	4,476,195	-	3,853,140	-	579,758	88,306	2,443	68,897
Lotteria Co., Ltd.	188,905	847,485	316,029	108,139	1,099,739	38,790	48,736	74,856
FRL Korea Co., Ltd.	329,132	95,678	187,066	7,884	784,889	92,480	(895)	68,091
Lotte Asset Development Co., Ltd.	113,126	198,810	164,834	29,443	102,474	(1,680)	12,682	1,336
Lotte Europe Holdings B.V.	198,552	611,018	174,967	398,567	145,710	3,716	(19,888)	(66,161)
Coralis S.A.	₩ 140,799	₩ 268,397	₩ 2,028	₩ 347,830	₩ -	₩ (1,239)	₩ (4,036)	₩ (10,029)

[*] Since Lotte Capital Co., Ltd. is financial institution, does not present current and non-current assets, and current and non-current liabilities.

Korean won (millions)

Company	2012							
	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.	₩ 269,016	₩ 519,303	₩ 209,292	₩ 19,756	₩ 682,352	₩ 80,448	₩ (16,848)	₩ (5,010)
Daehong Communications Co., Ltd.	158,893	360,399	130,864	47,012	348,476	14,119	14,580	28,750
Lotte Capital Co., Ltd. [*]	4,353,106	-	3,789,766	-	595,065	92,404	1,787	70,233
Lotteria Co., Ltd.	181,333	746,721	279,757	111,370	985,254	33,885	(9,703)	10,301
FRL Korea Co., Ltd.	240,220	83,222	136,512	4,538	605,015	80,749	-	60,609
Lotte Asset Development Co., Ltd.	108,785	164,299	134,906	20,422	57,254	287	7,788	3,075
Lotte Europe Holdings B.V.	151,813	533,769	142,768	308,095	150,596	(3,343)	47,801	32,530
Coralis S.A.	₩ 135,627	₩ 153,044	₩ 4,821	₩ 214,482	₩ -	₩ (833)	₩ (4,306)	₩ (5,400)

[*] Since Lotte Capital Co., Ltd. is financial institution, does not present current and non-current assets, and current and non-current liabilities.

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, 2013 and 2012 are summarized as follow:

Korean won (millions)

Company	December 31, 2013			
	Location	Principal business	Percentage of Ownership (%)	Balance at December 31, 2013
Intime Lotte Department Store Co., Ltd. [*1]	China	Distribution	82.46	₩ -
D-Cinema of Korea Co., Ltd.	Korea	Film equipment	50.00	-
Shenyang SL Cinema Investment Management Co., Ltd.	China	Cinema	49.00	921
STL Co., Limited	Korea	Retail	50.00	527
Shandong Luckypai TV Shopping	China	Distribution	49.00	8,506
Yunnan Maile TV Shopping Media Co., Ltd. [*2]	China	Distribution	49.00	3,157
Chongqing Yujia Co., Ltd. [*2]	China	Distribution	49.00	-
Total				₩ 13,111

[*1] The Company's percentage of ownership on Intime Lotte Department Store Co., Ltd. is temporarily over 50%, but the Company has no power to control the entity based on the joint venture agreement with the other investor.

[*2] The entities are reclassified from subsidiaries due to the loss of control in 2013.

Korean won (millions)

Company	December 31, 2012			
	Location	Principal business	Percentage of Ownership (%)	Balance at December 31, 2012
Intime Lotte Department Store Co., Ltd.	China	Distribution	50.00	₩ -
D-Cinema of Korea Co., Ltd.	Korea	Film equipment	50.00	-
Shenyang SL Cinema Investment Management Co., Ltd.	China	Cinema	49.00	970
STL Co., Limited	Korea	Retail	50.00	1,187
Shandong Luckypai TV Shopping	China	Distribution	49.00	5,813
Total				₩ 7,970

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(b) Changes in joint ventures for the years ended December 31, 2013 and 2012 are as follows:

Korean won (millions)

Company	2013						
	Beginning balance	Adjustment to					Balance at December 31, 2013
		Acquisition	Dividends	Net income (loss)	Capital adjustment	Other	
Intime Lotte Department Store Co., Ltd.	₩ -	₩ 41,767	₩ -	₩ (41,767)	₩ -	₩ -	₩ -
D-Cinema of Korea Co., Ltd.	-	-	-	-	-	-	-
Shenyang SL Cinema Investment Management Co., Ltd.	970	-	-	(63)	14	-	921
STL Co., Limited	1,187	-	-	(660)	-	-	527
Shandong Luckypai TV Shopping	5,813	-	-	2,678	-	15	8,506
Yunnan Maile TV Shopping Media Co., Ltd.	-	874	(166)	155	-	2,294	3,157
Chongqing Yujia Co., Ltd.	-	-	-	(925)	-	925	-
	₩ 7,970	₩ 42,641	₩ (166)	₩ (40,582)	₩ 14	₩ 3,234	₩ 13,111

Korean won (millions)

Company	2012					
	Beginning balance	Adjustment to				Balance at December 31, 2012
		Acquisition	Net income (loss)	Capital adjustment	Other	
Intime Lotte Department Store Co., Ltd.	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -
D-Cinema of Korea Co., Ltd.	-	-	-	-	-	-
Shenyang SL Cinema Investment Management Co., Ltd.	1,219	-	(185)	(64)	-	970
STL Co., Limited	576	1,500	(867)	(22)	-	1,187
Shandong Luckypai TV Shopping	6,074	-	96	-	(357)	5,813
	₩ 7,869	₩ 1,500	₩ (956)	₩ (86)	₩ (357)	₩ 7,970

(c) Financial information of joint ventures as of and for the years ended December 31, 2013 and 2012 are summarized as follows:

Korean won (millions)

Company	2013							
	Current asset	Non-current asset	Current liabilities	Non-current liabilities	Sales	Operating income (loss)	Other comprehensive income (loss)	Total comprehensive income (loss)
Intime Lotte Department Store Co., Ltd.	₩ 14,947	₩ 4,101	₩ 114,420	₩ -	₩ 40,390	₩ (30,162)	₩ 11,009	₩ (21,651)
D-Cinema of Korea Co., Ltd.	32,446	39,056	17,183	58,254	24,157	3,490	-	2,302
Shenyang SL Cinema Investment Management Co., Ltd.	396	1,873	395	-	1,366	(168)	28	(99)
STL Co., Limited	2,969	1,241	2,996	160	6,111	(1,280)	-	(1,306)
Shandong Luckypai TV Shopping	46,577	2,180	27,796	-	101,949	8,180	(151)	6,576
Yunnan Maile TV Shopping Media Co., Ltd.	10,657	3,203	7,863	-	31,333	667	(6)	280
Chongqing Yujia Co., Ltd.	₩ 23,003	₩ 701	₩ 26,084	₩ -	₩ 15,857	₩ (3,312)	₩ 33	₩ (3,285)

Korean won (millions)

Company	2012							
	Current asset	Non-current asset	Current liabilities	Non-current liabilities	Sales	Operating income (loss)	Other comprehensive income (loss)	Total comprehensive income (loss)
Intime Lotte Department Store Co., Ltd.	₩ 5,598	₩ 17,929	₩ 139,015	₩ -	₩ 95,439	₩ (22,625)	₩ 6,505	₩ (22,466)
D-Cinema of Korea Co., Ltd.	27,708	50,795	16,002	68,736	22,325	2,428	-	(1,308)
Shenyang SL Cinema Investment Management Co., Ltd.	396	2,019	440	-	1,256	(380)	(130)	(509)
STL Co., Limited	1,921	1,149	623	73	3,098	(1,670)	(45)	(1,778)
Shandong Luckypai TV Shopping	₩ 41,307	₩ 1,313	₩ 28,151	₩ -	₩ 77,834	₩ 3,172	₩ (109)	₩ 2,795

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

Korean won (millions)

Company	December 31, 2013	
	Unrecognized losses for the year	Unrecognized accumulated losses
Intime Lotte Department Store Co., Ltd.	₩ (37,707)	₩ (51,282)
D-Cinema of Korea Co., Ltd.	-	(1,967)
Chongqing Yujia Co., Ltd.	(707)	(707)
Total	₩ (38,414)	₩ (53,956)

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LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

December 31, 2013 and 2012

14 Property, Plant and Equipment

(a) Changes in acquisition cost of property, plant and equipment for the years ended December 31, 2013 and 2012 are as follows:

Korean won (millions)

	2013				
	Acquisition cost as of January 1, 2013	Acquisition	Disposals	Others (*)	Acquisition cost as of December 31, 2013
Land	₩ 7,571,892	₩ 20,771	₩ [6,551]	₩ 538,530	₩ 8,124,642
Buildings	6,293,801	40,264	[8,709]	433,666	6,759,022
Structures	290,724	494	[20]	[4,395]	286,803
Machinery	264,050	11,135	[10,060]	[8,491]	256,634
Vehicles	9,454	1,706	[1,545]	[905]	8,710
Display fixtures	463,257	42,304	[62,469]	84,794	527,886
Furniture and fixtures	2,741,908	223,304	[100,664]	216,956	3,081,504
Tools and equipment	207,266	34,688	[9,963]	940	232,931
Other PP&E	211,910	26,550	[13,779]	12,045	236,726
Construction-in-progress	975,239	1,462,485	[3,173]	[1,431,691]	1,002,860
Total	₩ 19,029,501	₩ 1,863,701	₩ [216,933]	₩ [158,551]	₩ 20,517,718

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

Korean won (millions)

	2012				
	Acquisition cost as of January 1, 2012	Acquisition	Increase from business combination	Disposals	Others (*)
Land	₩ 7,076,909	₩ 5,158	₩ 245,709	₩ [1,471]	₩ 245,587
Buildings	5,407,196	58,376	318,951	[42,912]	552,190
Structures	268,785	8,614	2,722	[2,824]	13,427
Machinery	242,998	16,544	3,110	[751]	2,149
Vehicles	8,591	1,153	791	[674]	[407]
Display fixtures	368,505	52,407	4,330	[9,051]	47,066
Furniture and fixtures	2,123,654	183,153	178,873	[90,172]	346,400
Tools and equipment	193,750	31,224	-	[3,177]	[14,531]
Other PP&E	202,193	19,950	515	[2,200]	[8,548]
Construction-in-progress	885,733	1,401,951	980	[190]	[1,313,235]
Total	₩ 16,778,314	₩ 1,778,530	₩ 755,981	₩ [153,422]	₩ [129,902]

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

(b) Changes in accumulated depreciation of property, plant and equipment for the years ended December 31, 2013 and 2012 are as follows:

Korean won (millions)

	2013				
	Accumulated depreciation as of January 1, 2013	Disposals	Depreciation	Others	Accumulated depreciation as of December 31, 2013
Buildings	₩ 1,817,002	₩ [5,019]	₩ 198,477	₩ [13,769]	₩ 1,996,691
Structures	70,958	[20]	12,869	[1,468]	82,339
Machinery	142,507	[9,989]	27,338	[4,475]	155,381
Vehicles	6,075	[1,402]	1,046	[506]	5,213
Display fixtures	267,861	[56,203]	64,110	588	276,356
Furniture and fixtures	1,736,077	[93,827]	365,922	[2,554]	2,005,618
Tools and equipment	97,082	[3,851]	22,344	[5,075]	110,500
Other PP&E	66,021	[702]	14,542	[225]	79,636
Total	₩ 4,203,583	₩ [171,013]	₩ 706,648	₩ [27,484]	₩ 4,711,734

Korean won (millions)

	2012				
	Accumulated depreciation as of January 1, 2012	Disposals	Increase from business combination	Depreciation	Others
Buildings	₩ 1,535,530	₩ [4,669]	₩ 105,427	₩ 170,945	₩ 9,769
Structures	56,333	[156]	857	12,770	1,154
Machinery	115,760	[557]	2,621	26,689	[2,006]
Vehicles	5,463	[572]	260	1,189	[265]
Display fixtures	226,016	[6,155]	1,133	49,070	[2,203]
Furniture and fixtures	1,411,716	[68,291]	106,646	286,476	[470]
Tools and equipment	86,712	[2,717]	-	21,275	[8,188]
Other PP&E	54,897	[897]	374	15,169	[3,522]
Total	₩ 3,492,427	₩ [84,014]	₩ 217,318	₩ 583,583	₩ [5,731]

(c) Changes in accumulated impairment losses of property, plant and equipment for the years ended December 31, 2013 and 2012 are as follows:

Korean won (millions)

	2013		
	Accumulated impairment as of January 1, 2013	Impairment loss	Others
Machinery	₩ -	₩ 25	₩ [1]
Display fixtures	-	60	[1]
Furniture and fixtures	-	13	-
Tools and equipments	-	2,205	[50]
Other PP&E	-	15,535	[350]
Total	₩ -	₩ 17,838	₩ [402]

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LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

December 31, 2013 and 2012

Korean won (millions)

	2012			
	Accumulated impairment as of January 1, 2012	Impairment loss	Others	Accumulated impairment as of December 31, 2012
Other PP&E	₩ 872	₩ -	₩ [872]	₩ -

