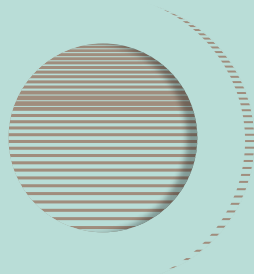


REDEFINING
RETAIL 2

SMART PROGRESS



LOTTE SHOPPING



SMART PROGRESS

LOTTE SHOPPING 2012 ANNUAL REPORT
REDEFINING RETAIL 2

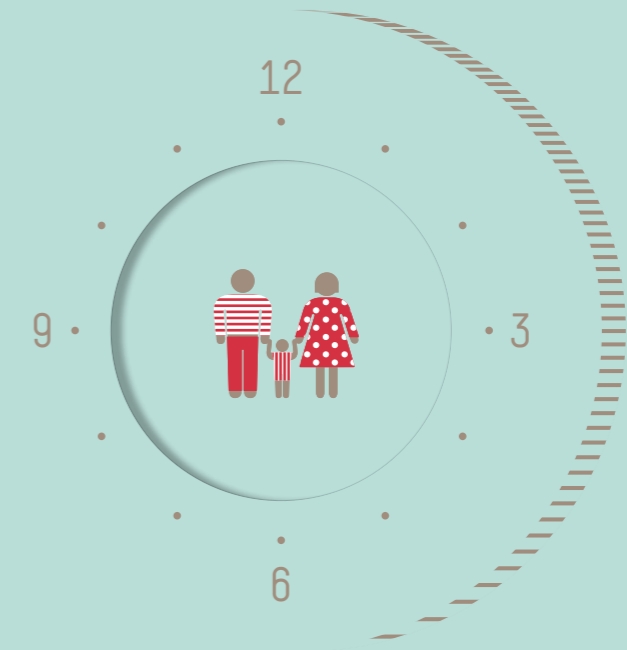


Lotte Shopping is Korea's retail industry leader, boasting a wide variety of channels and a large number of overseas operations.

Now we are taking on another role, pursuing new, challenging, and innovative directions that will change the face of the retail industry everywhere.

Lotte Shopping conducts in-depth research to help it learn more about the socio-economic backgrounds of its customers, the values that they hold dearest, and their leisure-time interests and occupations.

It then uses this information to make whatever changes are necessary to ensure that all its channels are meeting their customers' needs and fulfilling their desires.



VARIETY

SMART PROGRESS

Lotte Shopping is getting closer to its customers at the same time that it's cementing its reputation as one of the world's foremost retailers.

Whether you're looking to purchase something at a friendly nearby convenience store, a money-saving hypermarket, an upscale department store, or checking out our lineup on your own computer or mobile device, Lotte Shopping has something for everyone. Always.

SMART IDEAS

We follow up on the newest trends, ideas, and fashions to offer shoppers a wealth of lifestyle items that are only available at Lotte Shopping stores.

SMART CONVERGENCE

We are constantly exploring different shopping combinations to match our customers' needs and tastes. That's why many people love malling at our new multiplex centers.

e-SUPER
GROWTH OF ONLINE MALL IN 2012
+8.6%

LOTTE SUPER
MARKET SHARE IN KOREA
50.5%

KOREA SEVEN
SALES GROWTH IN 2012
+22.8%

SMART SOURCING
We offer shoppers a wide selection of products from around the world. Our expertise in sourcing ensures that everything we sell is high in quality and reasonable in price.

e!LOTTE
AVERAGE NUMBER OF DAILY VISITORS
200,000

LOTTE OUTLET
SALES EXCEEDED
KRW **1** trillion
A FIRST FOR THE INDUSTRY

LOTTE DEPARTMENT STORE
MARKET SHARE IN KOREA
No.1

AVENUEL
GLOBAL FASHION STORES

LOTTE CINEMA
MARKET SHARE IN KOREA
28.5%

LOTTE HOME SHOPPING
GROWTH OF MOBILE SHOPPING PLATFORM IN 2012
+218.8%

LOTTE CARD
KOREA SERVICE GRAND PRIX WINNER FOR SECOND STRAIGHT YEAR
No.1

LOTTE MART
NCSI SURVEY: FIRST PLACE FOR SECOND STRAIGHT YEAR
No.1

LOTTE MART MALL
AVERAGE RATE OF SALES GROWTH FROM 2008 TO 2012
89%

VIC MARKET
A MEMBERS-ONLY WHOLESALE CLUB

CATEGORY KILLER TOYS "R" US
23 STORES

LOTTE.COM
ONLINE MALL

CATEGORY KILLER DIGITAL PARK
15 STORES

CATEGORY KILLER PET GARDEN
7 STORES

LOTTE MYSUPER
NEIGHBORHOOD SUPERMARKETS

LOTTE MARKET 999
PRICE-POINT RETAILER

7-ELEVEN + BUY THE WAY

YOUNG PLAZA
FASHION STORES TARGETING YOUTH



FOCUS

SMART PROGRESS

Success in Korea's retail industry begins by understanding your customers and studying their lifestyles. We offer the nation's shoppers a cornucopia of shopping choices.