(d) Pledged property, plant and equipment provided by the Group as of December 31, 2013 are as follows:

Korean won (millions)

	Book value	Guaranteed amount	Type of borrowings	Amount of borrowings	Guarantee recipient
Land and buildings etc.	₩ 305,606	₩ 298,495	Secured Loan and others	₩ 104,900	Kookmin Bank and others

(e) During 2013 and 2012, capitalized borrowing costs and capitalization interest rates are as follows:

Korean won (millions)

	2013	2012
Capitalized borrowing costs	₩ 6,429	₩ 7,423
Capitalization interest rates (%)	3.01% ~ 8.50%	1.70% ~ 13.50%

15Investment Property

(a) Changes in acquisition cost of investment property for the years ended December 31, 2013 and 2012 are as follows:

Korean won (millions)

	2013			
	Acquisition cost as of January 1, 2013	Increase from business combination	Others (*)	Acquisition cost as of December 31, 2013
Land	₩ 288,697	₩ -	₩ [17,465]	₩ 271,232
Buildings	294,740	5,904	[13,896]	286,748
Total	₩ 583,437	₩ 5,904	₩ [31,361]	₩ 557,980

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

Korean won (millions)

	2012			
	Acquisition cost as of January 1, 2012	Increase from business combination	Others (*)	Acquisition cost as of December 31, 2012
Land	₩ 293,895	₩ 30,894	₩ [36,092]	₩ 288,697
Buildings	289,640	49,116	[44,016]	294,740
Total	₩ 583,535	₩ 80,010	₩ [80,108]	₩ 583,437

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

(b) Changes in accumulated depreciation of investment property for the years ended December 31, 2013 and 2012 are as follows:

Korean won (millions)

	2013			
	Accumulated depreciation as of January 1, 2013	Depreciation	Others	Accumulated depreciation as of December 31, 2013
Buildings	₩ 72,631	₩ 6,511	₩ 1,527	₩ 80,669

Korean won (millions)

	2012				
	Accumulated depreciation as of January 1, 2012	Depreciation	Increase from Business combination	Others	Accumulated depreciation as of December 31, 2012
Buildings	₩ 73,457	₩ 7,425	₩ 9,474	₩ [17,725]	₩ 72,631

(c) Changes in accumulated impairment losses of investment property for the years ended December 31, 2013 and 2012 are as follows:

Korean won (millions)

	2013			
	Accumulated impairment as of January 1, 2013	Impairment loss	Others (*)	Accumulated impairment as of December 31, 2013
Land	₩ 762	₩ -	₩ [762]	₩ -
Buildings	1,787	27,916	[29,703]	-
	₩ 2,549	₩ 27,916	₩ [30,465]	₩ -

(*) Others mainly includes amount transferred to non-current assets held for sale.

Korean won (millions)

	2012			
	Accumulated impairment as of January 1, 2012	Impairment loss	Others	Accumulated impairment as of December 31, 2012
Land	₩ -	₩ -	₩ 762	₩ 762
Buildings	584	1,285	[82]	1,787
	₩ 584	₩ 1,285	₩ 680	₩ 2,549

(d) Income and expense from investment property

The details of income and expense from investment property during 2013 and 2012 are as follows:

Korean won (millions)

Description	2013	2012
Rent income	₩ 43,944	₩ 42,027
Direct operating expense (including maintenance and repair expenses)	₩ 15,173	₩ 12,464

(e) Fair value of investment property as of December 31, 2013 was follows:

Korean won (millions)

Description	Book value	Fair value
Land and buildings	₩ 477,311	₩ 653,458

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LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

December 31, 2013 and 2012

16 Intangible Assets

(a) Intangible assets as of December 31, 2013 and 2012 are summarized as follows:

Korean won (millions)

	December 31, 2013				December 31, 2012			
	Acquisition cost	Accumulated amortization	Accumulated impairment losses	Book value	Acquisition cost	Accumulated amortization	Accumulated impairment losses	Book value
Goodwill	₩ 3,488,978	₩ -	₩ [81,443]	₩ 3,407,535	₩ 3,495,316	₩ -	₩ [6,492]	₩ 3,488,824
Industrial property rights	143,084	[3,718]	-	139,366	141,478	[2,766]	-	138,712
Rights to use facility	549,932	[97,802]	-	452,130	551,744	[69,725]	-	482,019
Membership	36,427	-	[3,287]	33,140	34,939	-	[3,137]	31,802
Other intangible assets	386,028	[72,858]	[3,954]	309,216	322,788	[49,867]	[5,842]	267,079
Total	₩ 4,604,449	₩ [174,378]	₩ [88,684]	₩ 4,341,387	₩ 4,546,265	₩ [122,358]	₩ [15,471]	₩ 4,408,436

(b) Changes in intangible assets for the years ended December 31, 2013 and 2012 are as follows:

Korean won (millions)

	2013						
	Book value as of January 1, 2013	Acquisition	Amortization	Impairment	Disposals	Others (*)	Book value as of December 31, 2013
Goodwill	₩ 3,488,824	₩ -	₩ -	₩ [75,053]	₩ [82]	₩ [6,154]	₩ 3,407,535
Industrial property rights	138,712	643	[965]	-	-	976	139,366
Rights to use facility	482,019	-	[28,077]	-	[2,071]	259	452,130
Membership	31,802	2,101	-	[647]	-	[116]	33,140
Other intangible assets	267,079	119,849	[78,689]	[470]	[533]	1,980	309,216
Total	₩ 4,408,436	₩ 122,593	₩ [107,731]	₩ [76,170]	₩ [2,686]	₩ [3,055]	₩ 4,341,387

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

Korean won (millions)

	2012							
	Book value as of January 1, 2012	Acquisition	Increase from Business combination	Amortization	Impairment	Disposals	Others (*)	Book value as of December 31, 2012
Goodwill	₩ 2,067,205	₩ 4	₩ 1,449,744	₩ -	₩ [271]	₩ -	₩ [27,858]	₩ 3,488,824
Industrial property rights	2,128	1,285	136,104	[857]	-	-	52	138,712
Rights to use facility	490,969	8,595	-	[28,194]	-	[48,745]	59,394	482,019
Membership	19,489	5,477	2,161	-	10	-	4,665	31,802
Other intangible assets	127,226	92,537	150,501	[104,209]	[3,997]	[414]	5,435	267,079
Total	₩ 2,707,017	₩ 107,898	₩ 1,738,510	₩ [133,260]	₩ [4,258]	₩ [49,159]	₩ 41,688	₩ 4,408,436

(*) 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 by note 88.

Details of the goodwill allocated to the groups of cash-generating units as of December 31, 2013 and 2012 are as follows:

Korean won (millions)

Cash-generating units	December 31, 2013	December 31, 2012
Department stores	₩ 237,074	₩ 237,284
Discount stores	946,371	1,027,295
Finance business	118,733	118,733
Consumer electronics retail	1,282,696	1,282,696
Others	822,661	822,816
Total	₩ 3,407,535	₩ 3,488,824

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, 2013 was consistent with those used in 2012. The calculation of value in use was based on the following key assumptions:

- Cash flows were estimated based on past experience, actual historical results of operations and the five-year business plan.
- The annual revenue growth rate for the five-year period in the future was estimated based on an analysis of past revenue growth rates. The revenues after the five-year period were assumed to grow constantly at zero to three percent.
- The Group's weighted average cost of capital was applied as the discount rate in determining recoverable amount of cash-generating units. The weighted average costs of capital per each cash-generating unit are as follows:

Cash-generating units	2013	2012
Department stores	9.32%	10.32%
Discount stores	8.49% ~ 9.32%	8.97% ~ 10.32%
Finance business	5.44%	7.00%
Consumer electronics retail	8.00%	9.40%
Others	8.38% ~ 12.93%	9.89% ~ 11.69%

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, 2013, recoverable amounts of the cash-generating units in discount stores and others were less than its book value, including goodwill, therefore impairment losses of ₩74,799 million and ₩254 million were recognized, respectively. 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, 2013 and 2012.

(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, 2013 and 2012 are as follows:

Korean won (millions)

Cash-generating units	December 31, 2013	December 31, 2012
Department stores	₩ 10,709	₩ 10,708
Discount stores	1,976	1,976
Finance business	3,588	4,177
Consumer electronics retail	138,524	138,660
Others	14,439	12,377
Total	₩ 169,236	₩ 167,898

As a result of the Group's impairment test on indefinite intangible assets, the Group recognized an impairment losses of ₩647 million in 2013, and an reversal of impairment of ₩10 million in 2012.

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December 31, 2013 and 2012

17 Trade and Other Payables

Trade and other payables as of December 31, 2013 and 2012 are summarized as follows:

Korean won (millions)

	December 31, 2013	December 31, 2012
Trade payables	₩ 3,533,849	₩ 3,313,337
Other payables	1,736,077	1,621,031
Total	₩ 5,269,926	₩ 4,934,368

18 Borrowings and Debentures

(a) Borrowings and debentures as of December 31, 2013 and 2012 are summarized as follows:

Korean won (millions)

	December 31, 2013	December 31, 2012
Current:		
Short-term borrowings	₩ 1,268,463	₩ 2,171,551
Current portion of long-term borrowings	380,312	83,112
Current portion of long-term debentures	3,126,694	1,857,018
Discount on debentures	(1,536)	(545)
Subtotal	₩ 4,773,933	₩ 4,111,136
Non-current:		
Long-term borrowings	₩ 1,313,465	₩ 970,332
Discount on long-term borrowings	(1,130)	-
Long-term debentures	6,697,083	7,124,033
Discount on debentures	(71,274)	(80,085)
Exchange rights adjustment	(37,080)	-
Subtotal	₩ 7,901,064	₩ 8,014,280
Total	₩ 12,674,997	₩ 12,125,416

(b) Short-term borrowings as of December 31, 2013 and 2012 are summarized as follows:

Korean won (millions)

Lender	Details	Annual Interest rate (%)	December 31, 2013	December 31, 2012
Kookmin Bank and others	General	1.45 ~ 9.50	₩ 959,247	₩ 1,450,079
Shinhan Bank and others	Financial notes	2.71 ~ 5.15	254,100	524,700
Others	Other	3.00 ~ 7.87	55,116	196,772
Total			₩ 1,268,463	₩ 2,171,551

(c) Long-term borrowings as of December 31, 2013 and 2012 are summarized as follows:

Korean won (millions)

Lender	Details	Annual Interest rate (%)	December 31, 2013	December 31, 2012
Korea Development Bank and others	Local currency	2.38 ~ 6.21	₩ 1,118,621	₩ 656,300
Lotte Co., Ltd. (Japan) and others	Foreign currency	1.63 ~ 5.57	575,156	397,144
Subtotal			₩ 1,693,777	₩ 1,053,444
Less: Discount on borrowings			₩ (1,130)	₩ -
Subtotal			₩ 1,692,647	₩ 1,053,444
Less: Current portion			₩ (380,312)	₩ (83,112)
Total			₩ 1,312,335	₩ 970,332

(d) Debentures as of December 31, 2013 and 2012 are summarized as follows:

Korean won (millions)

Description	Maturity	Interest rate (%)	December 31, 2013	December 31, 2012
53rd placed	Dec. 03, 2014	5.30	₩ 250,000	₩ 250,000
54-1st placed	Mar. 12, 2013	4.44	-	200,000
54-2nd placed	Mar. 12, 2015	4.82	400,000	400,000
55th placed (foreign currency)	May. 20, 2013	3M USD Libor+0.80	-	107,110
57th placed (foreign currency)	Mar. 17, 2014	3M USD Libor+0.80	211,060	214,220
1st placed (Global bond)	Apr. 07, 2016	3.88	422,120	428,440
2nd placed (Global bond)	May. 09, 2017	3.38	422,120	428,440
58-1st placed (foreign currency)	Dec. 05, 2014	3M JPY Libor+0.60	150,699	187,125
58-2nd placed (foreign currency)	Nov. 28, 2014	3M USD Libor+1.50	105,530	107,110
59-1st placed	Aug. 07, 2015	2.98	350,000	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	105,530	107,110
61st placed	Mar. 21, 2018	3.05	100,000	-
62nd placed	Jun. 21, 2018	2.80	110,000	-
USD convertible bonds (*1)	Jul. 05, 2016	-	527,504	515,644
JPY convertible bonds (*1)	Jul. 05, 2016	-	322,311	392,989
Exchangeable bonds (*2)	Jan. 24, 2018	-	321,200	-
Korea Seven Co., Ltd.	Mar. 19, 2013	5.35	-	100,000
Korea Seven Co., Ltd.	Jan. 30, 2015	4.02	40,000	40,000
Korea Seven Co., Ltd. (foreign currency)	Jan. 27, 2015	3M Euro Yen Libor+0.70	22,103	27,445
Korea Seven Co., Ltd. (foreign currency)	Apr. 14, 2016	3M USD Libor+0.50	31,659	-
Korea Seven Co., Ltd. (convertible bonds)	May. 08, 2018	-	7,920	-
Lotte Card Co., Ltd.	Multiple	2.56 ~ 5.20	4,716,725	4,247,795
CS Mart Co., Ltd.	Oct. 29, 2015	3.09	15,070	18,713
LOTTE Himart Co., Ltd. (Local currency)	Multiple	2.90 ~ 3.22	600,000	300,000
LOTTE Himart Co., Ltd. (Foreign currency)	Mar. 29, 2016	3M USD Libor+0.50	31,659	-
LSBM	Feb. 09, 2015	4.00	130,567	128,910
Subtotal			₩ 9,823,777	₩ 8,981,051
Less: Discount on debentures			₩ (72,810)	₩ (80,630)
Less: Exchange rights adjustment			(37,080)	-
Total book value			₩ 9,713,887	₩ 8,900,421
Less: Current portion of debentures, net of discount			₩ (3,125,158)	₩ (1,856,473)
Total			₩ 6,588,729	₩ 7,043,948

(*1) USD convertible bonds and JPY convertible bonds have been designated as financial liabilities at fair value through profit or loss as of December 31, 2013 and 2012. During 2013, these convertible bonds were reclassified to current liabilities because the put option held by bondholders is exercisable on July 5, 2014, which is within one year from December 31, 2013. The terms and conditions are summarized as follows:

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

(b) Total face value of bonds:

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

(c) Exchange Rate:

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

(d) Bond interest rate:

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

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

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(f) Principal redemption method:

- i. Redemption on the maturity date: Redemption in lump sum on the maturity date for the principal amount of bonds for which a condition for early redemption has not occurred and the conversion right has not been exercised.
- ii. Early redemption: The Group has a call option, whereas bond holders have a put option.

(g) Put option by bondholders:

- the put option can be exercised if any of the following conditions occurs:
On the third anniversary of the date of payment (July 5, 2014);
- i. If any change of control occurs in the company; or
- ii. The issued stocks of the company is unlisted from the stock exchange or their transaction is suspended for 30 consecutive transaction days or longer.

(h) Call option by the company:

- the call option can be exercised if any of the following conditions occurs:
- i. If the closing price for 20 transactional days in 30 consecutive transaction days reaches 130% or more of the conversion price between 3 years from the issuance date and 30 business days to the maturity date;
- ii. If the balance of bonds that has not been redeemed reaches less than 10% of the sum of the total issued amount (clean up call); or
- iii. Any additional tax burden arises due to the amendments of the related laws and regulations.

(i) Matters relating to conversion:

- i. Conversion ratio (%): 100
- ii. Conversion price (KRW per share): 650,000
- iii. Method to decide conversion price: While following Article 5-22 of the Regulations on Issuance, Public Disclosure, etc. of Securities, 23.8% conversion premium was applied to the closing price of the shares listed on the Korea Exchange on the day of conversion price determination.
- iv. Type of shares to be issued following conversion: Registered common shares
- v. Period to apply for conversion:
Start date: July 5, 2012
End date: 7 business days prior to the maturity date
- vi. Matters for the adjustment of conversion price: In the case where a condition for re-adjustment of the conversion price has occurred, such as share dilution, the conversion price will be adjusted in accordance with the provisions in the relevant bonds purchase agreement.

(*2) The Group issued five-year bonds in 2013 which are exchangeable to shares of LOTTE Himart Co., Ltd. and the Group recognized the exchange rights of ₩44,944 million as other capital surplus which is not subsequently remeasured to fair value. The terms and conditions are summarized as follows:

(a) Type of bonds: Registered overseas unsecured exchangeable bonds

(b) Total face value of bonds (KRW): 312,200,000,000

(c) Bond interest rate :

- Coupon rate (%): 0%
- Yield to maturity (%): 0%

(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:
i. On the third anniversary of the date of payment (January 24, 2016);
- ii. If any change of control occurs in the LOTTE Himart; or
- iii. The issued stocks of the Company are delisted from the stock exchange or their transaction is suspended for 30 consecutive transaction days or longer.

(g) Call option by the Company:

- The call option can be exercised if any of the following conditions occurs:
i. If the closing price of LOTTE Himart Co., Ltd. for 20 transactional days in 30 consecutive transaction days reaches 130% or more of the exchange price between 3 years from the issuance date (January 24, 2013) and 30 business days to the maturity date;
- ii. If the balance of bonds that has not been redeemed reaches less than 10% of the sum of the total issued amount (clean up call); or
- iii. Any additional tax burden arises due to the amendments of the related laws and regulations.

(h) Matters relating to exchange:

- i. Exchange ratio (%): 100
- ii. Exchange price (KRW per share): 90,780
- iii. Type of shares to be issued following exchange: Common shares of LOTTE Himart Co., Ltd.
- iv. Period to apply for exchange:
Start date: March 5, 2013
End date: January 15, 2018
- v. Matters for the adjustment of exchange price: In case when a condition for re-adjustment of the exchange price has occurred, such as a stock dividend, the exchange price will be adjusted in accordance with the provisions in the relevant bonds purchase agreement.

(e) Maturities of long-term borrowings and debentures as of December 31, 2013 are scheduled as follows:

Korean won (millions)

	Borrowings	Debentures	Total
Within 1 year	₩ 380,312	₩ 3,126,694	₩ 3,507,006
1 ~ 2 years	872,039	2,238,239	3,110,278
2 ~ 3 years	280,713	1,857,323	2,138,036
3 ~ 4 years	80,713	1,501,521	1,582,234
More than 4 years	80,000	1,100,000	1,180,000
Total	₩ 1,693,777	₩ 9,823,777	₩ 11,517,554

19 Unearned Revenues

The details of unearned revenues as of December 31, 2013 and 2012 are as follows:

Korean won (millions)

	December 31, 2013	December 31, 2012
Current:		
Membership point	₩ 77,756	₩ 76,857
Other points	109,208	92,253
Unearned rental income	11,624	7,230
Others	34,522	30,805
Subtotal	₩ 233,110	₩ 207,145
Non-current:		
Other points	₩ 3,362	₩ 5,067
Unearned rental income	11,270	21,953
Subtotal	₩ 14,632	₩ 27,020
Total	₩ 247,742	₩ 234,165

20 Provisions

(a) Changes in provisions for the year ended December 31, 2013 are as follows:

Korean won (millions)

	2013			
	Beginning balance	Increase	Utilization	Balance as of December 31, 2013
Current:				
Provision for bonus points reward program	₩ 17,119	₩ 44,584	₩ (38,312)	₩ 23,391
Provision for bonus payable	6,010	56,451	(56,893)	5,568
Provision for sales return	6,606	4,295	(3,526)	7,375
Other provisions	10,632	15,064	(15,800)	9,896
Subtotal	₩ 40,367	₩ 120,394	₩ (114,531)	₩ 46,230
Non-current:				
Provision for unused credit card limits (*)	₩ 30,419	₩ -	₩ (127)	₩ 30,292
Other provisions	1,206	5,439	(4,324)	2,321
Subtotal	₩ 31,625	₩ 5,439	₩ (4,451)	₩ 32,613
Total	₩ 71,992	₩ 125,833	₩ (118,982)	₩ 78,843

(*) The Group provides an allowance 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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December 31, 2013 and 2012

(b) Changes in provisions for the year ended December 31, 2012 are as follows:

Korean won (millions)

	2012			
	Beginning balance	Increase	Utilization	Balance as of December 31, 2012
Current:				
Provision for bonus points reward program	₩ 14,596	₩ 45,944	₩ (43,421)	₩ 17,119
Provision for bonus payable	6,106	56,529	(56,625)	6,010
Provision for sales return	6,928	4,356	(4,678)	6,606
Other provisions	10,387	19,991	(19,746)	10,632
Subtotal	₩ 38,017	₩ 126,820	₩ (124,470)	₩ 40,367
Non-current:				
Provision for unused credit card limits (*)	₩ 34,711	₩ -	₩ (4,292)	₩ 30,419
Other provisions	681	528	(3)	1,206
Subtotal	₩ 35,392	₩ 528	₩ (4,295)	₩ 31,625
Total	₩ 73,409	₩ 127,348	₩ (128,765)	₩ 71,992

(*) The Group provides an allowance 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.

24 Other Non-financial Liabilities

Other non-financial liabilities as of December 31, 2013 and 2012 are summarized as follows:

Korean won (millions)

	December 31, 2013	December 31, 2012
Current:		
Withholdings	₩ 68,515	₩ 131,781
Withholdings of value added tax	74,959	87,557
Advances received	939,845	824,858
Other liabilities	1,259	753
Subtotal	₩ 1,084,578	₩ 1,044,949
Non-current:		
Other liabilities	₩ 66,610	₩ 25,136
Total	₩ 1,151,188	₩ 1,070,085

22 Employee Benefits

(a) Details of defined benefit liabilities as of December 31, 2013 and 2012 are summarized as follows:

Korean won (millions)

	December 31, 2013	December 31, 2012
Present value of defined benefit obligations	₩ 457,032	₩ 437,436
Fair value of plan assets	(412,811)	(319,320)
Total	₩ 44,221	₩ 118,116

(b) Details of present value of other long-term employee benefits as of December 31, 2013 and 2012 are summarized as follows:

Korean won (millions)

	December 31, 2013	December 31, 2012
Present value of other long-term employee benefits	₩ 38,089	₩ 46,251

(c) Changes in employee benefits for the years ended December 31, 2013 and 2012 are as follows:

Korean won (millions)

	2013	2012
Beginning of the year	₩ 437,436	₩ 291,927
Current service costs	106,928	81,781
Past service costs	1,354	-
Interest costs	20,405	17,382
Remeasurements :		
- Gain from change in demographic assumptions	(98)	(3,108)
- Loss (gain) from change in financial assumptions	(45,344)	42,409
- Gain from experience adjustments	(30,585)	(2,193)
Payments	(34,702)	(42,832)
Business combination	-	47,530
Others	1,638	4,540
End of the year	₩ 457,032	₩ 437,436

(d) During 2013 and 2012, the changes on plan assets of an employee benefit plan are as follows:

Korean won (millions)

	2013	2012
Beginning of the year	₩ 319,320	₩ 181,411
Return on plan assets	12,268	11,859
Actuarial loss	(2,476)	(4,927)
Employer contribution	109,182	128,537
Payments	(26,169)	(29,500)
Business combination	-	31,489
Others	686	451
End of the year	₩ 412,811	₩ 319,320

The reasonable expected contrubutions to the plan for the next annual reporting period are ₩79,545 million.

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(e) The components of plan assets as of December 31, 2013 and 2012 are summarized as follows:

	Korean won (millions)	
	December 31, 2013	December 31, 2012
Principal guaranteed insurance policies	₩ 412,595	₩ 319,096
Others	216	224
Total	₩ 412,811	₩ 319,320

(f) Expenses recognized for the years ended December 31, 2013 and 2012 are as follows:

	Korean won (millions)	
	2013	2012
Current service costs	₩ 106,928	₩ 81,781
Past service costs	1,354	-
Interest costs	20,405	17,382
Return on plan assets	(12,268)	(11,859)
Long-term employee benefits	(5,196)	4,110
Total	₩ 111,223	₩ 91,414

(g) The principal actuarial assumptions used as of December 31, 2013 and 2012 are summarized as follows:

	December 31, 2013	December 31, 2012
Discount rate	3.25 ~ 9.00%	3.30 ~ 6.00%
Expected rate of promotion	1.46 ~ 3.26%	1.62 ~ 3.57%
Expected rate of increase in salaries	2.00 ~ 7.00%	1.50 ~ 7.00%

(h) Sensitivity analysis

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

	Increase	Decrease
Discount rate (1% movement)	(151,802)	176,264
Expected rate of promotion (1% movement)	169,753	(138,708)
Expected rate of increase in salaries (1% movement)	176,267	(144,774)

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 at the reporting date is as follows:

1 year or less	1 ~ 2 years	2 ~ 5 years	5 ~ 10 years
39,858	95,983	176,620	316,336

23 Derivative Instruments and Hedge Accounting

(a) Details of derivatives outstanding as of December 31, 2012 are as follows:

Type	Description	Description
Trade	Call option	The Group holds the right to buy preferred stocks of Lotte Incheon Development Co., Ltd.
	Put option	The Group grants the right to sell preferred stocks of Lotte Incheon Development 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.
	Interest swap	Pays fixed interest to receive floating rate in KRW short-term borrowings.

(b) Fair value of derivatives outstanding as of December 31, 2013 and 2012 are summarized as follows:

Description	Type	December 31, 2013		December 31, 2012	
		Assets	Liabilities	Assets	Liabilities
Trade	Stock option	₩ -	₩ 9,739	₩ -	₩ -
	Currency swap	-	473	-	-
Cash flow hedge	Currency swap	534	207,858	-	166,234
	Interest swap	192	1,167	48	1,785
Total		₩ 726	₩ 219,237	₩ 48	₩ 168,019

(c) Changes in the fair value of derivative instruments for the years ended December 31, 2013 are as follows:

Description	Type	Related accounts	Korean won (millions)
Trade	Stock option	Loss on valuation of derivative instruments	₩ (9,739)
	Currency swap	Loss on valuation of derivative instruments	(401)
Cash flow hedge	Currency swap	Loss on valuation of derivative instruments	(58,366)
		Loss on valuation of derivatives instruments (card business)	(27,745)
		Unrealized gain on valuation of derivative instruments	12,348
	Interest swap	Unrealized gain on valuation of derivative instruments, net of tax effect	₩ 1,398

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LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

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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, 2013, the Company has not issued any preferred stock and 31,490,892 shares of common stock were issued and outstanding as of December 31, 2013.