They include membership wholesale clubs that promise buyers the lowest prices in the country, pop-up stores that allow shoppers to surf the Internet within the confines of a department store, and a premium online mall that sells luxury products from around the world at the click of a mouse.

NEW SPACE

We are an industry leader in creating shopping spaces that can be accessed on both mobile and Internet platforms.

PREMIUM ONLINE MALL

eLotte is a premium online mall that was opened by Lotte Department Store in 2012. It attracts over 200,000 customers a day. Boasting a unique and high-quality menu of products and innovative services such as Smart Pick, Smart Finder, and Gift Finder, it is continually opening new horizons for online shoppers.

NEW LINEUP

We offer customers the products they want at the type of store they want. Some of our most popular innovations are selling cell phones at our convenience stores and, showing webtoons in our department stores.

SPECIALIZED SHOP-IN-SHOPS

Our experiential, customer-centric shopping, like mobile shop-in-shops and new-concept stores in specialized locations, ensures the finest in customer convenience while generating extra-high profits for us.

CATEGORY KILLER

Lotte Himart and Digital Park are category killer stores that sell consumer electronics, while Toys "R" Us does the same with toys. We opened a new business of the same type called Pet Garden in 2012. It caters to the needs of Korea's many pet lovers.

WHOLESALE MEMBERSHIP CLUB

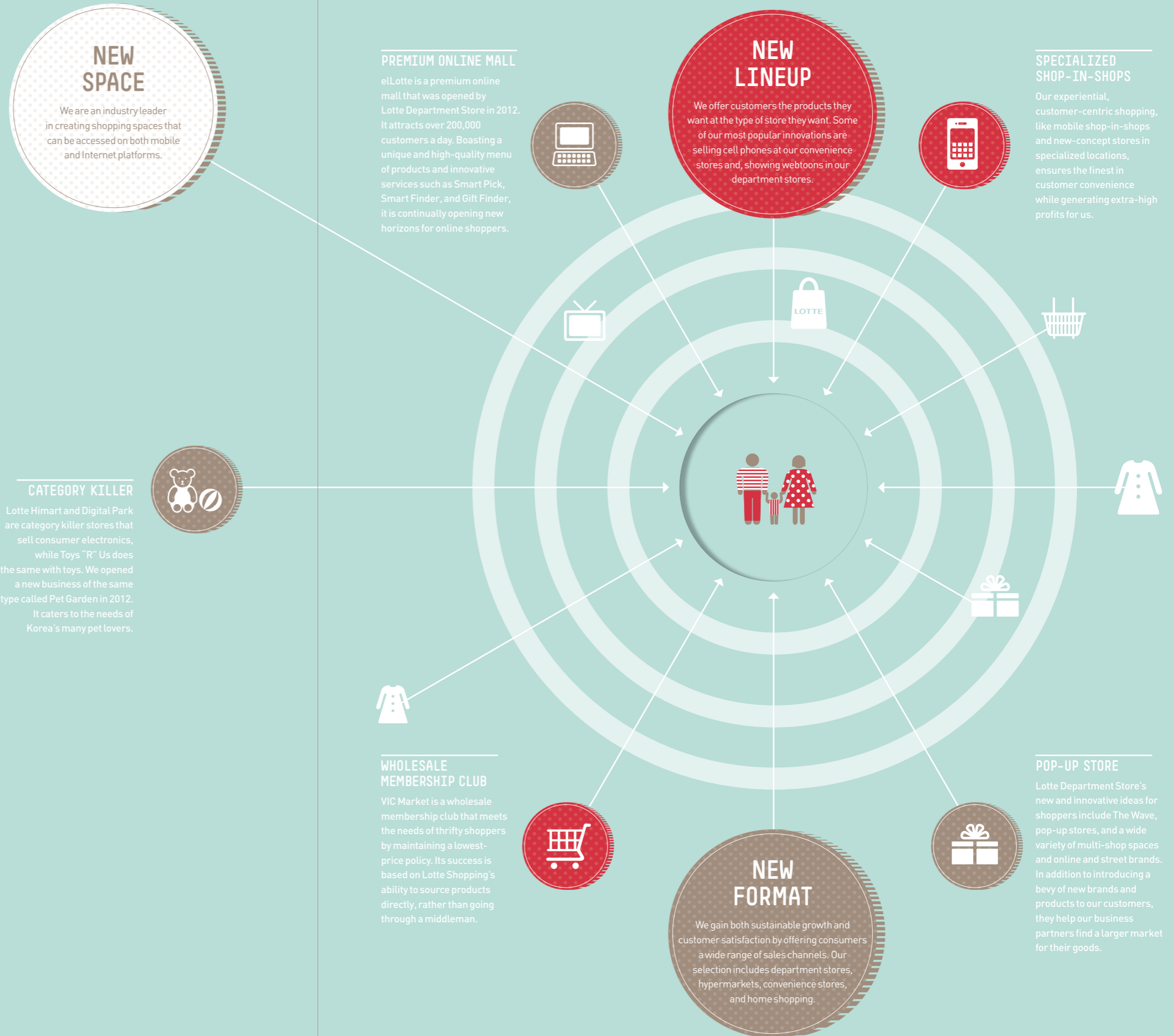
VIC Market is a wholesale membership club that meets the needs of thrifty shoppers by maintaining a lowest-price policy. Its success is based on Lotte Shopping's ability to source products directly, rather than going through a middleman.