(b) Capital surplus as of December 31, 2013 and 2012 consists of the following:

Korean won (millions)		
	December 31, 2013	December 31, 2012
Additional paid-in capital	₩ 3,786,431	₩ 3,605,117
Others	124,321	17,066
	₩ 3,910,752	₩ 3,622,183

25 Hybrid Security

Hybrid securities classified as equity as of December 31, 2013 are as follows:

Korean won (millions)				
	Date of issue	Date of maturity	Interest rate (%)	December 31, 2013
Hybrid security 1-1 (*)	2013-11-15	2043-11-15	4.723	₩ 240,000
Hybrid security 1-2 (*)	2013-11-15	2043-11-15	4.723	30,000
Issuance cost				[882]
Total				₩ 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 ~ 2018-11-15: 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 securiity at year 5 and interest payment date afterwards	

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

26 Treasury stocks

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 and, as a result, the Company holds 1,938,688 shares of treasury stocks as of December 31, 2013.

27 Retained Earnings

Details of retained earnings as of December 31, 2013 and 2012 are as follows:

Korean won (millions)		
	December 31, 2013	December 31, 2012
Legal reserve	₩ 179,663	₩ 175,307
Voluntary reserve	10,100,052	9,160,052
Unappropriated retained earnings	1,615,663	1,757,367
	₩ 11,895,378	₩ 11,092,726

28 Accumulated Other Comprehensive Income

Changes in accumulated other comprehensive income (loss) for the years ended December 31, 2013 and 2012 are as follows:

Korean won (millions)				
	2013			
	Beginning balance	Changes for the year	Tax effects for the year	Balance as of December 31, 2013
Net change in unrealized fair value of available for-sale financial assets	₩ 87,857	₩ 7,046	₩ (209)	₩ 94,694
Exchange rate differences on translating foreign operations	[60,458]	[32,779]	[881]	[94,118]
Effective portion of unrealized changes in fair values of cash flow hedges	[9,119]	10,320	[902]	299
Change in equity of equity method investments	49,297	12,958	-	62,255
Total	₩ 67,577	₩ (2,455)	₩ (1,992)	₩ 63,130

Korean won (millions)				
	2012			
	Beginning balance	Changes for the year	Tax effects for the year	Balance as of December 31, 2012
Net change in unrealized fair value of available for-sale financial assets	₩ 82,362	₩ 10,245	₩ (4,750)	₩ 87,857
Exchange rate differences on translating foreign operations	30,084	[93,747]	3,205	[60,458]
Effective portion of unrealized changes in fair values of cash flow hedges	[12,140]	3,166	[145]	[9,119]
Change in equity of equity method investments	37,500	11,704	93	49,297
Total	₩ 137,806	₩ [68,632]	₩ (1,597)	₩ 67,577

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29 Earnings per Share

(a) Basic earnings per share

(i) Basic earnings per share for the years ended December 31, 2013 and 2012 are as follows:

Korean won (millions, except per share amount)

	2013	2012
Profit for the year attributable to the owners of the Company	₩ 788,445	₩ 1,080,261
Interests of hybrid securities	[174]	-
Weighted average number of common shares outstanding	29,552,204	29,043,374
Basic earnings per share	₩ 26,674	₩ 37,195

(ii) Weighted average number of ordinary shares

Korean won (millions, except per share amount)

	2013	2012
Issued ordinary shares at January 1	₩ 31,490,892	₩ 29,043,374
Effect of treasury shares	[1,938,688]	-
Weighted average number of ordinary shares	₩ 29,552,204	₩ 29,043,374

(b) Diluted earnings per share

(i) Diluted earnings per share for the years ended December 31, 2013 and 2012 are as follows:

Korean won (millions, except per share amount)

	2013	2012
Profit for the year attributable to the owners of the Company (basic)	₩ 788,445	₩ 1,080,261
Interests of hybrid securities	[175]	-
Loss (gain) on valuation of financial liability at fair value through profit or loss, net of tax	[44,821]	[74,728]
Effect of exchange of exchangeable bond, net of tax (*)	[9,474]	-
Diluted profit attributable to ordinary shareholders	733,975	1,005,533
Diluted weighted average number of ordinary shares	31,058,311	30,549,481
Diluted earnings per share	₩ 23,632	₩ 32,915

(*) The effect of exchangeable bond consists of interest expenses and decrease in profit attributable to the owners of the Company.

(ii) Diluted weighted average number of ordinary shares

Korean won (millions, except per share amount)

	2013	2012
Basic weighted average number of ordinary shares	₩ 29,552,204	₩ 29,043,374
Effect of conversion of convertible bonds	1,506,107	1,506,107
Diluted weighted average number of ordinary shares	₩ 31,058,311	₩ 30,549,481

(iii) Potential ordinary shares from conversion of convertible bonds as of December 31, 2013 are as follows:

Korean won (millions, except for conversion price)

	USD Bonds	JPY Bonds
Principal amount (*)	₩ 541,750	₩ 437,219
Conversion price (in won)	650,000	650,000
Number of potential ordinary shares	₩ 833,462	₩ 672,645

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

30 Sales and Cost of Sales

(a) Details of sales for the years ended December 31, 2013 and 2012 are as follows:

Korean won (millions)

	2013	2012
Sales of merchandise	₩ 23,899,520	₩ 21,157,718
Sales of products	136,632	131,252
Other operating revenue	2,770,799	2,337,971
Revenue of card business	1,404,752	1,416,739
Total	₩ 28,211,703	₩ 25,043,680

(b) Details of cost of sales for the years ended December 31, 2013 and 2012 are as follows:

Korean won (millions)

	2013	2012
Cost of merchandise sold	₩ 18,381,744	₩ 16,350,196
Cost of products sold	87,012	82,231
Cost of other operating revenue	270,189	172,664
Cost of card business	808,076	810,401
Total	₩ 19,547,021	₩ 17,415,492

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31 Selling, general and administrative expenses

Details of selling, general and administrative expenses for the years ended December 31, 2013 and 2012 are as follows:

	Korean won (millions)	
	2013	2012
Salaries	₩ 1,290,956	₩ 1,052,967
Retirement and termination benefits	117,349	86,327
Other employee benefits	[5,195]	4,107
Employee welfare	281,329	229,121
Education and training	20,269	16,638
Travel	41,634	34,709
Maintenance fee for car	7,024	6,385
Insurance premium	13,665	11,412
Taxes and dues	148,014	134,915
Entertainment expense	10,444	9,333
Supplies and stationery	89,083	79,663
Communications	47,807	46,606
Utilities	346,239	299,407
Maintenance	77,752	68,751
Rent	841,104	677,756
Depreciation	696,673	578,298
Amortization of intangible assets	54,384	59,089
Commissions and fees	1,073,983	953,777
Service commission expenses	789,117	780,362
Advertising	349,708	335,247
Sales promotion expenses	641,818	556,464
Decoration	20,945	23,074
Bad debt expenses	831	361
Transportation	205,292	100,958
Provisions	5,516	10
Others	13,680	14,983
Total	₩ 7,179,421	₩ 6,160,720

32 Other income and expenses

Details of other income and expenses for the years ended December 31, 2013 and 2012 are as follows:

	Korean won (millions)	
	2013	2012
Other income:		
Gain on foreign currency transactions	₩ 1,490	₩ 838
Gain on foreign currency translation	1,047	628
Gain on disposal of investment property	13	-
Gain on disposal of property, plant and equipment	5,029	1,641
Gain on disposal of intangible assets	48	297
Reversal of impairment losses on other non-current assets	4	-
Reversal of impairment losses on intangible assets	78	10
Others [*1]	54,407	62,095
Total	₩ 62,116	₩ 65,509
Other expenses:		
Loss on foreign currency transactions	₩ 4,656	₩ 1,782
Loss on foreign currency translation	1,420	912
Impairment loss of investment property	27,916	1,285
Loss on disposal of property, plant and equipment	23,186	12,935
Impairment loss of property, plant and equipment	17,838	-
Loss on disposal of intangible assets	140	98
Impairment loss of intangible assets	76,248	4,268
Loss on disposal of trade receivables	109	56
Loss on disposal of other non-current assets	37	56
Impairment loss of other non-current assets	-	149
Donation	18,926	20,377
Other bad debt expenses	1,573	2,456
Taxes and dues	4,724	2,962
Others [*2]	66,630	43,682
Total	₩ 243,403	₩ 91,018

[*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.

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33 Nature of Expenses

Details of nature of expenses for the years ended December 31, 2013 and 2012 are as follows:

	Korean won (millions)	
	2013	2012
Purchase of inventories	₩ 18,745,684	₩ 17,529,722
Changes in inventories	(362,850)	(282,613)
Employee benefits expense	1,703,906	1,386,507
Rent	850,004	678,585
Depreciation and amortization and impairment	820,890	724,268
Commissions	739,433	684,724
Sales promotion expenses	642,374	556,464
Decoration	21,003	23,074
Transportation	202,454	100,994
Others (*)	3,363,544	2,174,487
Total	₩ 26,726,442	₩ 23,576,212

(*) Others primarily include supplies and stationery, taxes and dues, and utilities.

34 Finance Income and Finance Costs

(a) Details of finance income and finance costs for the years ended December 31, 2013 and 2012 are as follows:

	Korean won (millions)	
	2013	2012
Finance income:		
Interest income	₩ 93,565	₩ 114,608
Dividend income	5,885	8,948
Gain on foreign currency transactions	2,028	7,952
Gain on foreign currency translation	147,138	209,126
Gain on valuation of financial liability at fair value through profit or loss	70,678	98,586
Gain on disposal of available-for-sale financial assets	25,432	1,210
Gain on transactions of derivative instruments held for the purpose of hedging	4,320	50
Gain on disposal of investments in associates and joint ventures	11,074	522
Total	₩ 360,120	₩ 441,002
Finance costs:		
Interest expense	₩ 248,483	₩ 206,048
Loss on foreign currency transactions	8,962	1,423
Loss on foreign currency translation	6,097	1,090
Loss on valuation of financial liabilities at fair value through profit or loss	11,860	-
Loss on disposal of available-for-sale financial assets	6,045	1,288
Impairment loss of available-for-sale financial assets	-	5,041
Loss on valuation of derivative instruments held for the purpose of hedging	58,366	89,815
Loss on valuation of derivative instruments held for the purpose of trading	10,140	-
Loss on transactions of derivative instruments held for the purpose of hedging	129	2,788
Loss on early redemption of bonds	-	11,103
Other bad debt losses (Reversal of other bad debt losses)	(7,840)	1,950
Loss on disposal of investments in associates and joint ventures	396	1,664
Impairment loss of investments in associates and joint ventures	7,581	-
Total	₩ 350,219	₩ 322,210

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(b) Details of finance income and finance costs by financial instruments category for the years ended December 31, 2013 and 2012 are as follows:

Korean won (millions)

Category	Details	2013	2012
Cash and cash equivalents:	Cash and cash equivalents:		
	Interest income	₩ 29,152	₩ 44,763
Loans and receivables:	Short-term financial instruments:		
	Interest income	16,192	22,690
	Loans:		
	Interest income	2,713	2,799
	Guarantee deposits:		
	Interest income	45,106	42,811
Available-for-sale financial assets:	Available-for-sale financial assets:		
	Interest income	402	1,545
	Dividend income	5,885	8,948
	Gain (loss) on valuation (other comprehensive income) (*)	(8,008)	26,732
	Gain (loss) on disposal	19,387	(78)
	Impairment loss	-	5,041
Investments in associates and joint ventures	Investments in associates and joint ventures:		
	Gain (loss) on disposal	10,678	(1,142)
	Impairment loss	7,581	-
Financial liabilities based on amortized cost:	Borrowings:		
	Interest expense	80,386	73,205
	Debentures:		
	Interest expense	157,269	125,043
	Loss on early redemption of bonds	-	11,103
	Rental guarantee deposits:		
Financial assets and liabilities at fair value through profit or loss:	Interest expense	10,828	7,800
	Derivatives:		
	Gain (loss) on valuation	(10,140)	-
	Overseas convertible bonds:		
Derivative assets and liabilities held for the purpose of hedging:	Gain (loss) on valuation	58,818	98,586
	Derivatives:		
	Gain (loss) on valuation	(58,366)	(89,815)
	Gain (loss) on transactions	4,191	(2,738)
	Gain (loss) on valuation (other comprehensive income) (*)	₩ 13,747	₩ 3,950

(*) 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.

35 Income Taxes

(a) The components of income tax expense for the years ended December 31, 2013 and 2012 are as follows:

Korean won (millions)

	2013	2012
Current tax	₩ 532,572	₩ 422,898
Deferred tax	(144,625)	43,814
Income taxes directly charged to equity	49,831	6,330
Income tax expense	₩ 437,778	₩ 473,042

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LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

(b) During 2013 and 2012, the details of income tax expense recognized directly to equity are as follows:

Korean won (millions)

	2013	2012
Change in fair value of available-for-sale financial assets	₩ 1,388	₩ (10,225)
Exchange differences on translating foreign operations	(882)	3,205
Effective portion of changes in fair value of cash flow hedges	(4,231)	(1,106)
Defined benefit plan actuarial gain (losses)	(18,264)	11,011
Change in equity of equity method investments	(5,794)	(979)
Others	77,614	4,424
Income tax directly charged to equity	₩ 49,831	₩ 6,330

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.

(c) During 2013 and 2012, statutory to actual effective tax rates are reconciled as follows:

Korean won (millions)

	2013	2012
Profit before income tax	₩ 1,318,412	₩ 1,630,680
Income tax using statutory tax rates	333,476	441,292
Adjustment:		
Tax effects on non-taxable income	(8,267)	(8,193)
Tax effects on non-deductible income	11,694	2,579
Tax credit	(2,799)	(2,106)
Adjustments for prior periods	39,724	3,916
Tax effects on share of net income of subsidiaries, associates and joint ventures	58,898	29,762
Others	5,052	5,792
Income tax expenses	₩ 437,778	₩ 473,042
Effective tax rate (%)	33.20%	29.01%

(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.

(e) During 2013 and 2012, the changes on deferred tax assets (liabilities) are as follows:

Korean won (millions)

	2013			
	Beginning balance	Profit or loss	Other comprehensive income	Balance as of December 31, 2013
Impairment loss of available-for-sale financial assets	₩ 1,726	₩ (378)	₩ -	₩ 1,348
Buildings	(20,287)	5,920	-	(14,367)
Depreciation expense	48,533	(10,142)	-	38,391
Allowance for doubtful accounts	3,488	(1,598)	-	1,890
Accrued revenues	(2,378)	844	-	(1,534)
Unearned revenue	6,424	1,933	-	8,357
Non-current prepaid expenses	(31,909)	(1,632)	-	(33,541)
Losses on valuation of inventories	₩ 3,028	₩ 696	₩ -	₩ 3,724
				Continued

Korean won (millions)

	2013			
	Beginning balance	Profit or loss	Other comprehensive income	Balance as of December 31, 2013
Provision for sales return	₩ 1,569	₩ 219	₩ -	₩ 1,788
Property, plant and equipment (capitalization of borrowing costs)	(12,881)	286	-	(12,595)
Land	-	32,840	-	32,840
Land (asset revaluation)	(1,063,526)	(37)	-	(1,063,563)
Deferred revenue	20,823	2,404	-	23,227
Provision for mileage program	13,277	1,215	-	14,492
Accrued expense	15,315	6,047	-	21,362
Foreign currency translation gains (losses)	5,779	(1,415)	-	4,364
Gains (losses) on valuation of convertible bonds	(7,830)	6,798	-	(1,032)
Construction-in-progress	419	1,308	-	1,727
Other intangible assets	(65,333)	9,619	-	(55,714)
Rental guarantee deposits	15,291	(3,790)	-	11,501
Goodwill	(35,739)	(27,378)	-	(63,117)
Exchangeable bonds	-	(8,973)	-	(8,973)
Other capital surplus	-	-	62,270	62,270
Investments in subsidiaries, associates and joint ventures	(285,393)	38,059	9,550	(237,784)
Losses (gains) on valuation of available-for-sale financial assets	(63,233)	-	1,388	(61,845)
Losses (gains) on valuation of derivatives	3,560	16,295	(4,231)	15,624
Salaries and retirement benefits	24,907	11,569	(18,264)	18,212
Translation difference of foreign subsidiaries	3,605	-	(882)	2,723
Others	10,825	14,085	-	24,910
Total	₩ (1,409,940)	₩ 94,794	₩ 49,831	₩ (1,265,315)

Korean won (millions)

	2012				
	Beginning balance	Business combination	Profit or loss	Other comprehensive income	Balance as of December 31, 2012
Impairment loss of available-for-sale financial assets	₩ 506	₩ 12	₩ 1,208	₩ -	₩ 1,726
Buildings	(10,665)	(8,360)	(1,262)	-	(20,287)
Depreciation expense	40,842	19,554	(11,863)	-	48,533
Allowance for doubtful accounts	3,639	17	(168)	-	3,488
Accrued revenues	(4,476)	(72)	2,170	-	(2,378)
Unearned revenue	2,646	3,514	264	-	6,424
Non-current prepaid expenses	(9,884)	-	(22,025)	-	(31,909)
Losses on valuation of inventories	2,365	-	663	-	3,028
Provision for sales return	1,377	39	153	-	1,569
Property, plant and equipment (capitalization of borrowing costs)	(13,307)	-	426	-	(12,881)
Land (asset revaluation)	(1,031,206)	(32,339)	19	-	(1,063,526)
Deferred revenue	20,332	-	491	-	20,823
Provision for mileage program	₩ 11,439	₩ 136	₩ 1,702	₩ -	₩ 13,277
					Continued

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LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Korean won (millions)

	2012				
	Beginning balance	Business combination	Profit or loss	Other comprehensive income	Balance as of December 31, 2012
Accrued expense	₩ 12,829	₩ 1,104	₩ 1,382	₩ -	₩ 15,315
Foreign currency translation gains (losses)	4,040	-	1,739	-	5,779
Gains (losses) on valuation of convertible bonds	(11,502)	-	3,672	-	(7,830)
Construction-in-progress	443	(1)	(23)	-	419
Other intangible assets	(1,124)	(64,950)	741	-	(65,333)
Rental guarantee deposits	8,640	(2,483)	9,134	-	15,291
Goodwill	(21,828)	-	(13,911)	-	(35,739)
Investments in subsidiaries and associates	(236,293)	(1,075)	(51,470)	3,445	(285,393)
Losses (gains) on valuation of available-for-sale financial assets	(53,008)	-	-	(10,225)	(63,233)
Losses (gains) on valuation of derivatives	3,682	-	984	(1,106)	3,560
Salaries and retirement benefits	27,598	2,503	(16,205)	11,011	24,907
Translation difference of foreign subsidiaries	400	-	-	3,205	3,605
Others	(27,602)	(3,608)	42,035	-	10,825
Total	₩ (1,280,117)	₩ (86,009)	₩ (50,144)	₩ 6,330	₩ (1,409,940)

(f) As of December 31, 2013 and 2012, the amounts of total 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, 2013	December 31, 2012
Investments in associates and joint ventures	₩ 130,727	₩ 113,502
Investments in subsidiaries	830,070	438,135
Total	₩ 960,797	₩ 551,637

36 Consolidated statements of cash flows

As of December 31, 2013 and 2012, the details of cash and cash equivalents are as follows:

Korean won (millions)

	December 31, 2013	December 31, 2012
Cash	₩ 44,089	₩ 59,138
Deposits	375,756	345,043
Other cash equivalents	889,639	529,816
Total	₩ 1,309,484	₩ 933,997

37 Operating Leases

(a) Lessee

The Group has entered into the operating leases for buildings, furniture and fixtures and vehicles. Future lease payments under operation leases as of December 31, 2013 and 2012 are as follows:

Korean won (millions)

	2013	2012
Within 1 year	₩ 731,615	₩ 571,001
1 ~ 5 years	2,531,645	1,922,945
Thereafter	5,033,415	4,312,245
Total	₩ 8,296,675	₩ 6,806,191

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 ₩41,448 million and ₩45,106 million during 2013 and ₩60,269 million and ₩42,811 million during 2012, respectively. The related deposit balances amount to ₩1,628,196 million and ₩1,598,457 million as of December 31, 2013 and 2012 respectively. Such amounts were calculated on the fixed interest rate for time deposits with similar maturities.

(b) Leasor

The Group has entered into operating leases of certain of its properties and equipments. Future lease payments receivable under operating leases as of December 31, 2013 and 2012 are as follows:

Korean won (millions)

	2013	2012
Within 1 year	₩ 126,855	₩ 105,429
1 ~ 5 years	151,354	106,486
Thereafter	49,297	52,416
Total	₩ 327,506	₩ 264,331

38 Operating Segments and Geographic Information

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

	Department stores	Discount Stores	Card business	Consumer electronics retail	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	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, leasing and others

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LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

December 31, 2013 and 2012

(b) Information about reportable segments as December 31, 2013 and 2012 are as follows:

Korean won (millions)

	December 31, 2013					
	Department stores	Discount Stores	Card business	Consumer electronics retail	Others	Total
External sales	₩ 8,145,246	₩ 8,833,477	₩ 1,471,267	₩ 3,518,571	₩ 6,243,142	₩ 28,211,703
Internal sales	26,864	2,978	222,793	489	145,440	398,564
Total sales	₩ 8,172,110	₩ 8,836,455	₩ 1,694,060	₩ 3,519,060	₩ 6,388,582	₩ 28,610,267
Interest income	₩ 101,974	₩ 9,853	₩ 880	₩ 6,806	₩ 46,610	₩ 166,123
Interest expenses	2,067	228,444	1,851	28,040	60,639	321,041
Depreciation and amorization	287,581	221,699	27,368	46,364	229,256	812,268
Equity method income (loss) of investments in associates	6,464	20	(257)	-	(1,690)	4,537
Income tax expense	223,420	30,192	45,690	37,787	41,813	378,902
Segment profit	732,292	(109,321)	152,153	129,109	(275,321)	628,912
Segment assets	15,667,182	11,008,450	8,537,358	2,755,424	5,644,013	43,612,427
Segment liabilities	₩ 9,992,172	₩ 2,332,580	₩ 6,751,960	₩ 1,160,384	₩ 2,119,900	₩ 22,356,996

Korean won (millions)

	December 31, 2012					
	Department stores	Discount Stores	Card business	Consumer electronics retail	Others	Total
External sales	₩ 8,210,722	₩ 8,952,795	₩ 1,473,330	₩ 604,662	₩ 5,802,171	₩ 25,043,680
Internal sales	35,178	1,798	199,630	-	154,004	390,610
Total sales	₩ 8,245,900	₩ 8,954,593	₩ 1,672,960	₩ 604,662	₩ 5,956,175	₩ 25,434,290
Interest income	₩ 107,738	₩ 10,270	₩ 1,308	₩ 1,599	₩ 53,594	₩ 174,509
Interest expenses	3,319	187,843	2,731	9,202	62,853	265,948
Depreciation and amorization	231,299	207,603	29,289	7,541	233,629	709,361
Equity method income (loss) of investments in associates	68,355	48	-	-	1,526	69,929
Income tax expense	280,529	55,301	59,060	3,079	45,311	443,280
Segment profit	866,410	63,093	154,751	10,047	117,574	1,211,875
Segment assets	15,077,912	10,970,095	8,087,110	2,603,494	5,503,220	42,241,831
Segment liabilities	₩ 9,709,881	₩ 2,126,180	₩ 6,426,157	₩ 1,129,080	₩ 2,017,286	₩ 21,408,584

(c) Reconciliations of total segment sales and profit to their respective consolidated financial statements line items for the years ended December 31, 2013 and 2012 are summarized as follows:

Korean won (millions)

	2013	
	Sales	Profit for the year
Department stores	₩ 8,172,110	₩ 732,292
Discount stores	8,836,455	(109,321)
Card business	1,694,060	152,153
Consumer electronics retail	3,519,060	129,109
Others	6,388,582	(275,321)
Segment totals	₩ 28,610,267	₩ 628,912
Elimination of inter-segment amounts	(398,564)	251,722
After consolidated adjustments	₩ 28,211,703	₩ 880,634

Korean won (millions)

	2012	
	Sales	Profit for the year
Department stores	₩ 8,245,900	₩ 866,410
Discount stores	8,954,593	63,093
Card business	1,672,960	154,751
Consumer electronics retail	604,662	10,047
Others	5,956,175	117,574
Segment totals	₩ 25,434,290	₩ 1,211,875
Elimination of inter-segment amounts	(390,610)	(54,237)
After consolidated adjustments	₩ 25,043,680	₩ 1,157,638

(d) Reconciliation of segment assets and liabilities to their respective consolidated financial statement line items as of December 31, 2013 and 2012 are summarized as follows:

Korean won (millions)

	December 31, 2013	
	Assets	Liabilities
Department stores	₩ 15,667,182	₩ 9,992,172
Discount stores	11,008,450	2,332,580
Card business	8,537,358	6,751,960
Consumer electronics retail	2,755,424	1,160,384
Others	5,644,013	2,119,900
Segment totals	₩ 43,612,427	₩ 22,356,996
Elimination of inter-segment assets and liabilities	₩ (435,651)	₩ (435,651)
Adjustments of business combinations	801,059	125,979
Investments in subsidiaries and associates	(5,005,269)	-
Subtotal	₩ (4,639,861)	₩ (309,672)
After consolidated adjustments	₩ 38,972,566	₩ 22,047,324