NEW FORMAT

We gain both sustainable growth and customer satisfaction by offering consumers a wide range of sales channels. Our selection includes department stores, hypermarkets, convenience stores, and home shopping.

POP-UP STORE

Lotte Department Store's new and innovative ideas for shoppers include The Wave, pop-up stores, and a wide variety of multi-shop spaces and online and street brands. In addition to introducing a bevy of new brands and products to our customers, they help our business partners find a larger market for their goods.



EXPAND

SMART PROGRESS

RUSSIA

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

INDONESIA

Lotte Mart opened three new stores in Indonesia in 2012, bringing its total there to thirty-one. We also launched K-Hit Plaza, the first Korean-owned overseas store to focus exclusively on selling products made by SMEs.

CHINA

We opened a second Lotte Department Store in Tianjin in 2012, as well as the first-ever overseas Lotte Super store. Hypermarkets recorded YoY sales growth of 11.9% by opening eleven new stores.

VIETNAM

We introduced a number of Lotte Mart stores to Vietnam in 2012, and also began offering a round-the-clock home shopping platform. Lotte Cinema opened four more cinemas, recording YoY growth of 114.9%.

All the world is Lotte Shopping's stage.

You don't have to look very far to find one of our department stores, hypermarkets, supermarkets, cinemas, and home shopping channels in China and many other fast-developing countries in Southeast Asia.

RUSSIA

DEPARTMENT STORES 1

DEPARTMENT STORES 3
HYPERMARKETS 102
CINEMAS 7
HOME SHOPPING 1

CHINA

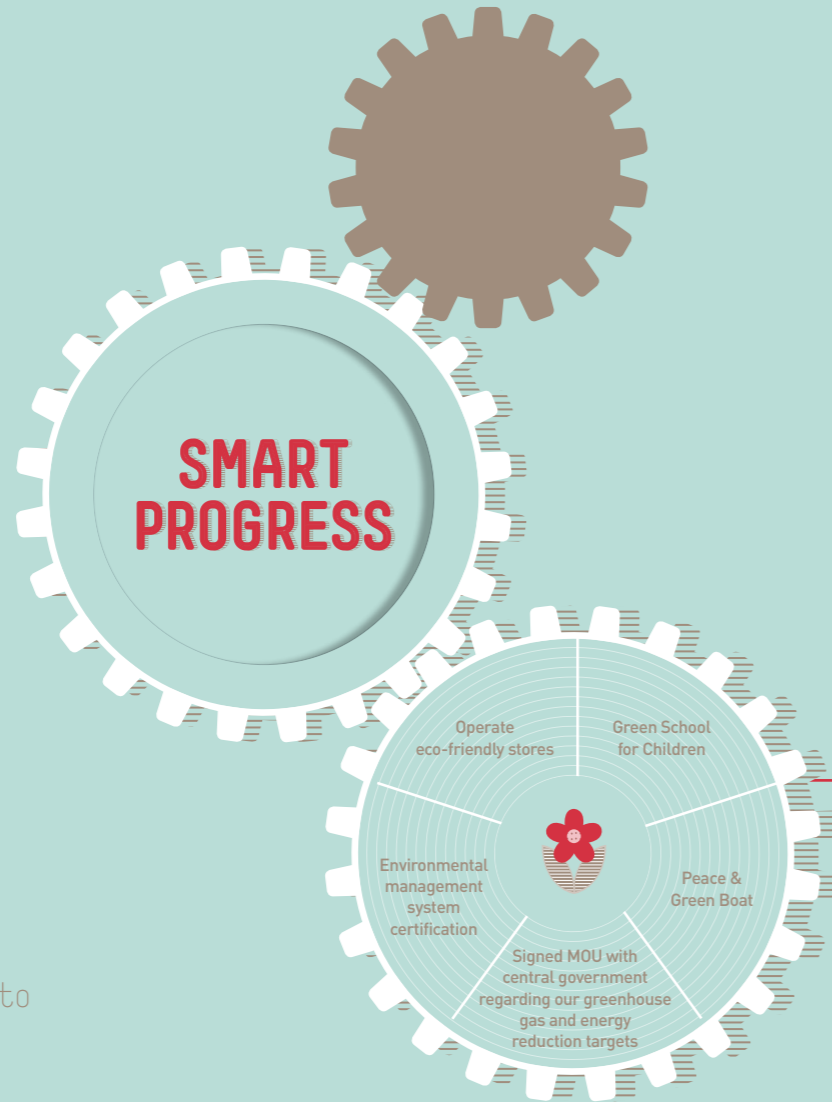
HYPERMARKETS 4
CINEMAS 7
HOME SHOPPING 1

VIETNAM

INDONESIA
HYPERMARKETS 31

KOREA

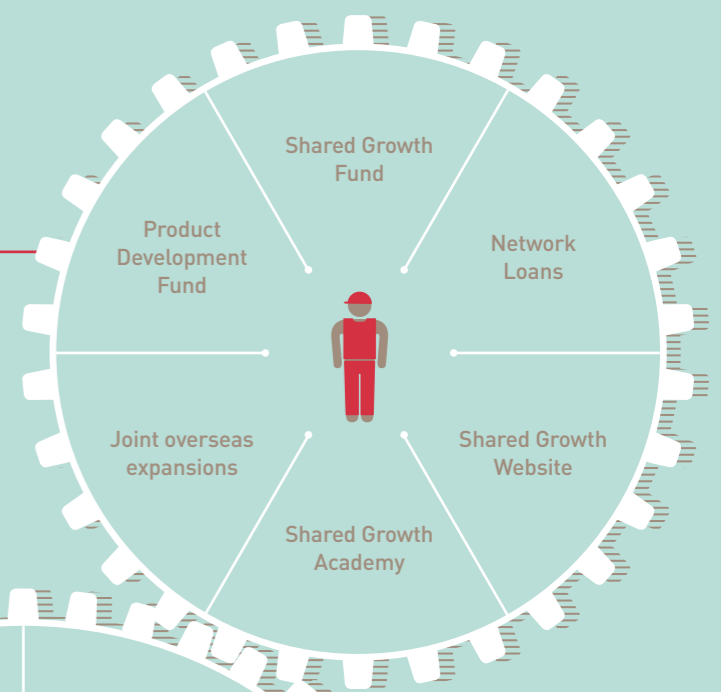
CONNECT



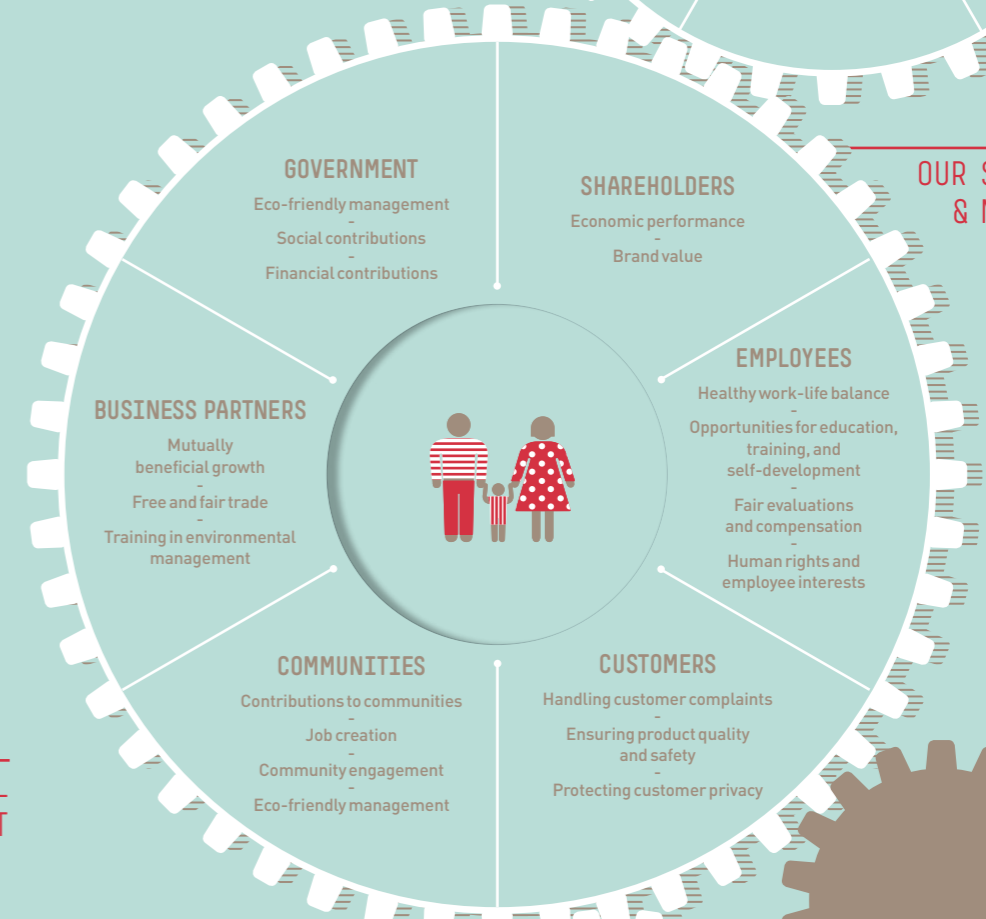
Lotte Shopping is committed to growing in tandem with its many business partners. Our efforts include programs that are designed to support the growth and profitability of the many SMEs that work with us.

We are also taking steps to minimize the environmental impact of our operations.