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	December 31, 2012	
	Assets	Liabilities
Department stores	₩ 15,077,912	₩ 9,709,881
Discount stores	10,970,095	2,126,180
Card business	8,087,110	6,426,157
Consumer electronics retail	2,603,494	1,129,080
Others	5,503,220	2,017,286
Segment totals	₩ 42,241,831	₩ 21,408,584
Elimination of inter-segment assets and liabilities	₩ [393,230]	₩ [393,230]
Adjustments of business combinations	735,471	123,366
Investments in subsidiaries and associates	[5,727,027]	-
Subtotal	₩ [5,384,786]	₩ [269,864]
After consolidated adjustments	₩ 36,857,045	₩ 21,138,720

(e) Sales by geographical areas for the years ended December 31, 2013 and 2012 are summarized as follows:

Region	2013	2012
Domestic	₩ 25,663,020	₩ 22,710,212
China	1,733,362	1,609,384
Vietnam	137,718	80,193
Indonesia	1,076,167	1,034,501
Total	₩ 28,610,267	₩ 25,434,290

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, 2013 and 2012 are summarized as follows:

Region	December 31, 2013	December 31, 2012
Domestic	₩ 18,410,446	₩ 17,442,227
China	1,020,543	1,091,726
Vietnam	254,728	218,807
Indonesia	212,358	235,735
Total	₩ 19,898,075	₩ 18,988,495

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

(g) Sales by types of products and services for each operating segment for the years ended December 31, 2013 and 2012 are summarized as follows:

	December 31, 2013					
	Department stores	Discount Stores	Card business	Consumer electronics retail	Others (*)	Total
Sales of merchandise	₩ 7,411,776	₩ 8,298,213	₩ 6,969	₩ 3,503,186	₩ 4,748,252	₩ 23,968,396
Sales of products	-	-	-	-	136,632	136,632
Financial income	-	-	1,626,756	-	-	1,626,756
Commissions	-	-	-	-	923,430	923,430
Rental income	703,455	162,901	-	3,490	8,986	878,832
Others	56,879	375,341	60,335	12,384	571,282	1,076,221
Total segment sales	₩ 8,172,110	₩ 8,836,455	₩ 1,694,060	₩ 3,519,060	₩ 6,388,582	₩ 28,610,267

	December 31, 2012					
	Department stores	Discount Stores	Card business	Consumer electronics retail	Others (*)	Total
Sales of merchandise	₩ 7,619,363	₩ 8,447,981	₩ 5,369	₩ 601,941	₩ 4,535,248	₩ 21,209,902
Sales of products	-	-	-	-	131,252	131,252
Financial income	-	-	1,615,538	-	-	1,615,538
Commissions	-	-	-	-	842,881	842,881
Rental income	566,821	144,428	-	611	27,335	739,195
Others	59,716	362,184	52,053	2,110	419,459	895,522
Total segment sales	₩ 8,245,900	₩ 8,954,593	₩ 1,672,960	₩ 604,662	₩ 5,956,175	₩ 25,434,290

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

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

39 Contingent Liabilities and Financial Commitments

(a) As of December 31, 2013, the Group has the following credit facility commitments with financial institutions:

	Credit line		Amount used under credit facility	
General loan	KRW	1,856,900	KRW	326,400
	CNY	2,614,000	CNY	1,933,000
	USD	213,100	USD	213,000
	IDR	1,940,000,000	IDR	1,640,000,000
	HKD	250,000	HKD	173,713
Discount of bill	KRW	530,000	KRW	215,000
Buyer's credit	KRW	819,205	KRW	70,595
Bank overdraft	KRW	305,000	KRW	-
Letter of credit	USD	14,700	USD	4,863
Guarantee	KRW	6,003	KRW	2,337
Others	KRW	57,000	KRW	86

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

Company	Contractor	Description of contract
Lotte Shopping Co., Ltd.	Lotte Station Building Co., Ltd. and CS Mart Co., Ltd.	Providing management services
Lotte Card Co., Ltd.	American Express Company, MasterCard International, Visa International and JCB International	Commissions based on credit card transaction amount
Woori Home Shopping & Television Co., Ltd.	BC card and Shinhan card	Business alliance and issuing credit cards
	Korea Express Co., Ltd.	Logistics services
	Cable TV operators	Providing broadcast programs
Korea Seven Co., Ltd.	7-Eleven, Inc.	Using the registered trademark and operating know-how
Lotte Boulangerie Co., Ltd.	Shikishima Baking Co., Ltd.	Bread baking skills and techniques
NCF Co., Ltd.	Nice Claup Co., Ltd.	Royalty payments based on net revenue of selling and manufacturing amounts
Buy the way Inc.	SPORTSTOTO.CO.,LTD	Renewal guarantees of payments for goods every three months
LOTTE Himart Co., Ltd.	Himart Logitech Co., Ltd.	Warehouse management and transportation, installation, and service consignment
	Himart Shopping Mall Co., Ltd.	Internet Sales Agent

(c) As of December 31, 2013, the Group is the plaintiff in various lawsuits claiming damages totaling ₩57,177 million and the Group is the defendant in various lawsuits with damage claims totaling ₩54,342 million.

(d) As of December 31, 2013, the Group has provided one promissory note as collateral for borrowings from the Koryo Central Educational Institution.

(e) 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.

(f) As of December 31, 2013, the Company, Hotel Lotte Co., Ltd. and Lotte Engineering & Construction Co., Ltd. granted put options for the preferred stocks of Lotte Incheon Development Co., Ltd. (₩60,000 million of the total issue price) to the current preferred stockholders. Meanwhile, the Company, Hotel Lotte Co., Ltd. and Lotte Engineering & Construction Co., Ltd. have call options for the preferred stocks of Lotte Incheon Development Co., Ltd.

(g) Supreme Court ruled that all fixed payments such as bonuses and allowances that have been uniformly provided to employees on a regular basis must be included when calculating the employee's ordinary wage. As of December 31, 2013, there is no law suit related to ordinary wage and the Group's management cannot reliably estimate the potential impacts, if any, on the Group's financial position, financial performance and cash flows. The Group's management believe that the possibility of an outflow of resources embodying economic benefits due to the ruling is remote.

(h) Lotte Shopping Co., Ltd. sold lands and buildings of 3 stores including Lotte mart Jeju store to KTB Confidence Private Real Estate Investment Trust at the total amount of ₩220 billion in 2008 and the Company has been leasing the assets. And the Company sold lands and buildings of 6 stores including Lotte department store Bundang store to Lotte Retail Real Estate Investment Trust at the total amount of ₩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, and the Group does not consolidate these structured entities.

40 Inter-company Transactions and Balances with Consolidated Companies

The Group has provided guarantees for consolidated companies as of December 31, 2013 as follows:

Consolidated company	Provided by	Guarantee recipient	2013	
			Type of borrowings	Guaranteed amount (thousands)
Lotte Cinema Vietnam Co., Ltd.	Lotte Shopping Co., Ltd.	The Export-Import Bank of Korea	Working capital	USD 24,000
Lotte Shopping Business Management (Hong Kong) Limited	Lotte Shopping Co., Ltd.	HSBC, Deutsche Bank	Working capital	RMB 750,000
LOTTE PROPERTIES (CHENGDU) HK LIMITED	Lotte Shopping Co., Ltd.	Korea Exchange Bank	Working capital	USD 63,800
		Woori Bank		USD 70,000

41 Transactions and Balances with Related Companies

(a) Details of investor and subsidiary relationships with the Company as of December 31, 2013 are as follows:

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

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

(b) Significant transactions which occurred in the normal course of business with related companies for the years ended December 31, 2013 and 2012 are summarized as follows:

Korean won (millions)

Related company	2013				
	Sales	Purchase of inventories	Purchase of fixed asset	Other Revenue	Other Expenses
Hotel Lotte Co., Ltd.	₩ 48,069	₩ 58	₩ 12,832	₩ 68	₩ 92,915
Lotte Confectionery Co., Ltd.	23,824	123,786	-	48	17,072
Lotte Chilsung Beverage Co., Ltd.	16,047	102,324	-	160	506
Lotte Engineering & Construction Co., Ltd.	3,781	-	707,274	2	322
Hotel Lotte Pusan Co., Ltd.	9,420	-	455	-	20,151
LOTTE DATA COMMUNICATION COMPANY	30,570	7,231	98,187	2,156	147,581
Lotte Station Building Co., Ltd.	25,409	-	20	20	6,486
Lotteria Co., Ltd.	24,098	2,569	-	44	2,768
LOTTE FOOD CO.,LTD.	25,643	171,737	-	272	6,877
Lotte Trading Co., Ltd.	14,889	283,819	-	151	3
Lotte Aluminium Co., Ltd.	2,574	16,349	28,907	1	37,968
Lotte Logistics Co., Ltd.	11,706	1,533,579	-	-	152,771
Others	153,285	48,575	35,042	573	310,864
Total	₩ 389,315	₩ 2,290,027	₩ 882,717	₩ 3,495	₩ 796,284

Notes to the Consolidated Financial Statements

December 31, 2013 and 2012

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Korean won (millions)

Related company	2012				
	Sales	Purchase of inventories	Purchase of fixed asset	Other Revenue	Other Expenses
Hotel Lotte Co., Ltd.	₩ 43,508	₩ 15	₩ 604	₩ -	₩ 93,703
Lotte Confectionery Co., Ltd.	22,071	117,706	-	3	15,521
Lotte Chilsung Beverage Co., Ltd.	15,452	95,520	-	28	536
Lotte Engineering & Construction Co., Ltd.	7,869	-	619,781	2	14
Hotel Lotte Pusan Co., Ltd.	8,455	-	113	-	20,794
LOTTE DATA COMMUNICATION COMPANY	20,016	7,082	79,135	5,758	130,073
Lotte Station Building Co., Ltd.	25,952	77	-	-	6,807
Lotteria Co., Ltd.	22,942	2,821	-	744	1,960
LOTTE FOOD CO.,LTD.	6,485	47,389	-	2	4,379
Lotte Trading Co., Ltd.	14,402	286,858	-	55	46
Lotte Aluminium Co., Ltd.	2,504	13,882	30,396	-	44,608
Lotte Logistics Co., Ltd.	14,404	1,380,127	-	-	161,603
Others	158,321	170,430	24,358	1,351	316,834
Total	₩ 362,381	₩ 2,121,907	₩ 754,387	₩ 7,943	₩ 796,878

(c) Significant financial transactions with related companies for the years ended December 31, 2013 and 2012 are summarized as follows:

Korean won (millions)

Related company	2013				
	Loans	Collection	Borrowings	Repayment	Capital increase
Lotte Europe Holdings B.V	₩ -	₩ -	₩ -	₩ -	₩ 7,479
Lotte Capital Indonesia	-	-	2,851	-	-
Lotte Capital Co., Ltd.	-	-	37,000	35,000	-
Shandong Longzhile Cinema Co., Ltd.	1,741	-	-	-	-
Intime Lotte Department Store Co., Ltd.	-	7,840	-	-	41,767
LOTTE Payment & settlement networks Inc.	-	-	-	-	5,110
Lotte Incheon Development Co., Ltd	-	-	-	-	14,850
Others	-	-	-	-	2,630
Total	₩ 1,741	₩ 7,840	₩ 39,851	₩ 35,000	₩ 71,836

Lotte Non-Life Insurance Co., Ltd. purchased and held ₩20 billion of the hybrid securities issued by the Company as of December 31, 2013.