PARTNERSHIPS

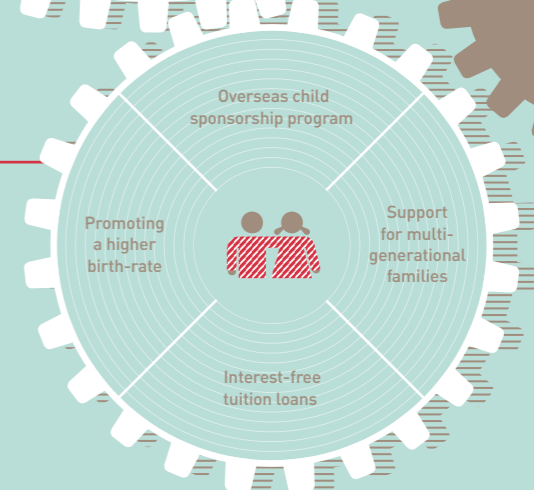


OUR STAKEHOLDERS & MAJOR ISSUES



ENVIRONMENTAL MANAGEMENT

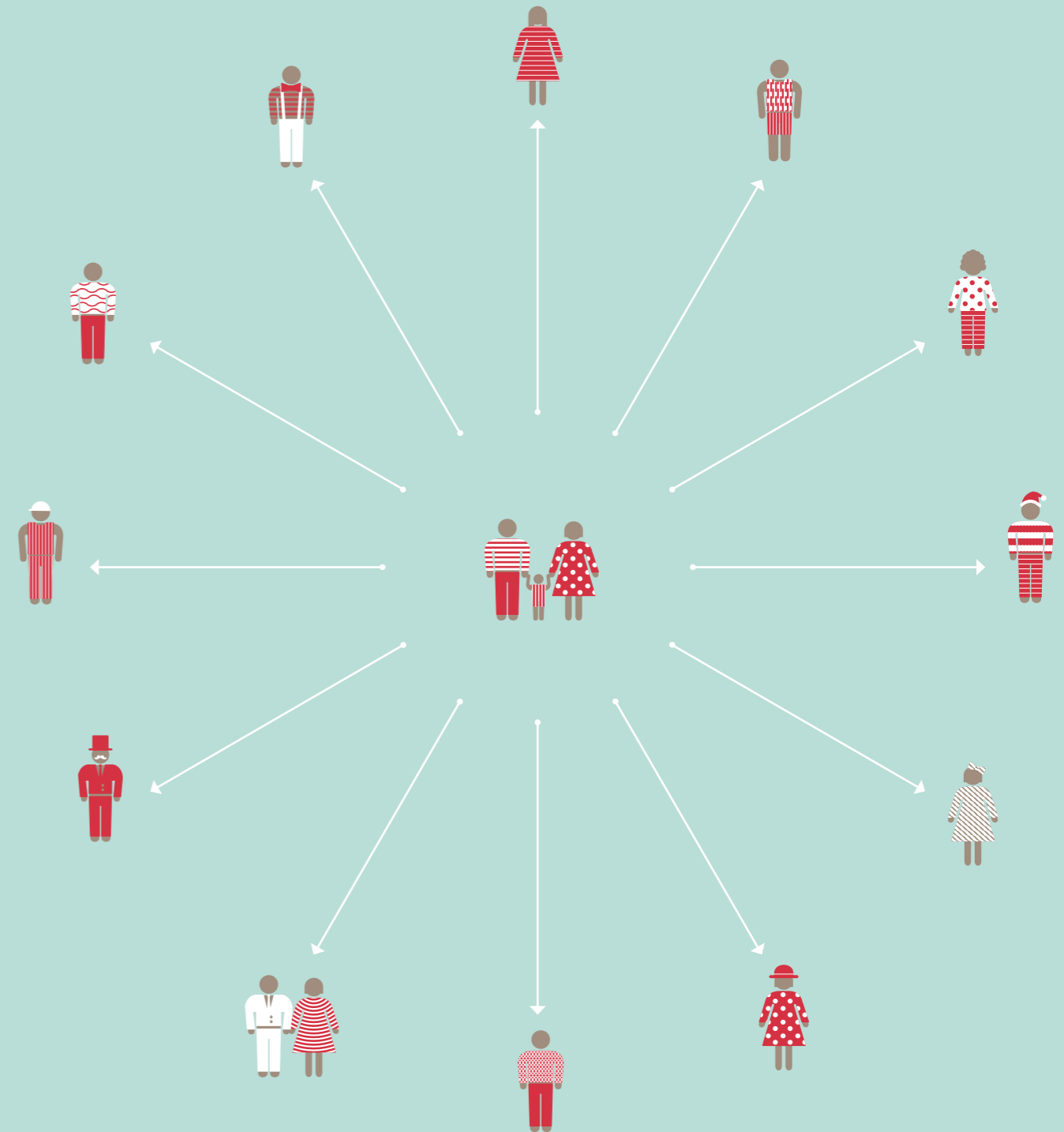
CITIZENSHIP



To Lotte Shopping,
“smart” means
understanding the
increasingly complicated
and diverse lifestyles
of customers, and offering
them a wider variety
of fast and convenient
shopping opportunities.

“Progress” means
working together
rather than doing
something alone.

Lotte Shopping is
committed to
“**SMART PROGRESS,**”
adding value to the lives
of all our stakeholders.





DJSI

GLOBAL
SUPERSECTOR LEADER

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

REDEFINING RETAIL 2

CHANGING THE FACE OF THE WORLD'S RETAIL INDUSTRY

DEAR LOTTE SHOPPING CUSTOMERS AND SHAREHOLDERS:

Lotte Shopping bolstered its status as the number one player in Korea's retail industry, adding to our record of continuous growth even in the face of a worldwide economic downturn and weak consumer demand here at home. Our reputation as one of the world's leading retailers was strengthened by opening new stores in strategic markets and adding to our awareness of changes in the lifestyles of our customers. We also stayed true to our strategy of steady but continuous overseas expansion. Our many successes led to our inclusion in the Dow Jones Sustainability World Index for the fourth consecutive year. We were also selected as a "Global Supersector Leader" in the retail sector for the third straight year. In 2013, *Forbes* Global 2000 named us the world's third-largest retailer in the department stores category. All of these sterling successes were made possible by the constant support and encouragement of you, our customers and shareholders.

RESULTS AND ACHIEVEMENTS IN 2012

GROWING STRONGER DESPITE THE CHALLENGES OF A WEAKENED GLOBAL ECONOMY

Our management environment in 2012 was extremely challenging, both at home and abroad. The global economic slowdown led to a sharp drop in consumer demand in Korea and elsewhere, and we also had to cope with a plethora of new government regulations. Despite these many impediments, we were able to continue our record of growth and maintain a stable revenue structure. Much of our success was due to our policy of steady yet continuous global expansion and constantly diversifying our channels to meet the needs of changing consumer lifestyles. We recorded sales of KRW 25,044.0 billion, up a healthy 12.5% over the year. Net profit was KRW 1,157.6 billion, up 14.3%, while our operating profit fell by 13.4% to KRW 1,467.5 billion.

TOP
RETAILER

Lotte Shopping recorded solid growth despite facing economic slowdowns both at home and abroad, confirming its status as the number one retailer in Korea.

Our department store business opened a number of new stores. Total sales of the seven enterprises operated by Lotte Department Store (including Lotte Premium Outlets in Paju and Gimhae and Lotte Outlet Cheongju) exceeded KRW 1 trillion, setting a new standard for the shopping sector in Korea. A special accolade should be given to the Lotte Premium Outlet Paju, which set a record for the industry's highest-ever sales volume within a year of opening. Lotte Department Store opened a branch in Pyeongchon and renovated its Jamsil branch and the Young Plaza at its main store. It also opened its second store in Tianjin, cementing its popularity in the Chinese market with its wide selection of products and services.

Our hypermarket business opened eight new stores in Korea and sixteen abroad, increasing its worldwide network to 103 stores at home and 137 abroad. It also launched its first wholesale membership club, VIC Market. Its two stores had already attracted 100,000 members as of December 2012. Our hypermarket business offers thrifty customers a wide range of high-quality, low-priced goods and private brand products. It ranked first in the 2012 National Customer Satisfaction Index survey in the hypermarket category for the second consecutive year. It was also the only candidate in its category to receive a number one ranking all by itself.

We also recorded healthy growth in our finance business, reflecting an overall increase in credit card use in Korea. Lotte Card saw its operating profit decline slightly, mainly because of lower sales commissions. Despite this, it laid the foundation for future sustainable growth by launching a series of specialized card products.

I am especially pleased to tell you that Lotte Himart became part of the Lotte Shopping in October 2012. Even though it is already Korea's leading consumer electronics retailer, the company is committed to expanding its presence nationwide and making improvements to its online Himart Shopping Mall.

Our supermarket business opened forty-one new stores in Korea. As a result, its market share in the super supermarket sector surpassed 50%. It now operates a total of 391 stores nationwide. The company was also the first player in its industry to go global, beginning in China. Each of its stores offers a wide spectrum of services and products that are tailored to meet the needs of local residents.

Our multiplex cinema business opened a number of new locations. It also benefited dramatically from the growth of the film industry in Korea and abroad. Our subsidiary, Lotte Home Shopping, is producing substantial results in Vietnam. Korea Seven also achieved significant growth by developing a variety of operating solutions and differentiating its product mix.

+14.3%

NET PROFIT
GROWTH RATE

Lotte Shopping's YoY sales rose by 12.5%, while its net profit was up by 14.3%. This happened despite a worldwide business slump and weak consumer demand.

OUTLOOK AND PLANS FOR 2013

QUALITATIVE GROWTH AND OUR SOCIAL RESPONSIBILITIES

Consumer demand in Korea is expected to grow at a slow rate, while the market should benefit from a steady influx of visitors from outside Korea. Although this is a very welcome forecast, it is weakened by the possibility of even more industry regulations being promulgated by the central government. Our response to this situation is to work even harder to retain our position as the leading player in the Korean retail industry.