Korean won (millions)

Related company	2012		
	Borrowings	Repayment	Capital increase
Lotte Europe Holdings B.V	₩ -	₩ -	₩ 22,091
Lotte Capital Co., Ltd.	32,000	31,000	-
LOTTE Payment & settlement networks Inc.	-	-	12,315
Lotte Incheon Development Co., Ltd	-	-	50
Others	-	-	29,630
Total	₩ 32,000	₩ 31,000	₩ 64,086

(d) Account balances with related companies as of December 31, 2013 and 2012 are summarized as follows:

Korean won (millions)

Related company	2013					
	Receivables			Payables		
	Trade Receivables	Loans	Other Receivables	Trade Payables	Borrowings	Other Payables
Hotel Lotte Co., Ltd.	₩ 296	₩ -	₩ 49,556	₩ -	₩ -	₩ 24,998
Lotte Confectionery Co., Ltd.	318	-	11,208	16,561	-	1,917
Lotte Chilsung Beverage Co., Ltd.	323	-	41,156	4,893	-	4,587
Lotte Engineering & Construction Co., Ltd.	8	-	57,827	-	-	131,480
Hotel Lotte Pusan Co., Ltd.	35	-	10,522	-	-	3,694
LOTTE DATA COMMUNICATION COMPANY	114	-	13,554	831	-	35,485
Lotte Station Building Co., Ltd.	11,706	-	17,567	-	-	9,863
Lotteria Co., Ltd.	1,275	-	1,423	-	-	9,876
LOTTE FOOD CO.,LTD.	581	-	3,253	14,856	-	8,794
Lotte Trading Co., Ltd.	7	-	5,440	10,697	-	83
Lotte Aluminium Co., Ltd.	47	-	20,623	1,236	-	6,925
Lotte Logistics Co., Ltd.	-	-	2,781	159,363	-	22,369
Others	56,712	1,741	179,302	12,093	17,851	113,518
Total	₩ 71,422	₩ 1,741	₩ 414,212	₩ 220,530	₩ 17,851	₩ 373,589

Korean won (millions)

Related company	2012					
	Receivables			Payables		
	Trade Receivables	Loans	Other Receivables	Trade Payables	Borrowings	Other Payables
Hotel Lotte Co., Ltd.	₩ 567	₩ -	₩ 36,535	₩ -	₩ -	₩ 21,720
Lotte Confectionery Co., Ltd.	981	-	12,572	15,724	-	1,669
Lotte Chilsung Beverage Co., Ltd.	275	-	3,467	4,619	-	4,162
Lotte Engineering & Construction Co., Ltd.	56	-	66,321	-	-	150,863
Hotel Lotte Pusan Co., Ltd.	31	-	7,365	-	-	4,175
LOTTE DATA COMMUNICATION COMPANY	107	-	11,023	315	-	31,425
Lotte Station Building Co., Ltd.	11,783	-	15,552	-	-	10,707
Lotteria Co., Ltd.	1,342	-	801	190	-	11,573
LOTTE FOOD CO.,LTD.	156	-	3,170	9,814	-	9,634
Lotte Trading Co., Ltd.	301	-	4,359	11,334	-	1,110
Lotte Aluminium Co., Ltd.	-	-	16,484	4,011	-	9,689
Lotte Logistics Co., Ltd.	-	-	1,550	144,527	-	19,381
Others	42,149	7,840	179,536	29,514	13,000	64,073
Total	₩ 57,748	₩ 7,840	₩ 358,735	₩ 220,048	₩ 13,000	₩ 340,181

Notes to the Consolidated Financial Statements

December 31, 2013 and 2012

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

(e) The Group has provided guarantees for related companies as of December 31, 2012 as follows:

Related company	Guarantee recipient	Type of borrowings	Guaranteed amount (thousand)
Lotte Shopping Rus Ltd	Korea Development Bank	Working capital	USD 10,000

(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) During the year ended December 31, 2013, the Company, Hotel Lotte Co., Ltd. and Lotte Engineering & Construction Co., Ltd. entered into an agreement to jointly provide financial support for HND able 2nd limited (“HND able”) 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 collateral-ized with the assets of Lotte Incheon Development Co., Ltd.

42 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, 2013 and 2012 are as follows:

Korean won (millions)

Account	December 31, 2013	December 31, 2012
Cash equivalent (*1)	₩ 1,265,395	₩ 874,859
Trade and other receivables	937,496	915,693
Other financial assets (current) (*2)	8,469,947	8,002,000
Other financial assets (non-current) (*2)	1,233,806	1,185,224
Total	₩ 11,906,644	₩ 10,977,776

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

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

2) Impairment loss

Trade and other receivables, other financial assets (current), and other financial assets (non-current), before deducting the allowance for doubtful accounts as of December 31, 2013 and 2012 are summarized as follows:

Korean won (millions)

Description	December 31, 2013			
	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	₩ 910,508	₩ 26,988	₩ 17,088	₩ 954,584
Other financial assets (current)	8,351,947	97,818	240,909	8,690,674
Other financial assets (non-current)	1,227,726	6,080	2,000	1,235,806
Total	₩ 10,490,181	₩ 130,886	₩ 259,997	₩ 10,881,064

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

Korean won (millions)

Description	December 31, 2012			
	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	₩ 896,610	₩ 18,306	₩ 15,747	₩ 930,663
Other financial assets (current)	7,894,828	107,172	254,652	8,256,652
Other financial assets (non-current)	1,179,144	6,080	2,377	1,187,601
Total	₩ 9,970,582	₩ 131,558	₩ 272,776	₩ 10,374,916

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

3) Allowance for doubtful trade and other receivables

The movement in the allowance for doubtful trade and other receivables for the years ended December 31, 2013 and 2012 are summarized as follow:

Korean won (millions)

	2013	2012
Balance at beginning of the year	₩ 14,971	₩ 11,927
Impairment loss	3,998	4,039
Reversal of Impairment loss	(188)	(32)
Write-offs	(1,451)	(1,082)
Recoveries	50	3
Others	(292)	116
Balance at end of the year	₩ 17,088	₩ 14,971

Notes to the Consolidated Financial Statements

December 31, 2013 and 2012

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

The movement in the allowance for doubtful other financial assets (current) for the years ended December 31, 2013 and 2012 are summarized as follow:

Korean won (millions)		
	2013	2012
Balance at beginning of the year	₩ 254,652	₩ 222,097
Impairment loss	169,461	154,627
Reversal of Impairment loss	(9,047)	(601)
Write-offs	(235,853)	(142,469)
Recoveries	41,513	20,998
Balance at end of the year	₩ 220,726	₩ 254,652

The movement in the allowance for doubtful other financial assets (non-current) for the years ended December 31, 2013 and 2012 are summarized as follow:

Korean won (millions)		
	2013	2012
Balance at beginning of the year	₩ 2,376	₩ -
Impairment loss	-	2,000
Write-offs	(376)	-
Others	-	376
Balance at end of the year	₩ 2,000	₩ 2,376

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)					
Description	December 31, 2013				
	Carrying amount	3 months or less	3 ~ 6 months	6 ~ 12 months	More than 1 year
Trade and other receivables	₩ 26,988	₩ 18,843	₩ 3,954	₩ 2,748	₩ 1,442
Other financial assets (current)	97,818	97,684	133	-	-
Other financial assets (non-current)	6,080	-	-	-	6,080
Total	₩ 130,886	₩ 116,527	₩ 4,087	₩ 2,748	₩ 7,522

Korean won (millions)					
Description	December 31, 2012				
	Carrying amount	3 months or less	3 ~ 6 months	6 ~ 12 months	More than 1 year
Trade and other receivables	₩ 18,306	₩ 13,964	₩ 1,963	₩ 1,511	₩ 868
Other financial assets (current)	107,172	107,046	126	-	-
Other financial assets (non-current)	6,080	-	-	-	6,080
Total	₩ 131,558	₩ 121,010	₩ 2,089	₩ 1,511	₩ 6,948

5) Guarantees

As of December 31, 2013, 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 ₩10,553 million.

Liquidity Risks

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

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

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

Aggregate maturities of financial liabilities, including estimated interest, as of December 31, 2013 are as follows:

Korean won (millions)						
Description	December 31, 2013					
	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	₩ 4,773,933	₩ 4,865,104	₩ 1,065,574	₩ 810,348	₩ 2,989,182	₩ -
Trade and other payables	5,269,926	5,274,828	5,273,823	224	781	-
Other financial liabilities (current)	589,614	704,715	509,066	33,244	162,405	-
Borrowings and debentures	7,901,064	8,624,825	52,206	52,659	106,139	8,413,821
Other financial liabilities (non-current)	310,479	363,235	8,324	7,589	17,935	329,387
Total	₩ 18,845,016	₩ 19,832,707	₩ 6,908,993	₩ 904,064	₩ 3,276,442	₩ 8,743,208

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

Market Risks

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the Group's return.

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

1) Currency risk

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

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

Assets and liabilities denominated in foreign currencies other than the Group functional currencies as of December 31, 2013 and 2012 are as follows:

Korean won (millions)				
	December 31, 2013		December 31, 2012	
	Assets	Liabilities	Assets	Liabilities
USD	₩ 825,473	₩ 2,671,063	₩ 1,008,930	₩ 2,906,270
EUR	9	561	-	2,088
JPY	31,127	842,654	38,638	1,050,343
Total	₩ 856,609	₩ 3,514,278	₩ 1,047,568	₩ 3,958,701

Notes to the Consolidated Financial Statements

December 31, 2013 and 2012

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

The closing rates as of December 31, 2013 and 2012 and the average rates for the years ended December 31, 2013 and 2012 are as follows:

	Average rate		Closing rate	
	2013	2012	December 31, 2013	December 31, 2012
USD	₩ 1,095.04	₩ 1,126.88	₩ 1,055.30	₩ 1,071.10
EUR	1,453.56	1,448.20	1,456.26	1,416.26
JPY	11.2341	14.1314	10.0466	12.4750

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, 2013 and 2012 are summarized as follows:

	December 31, 2013		December 31, 2012	
	10% increase	10% decrease	10% increase	10% decrease
USD	₩ [62,174]	₩ 62,174	₩ [63,977]	₩ 63,977
EUR	[55]	55	[209]	209
JPY	[30,140]	30,140	[37,427]	37,427
Total	₩ [92,369]	₩ 92,369	₩ [101,613]	₩ 101,613

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, 2013 and 2012 of the Group entities in Korea.

2) Interest rate risk

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

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

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

	December 31, 2013	December 31, 2012
Variable rate instruments:		
Financial assets	₩ 403,683	₩ 416,869
Financial liabilities	₩ 2,422,093	₩ 2,473,551

Sensitivity analysis of interest income and expenses from changes in interest rates as of December 31, 2013 and 2012 are summarized as follows:

	December 31, 2013		December 31, 2012	
	100bps up	100bps down	100bps up	100bps down
Interest income	₩ 4,037	₩ [4,037]	₩ 4,169	₩ [4,169]
Interest expense	₩ 5,137	₩ [5,137]	₩ 4,948	₩ [4,948]

Borrowings and debentures for which the Company 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, 2013 and 2012 are ₩169,498 million and ₩338,935 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, 2013 and 2012 are as summarized as follows:

	December 31, 2013		December 31, 2012	
	10% increase	10% decrease	10% increase	10% decrease
Other comprehensive income	₩ 16,950	₩ [16,950]	₩ 33,894	₩ [33,894]

(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, 2013 and 2012 are as follows:

	December 31, 2013	December 31, 2012
Liabilities (a)	₩ 22,047,323	₩ 21,138,720
Equity (b)	16,925,242	15,718,325
Financial instruments (*) (c)	1,973,745	1,616,024
Borrowings (d)	₩ 12,674,997	₩ 12,125,416
Liabilities to equity ratio (a/b)	130.26%	134.48%
Net borrowings to equity ratio [(d-c)/b]	63.23%	66.86%

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

43 Subsequent Events

On February 16, 2014, Financial Services Commision imposed a three-month business suspension and penalty of ₩6 million on Lotte Card Co., Ltd. which is the Company's subsidiary due to personal data leaks occurred in 2012 and 2013. The details of business suspension are as follows:

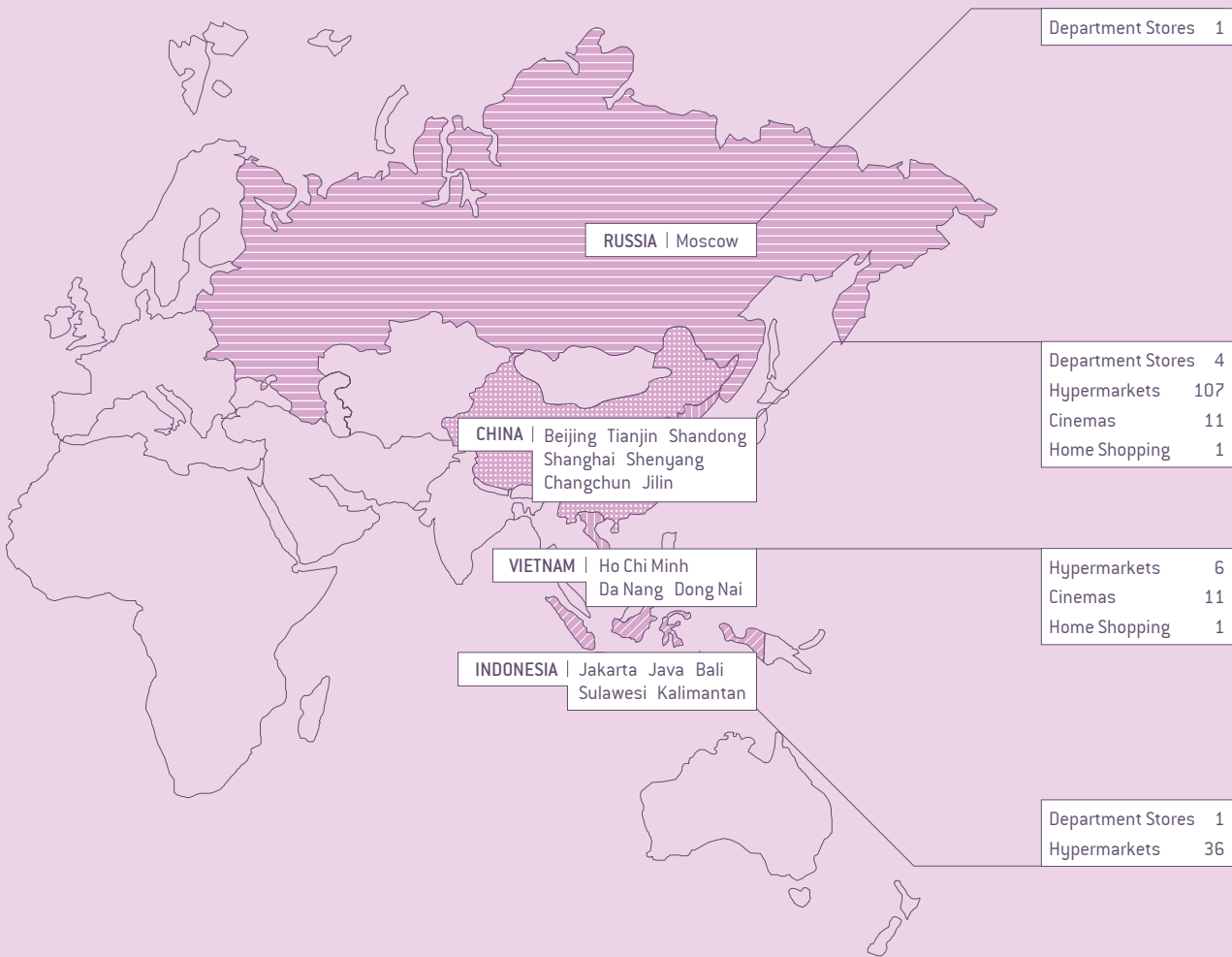
Type	Description
Term of business suspension	2014-2-17 ~ 2014-5-16
Contents of business suspension	- Adding new customer and issuance on the credit card, prepaid card and debit card - Providing loans to new credit card customers - Telemarketing, insurance agent, travel service business