The department store business will add more stores to its list in 2013. Beginning with Lotte Outlets at the Seoul Station Complex, we will introduce new Lotte Outlet and Lotte Premium Outlet branches in a number of different cities, and make additions to the Lotte Premium Outlet Gimhae. We also plan to expand into China and Indonesia.

Our hypermarket business will concentrate on adding more wholesale membership club stores to its operations and increasing its range of PB products. It will also strengthen its networks in Korea and abroad, including developing a new strategy for deciding on locations.

We will also retain our commitment to fulfilling our corporate social responsibilities. Our goal is to better the lives of people from all walks of life, including our customers, employees, business partners, and the communities in which we work and live. Our efforts in this regard will include developing new and innovative programs that will ensure mutually beneficial growth with our business partners and the owners of small- and medium-sized businesses. Another of our goals is to increase our level of involvement in processes that will help to resolve a variety of social issues, such as Korea's low birthrate. In addition, we will continue with our efforts to minimize the environmental impact of our business processes, including making significant reductions to the level of greenhouse gases that we produce.

All the staff members at Lotte Shopping share a single goal. It is for us to become a globally-respected company that is both profitable and sustainable. We will add to our shareholder and investor value by upgrading our financial performance, and always carry out our operations for the benefit of our many loyal customers. I hope that you will continue with your support of and interest in Lotte Shopping.

Thank you.



President & CEO **Shin Heon**

No.3

FORBES GLOBAL
2000 RANKING
DEPARTMENT STORES
CATEGORY

Lotte Shopping was named the world's third-largest retailer in the department stores category by *Forbes* Global 2000. This confirms how successfully it has evolved into one of the world's premier retailers.

SETTING NEW STANDARDS OF OPEN AND TRANSPARENT MANAGEMENT AND DECISION-MAKING



1. SHIN KYUK-HO
General Chairman,
Lotte Group

2. SHIN DONG-BIN
Chairman,
Lotte Group

3. LEE IN-WON
Vice Chairman,
Lotte Group

4. SHIN YOUNG-JA
Chairman,
Lotte Foundation

5. SHIN HEON
President & CEO,
Lotte Shopping



6. HOWARD RHEE
Former Outside Director,
Korea Exchange

7. KIM WON-HEI
Former Managing Director of
Finance and Accounting,
Lotte Chemical

8. KIM TAE-HYEON
Lawyer,
Yulchon LLC

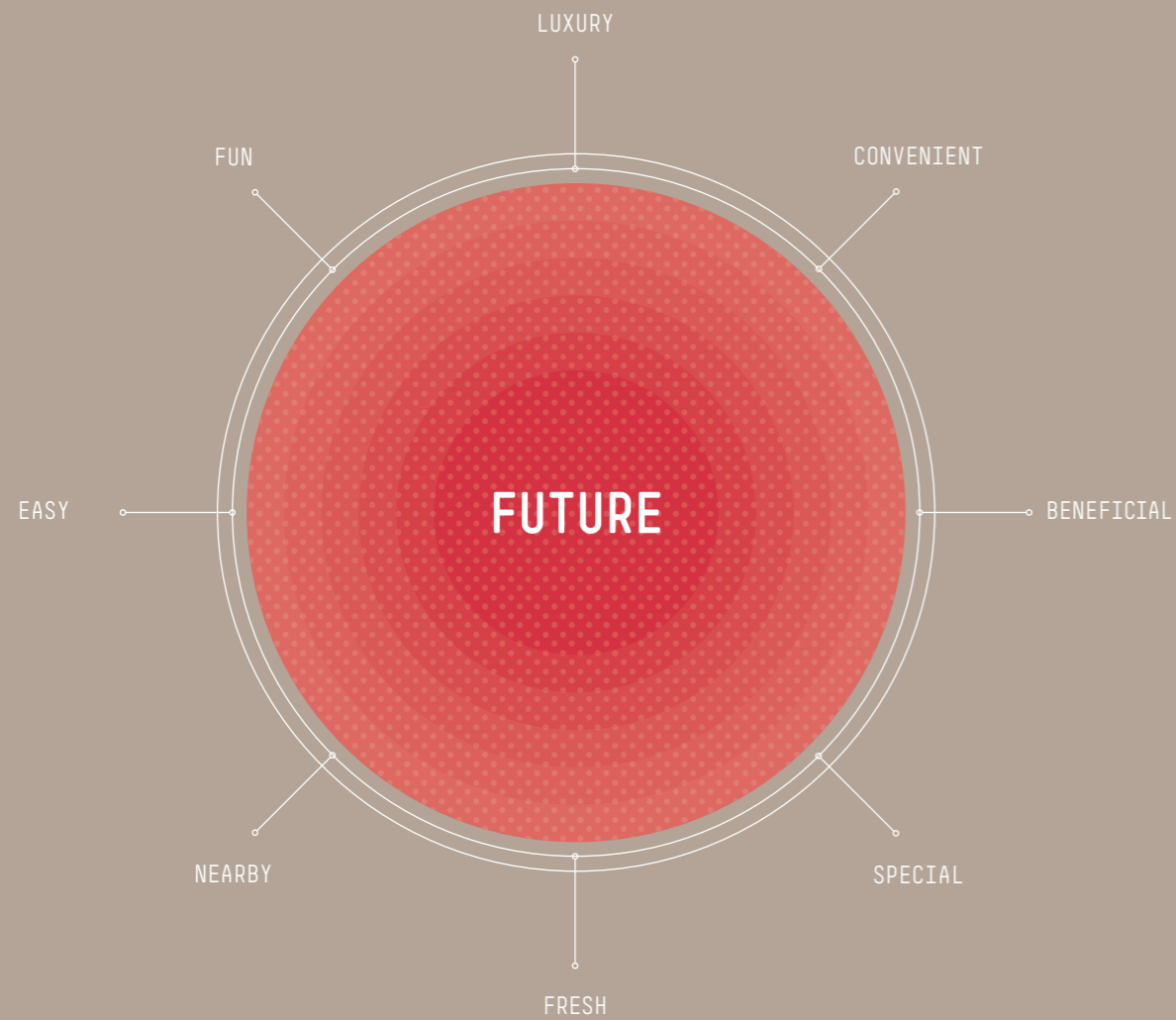
9. MIN SANG-KEE
Professor, Business School
Seoul National University