After the reporting date, the customers which have been suffered from personal data leaks have filed 8 lawsuits (total amount of ₩0.4 billion) against Lotte Card Co., Ltd. and 13 lawsuits (total amount of ₩1.5 billion) against Lotte Card Co., Ltd., KB Kookmin Card Co., Ltd. and NongHyub Bank as joint defendants. Afterwards similar lawsuits might be filed by the card holders. The Group cannot reliably estimate the impact from final lawsuit result as of March 10, 2014.

Overseas Store Network

as of December 31, 2013

Department Stores	6
Hypermarkets	149
Cinemas	22
Home Shopping	2

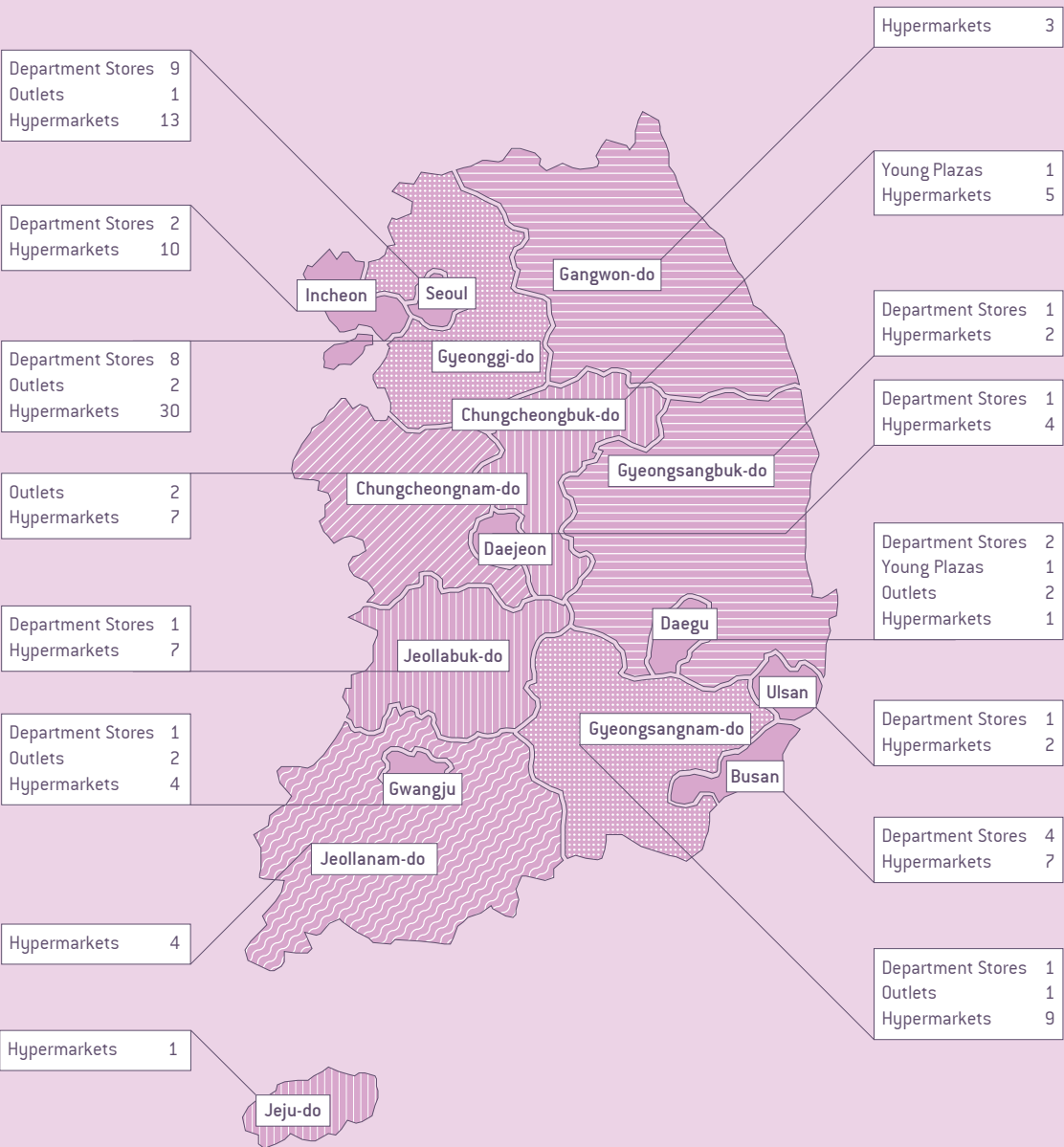


Domestic Store Network

as of December 31, 2013

Department Stores*	33
Outlets	10
Hypermarkets	109

* including two stores managed under contract and two Young Plaza stores



Milestones

1979 ~ 2013

Leading South Korean Retail into a Global Future

Lotte Shopping has been winning the hearts of South Korean shoppers with its unrivaled combination of quality brands and premium service since 1979. Over the past three decades, we’ve expanded from just being a department store into every segment of the retail business, including hypermarkets, supermarkets, convenience stores, home shopping networks, and outlet malls. We currently operate thirty-three department stores*, 109 hypermarkets, and 488 supermarkets in South Korea. We have also advanced into many overseas markets, including Russia, China, Vietnam, and Indonesia. Our overall goal is to become one of the world’s leading retailers. *including two stores managed under contract and two Young Plaza stores

<u>November 1979</u> Lotte Shopping Co., Ltd. is founded	<u>August 2008</u> Opened second overseas department store in Beijing	<u>August 2011</u> Opened 200th Lotte Mart Store (Store 83, China)
<u>December 1979</u> Opened first Lotte Department Store	<u>October 2008</u> Entered Indonesian hypermarket sector with acquisition of Makro Opened first Lotte Outlets in Gwangju	<u>December 2011</u> Opened Lotte Premium Outlet Paju Opened Lotte Mall Gimpo Airport
<u>June 1996</u> Launched Lottesshopping.com	<u>December 2008</u> Opened first Lotte Premium Outlets in Gimhae Opened first hypermarket in Vietnam	<u>January 2012</u> Acquired CS Mart
<u>April 1998</u> Opened first Lotte Mart	<u>September 2009</u> Opened second Lotte Outlets in Gwangju Acquired 7-Eleven convenience store chain (Korea Seven)	<u>February 2012</u> Launched Lotte DatViet home shopping business in Vietnam
<u>January 2000</u> Spun off LotteShopping.com to create Lotte.com	<u>October 2009</u> Acquired Times hypermarket chain in China (68 stores)	<u>March 2012</u> Launched eLotte premium online mall Opened Lotte Department Store Pyeongchon
<u>May 2001</u> Opened first Lotte Super	<u>January 2010</u> Acquired Buy The Way convenience store chain	<u>May 2012</u> Acquired two Grand Department Store branches
<u>October 2002</u> Acquired Nowon department store from Midopa	<u>February 2010</u> Acquired GS Square department stores and GS Mart hypermarkets	<u>June 2012</u> Opened first VIC Market Geumcheon
<u>November 2003</u> Opened first Lotte Young Plaza	<u>August 2010</u> Acquired equity stake in Chinese home shopping network Lucky Pai Opened first Lotte Outlets in Daegu Opened first greenfield hypermarket in Indonesia (Store 20)	<u>August 2012</u> Acquired Lotte Square
<u>December 2003</u> Spun off credit card business to subsidiary Lotte Card	<u>November 2010</u> Acquired Nice Claup Fashion	<u>September 2012</u> Opened Lotte Department Store Tianjin 100th Lotte Mart store in China
<u>March 2004</u> Acquired 25 supermarkets from Hanwha Super	<u>February 2011</u> Opened Second Lotte School in Vietnam	<u>October 2012</u> Acquired Himart
<u>March 2005</u> Opened Avenuel	<u>April 2011</u> Opened Lotte Mall Daegu Esiapolis	<u>December 2012</u> Opened fourth Lotte Mart store in Vietnam
<u>February 2006</u> Listed on London and Korean stock exchanges	<u>June 2011</u> Opened third overseas department store in Tianjin	<u>January 2013</u> Acquired Lotte Midopa Opened Lotte Outlet Seoul Station
<u>August 2006</u> Acquired majority stake in Woori Home Shopping		<u>February 2013</u> Opened thirty-second Lotte Mart store in Indonesia
<u>September 2007</u> Opened first overseas department store in Moscow		<u>June 2013</u> Lotte Department Store opened Lotte Shopping Avenue in Indonesia
<u>December 2007</u> Entered Chinese hypermarket sector with acquisition of Makro		<u>December 2013</u> Opened Lotte Premium Outlets Icheon

Lotte Group

as of December 31, 2013

Becoming one of Asia’s top-ten global corporations

Lotte Group was established when its first chairman, Shin Kyuk-ho, founded Lotte Confectionary in 1967. Over the past forty-plus years, it has grown into one of South Korea’s largest conglomerates, expanding into such areas as food, retail, tourism, chemicals, construction, manufacturing, finance, information and technology, and services. The Lotte Group has also been active around the world, especially Asia. It works hard in each field of its endeavors to realize its goal of becoming one of Asia’s top-ten global corporations by 2018.

<u>Food / Pharmaceutical</u> Lotte Confectionary Lotte Chilsung Beverage Lotte Food Lotteria Lotte Boulangerie CH Beverage MJA Wine HUI Chung-buk Soju Cinema Food	<u>Tourism / Leisure</u> Lotte Hotel Lotte Giants Lotte Hotel Busan Lotte Corporation Cinema Trading D-Cinema of Korea Lotte JTB Lotte Gimhae Development Universal Studios Korea Development	<u>Machinery / Electronics</u> Lotte Aluminium Canon Korea Business Solutions
	<u>Advertising</u> Daehong Communications Mobizap Media M.Hub	
	<u>Manufacturing</u> DACC Aerospace Angel With	
	<u>Chemicals / Petrochemicals</u> Lotte Chemical Korea Fuji Film Sambark LFT Seetec KP Chemtech Daesan MMA Lotte Mitsui Chemicals Lotte Versalis Elastomers	
<u>Retail</u> Lotte Shopping Lotte Himart Lotte International Lotte Station Building Lotte Logistics Korea Seven Lotte.com Lotte Asahi Liquor FRL Korea Woori Home Shopping Buy the Way Korea STL Lotte Suwon Station Shopping Town Lotte DF Global Lotte DF Retail S&S International NCF Lotte Songdo Shopping Town CS Mart Himart Shopping Mall Himart Logitec	<u>Construction / Real Estate</u> Lotte Engineering & Construction Lotte Asset Development Lotte Incheon Development Universal Studios Korea Resort Asset Management Corporation	<u>Finance</u> Lotte Insurance Lotte Capital Lotte Card Lotte PS Net Mybi Busan Hanaro Card eB Card Gyeonggi Smartcard Incheon Smartcard Chungnam Smartcard Jang Kyo PFV
	<u>Communications</u> Lotte Data Communication Han Paysys Hyundai Information Technology	<u>Welfare / R&D</u> Lotte R&D Center Lotte Academy Lotte Scholarship Foundation Lotte Welfare Foundation

brilliant convergence with promises and possibilities

The essence of shopping never changes.

Shopping should be enjoyable, entertaining, and relaxing.

*That's why Lotte Shopping is leading the way in the evolution of retail,
constantly developing its understanding of customers,
innovating how it operates, and seeking different forms of convergence.*

*When a new way of shopping presents itself, Lotte Shopping will be
the first player to make use of it.*



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