10. BAEK MYEONG-HYEON
Advisor,
SG Private Equity

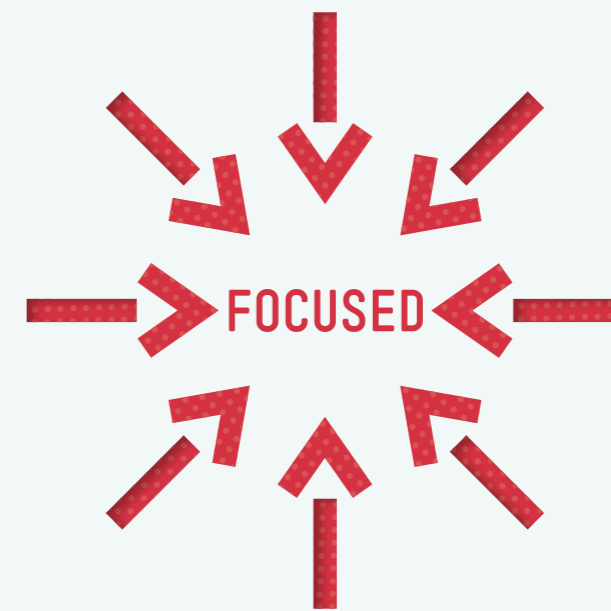
11. LIM SAM-JIN
Vice Chairman,
Korea Railway Association

The Board of Directors of Lotte Shopping consists of eleven directors, six of whom are outside directors. The BOD oversees the work of two committees: the Audit Committee, and the Outside Director Nominating Committee. The Outside Directors Committee was established to ensure transparency and expertise in the BOD's deliberations. Lim Sam-jin and Baek Myeong-hyeon were named new outside directors at the company's 2013 general shareholders' meeting in March 2013.

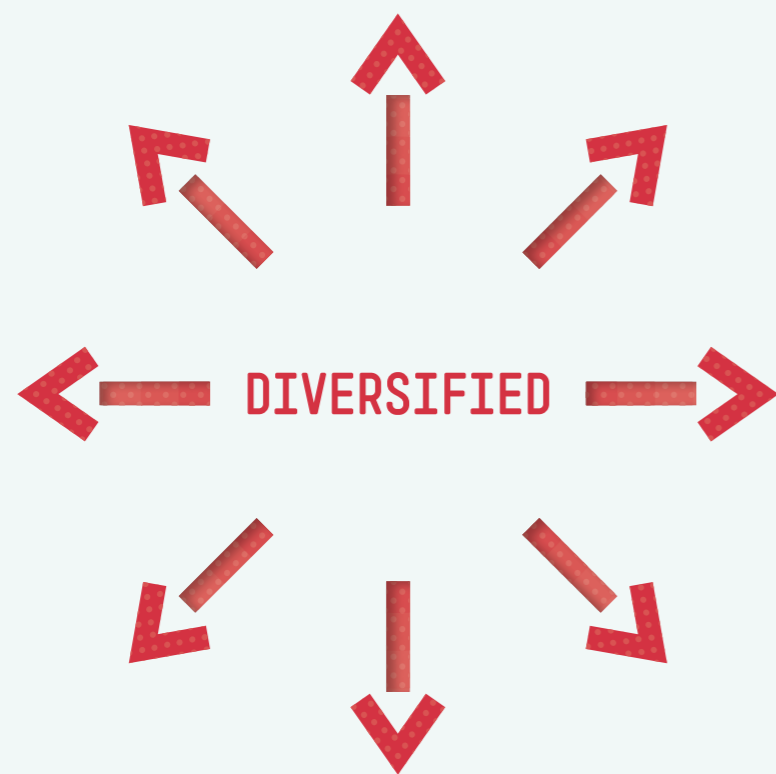
SMART LOTTE. SMART RETAIL.



Lotte Shopping is defining the future of retail.

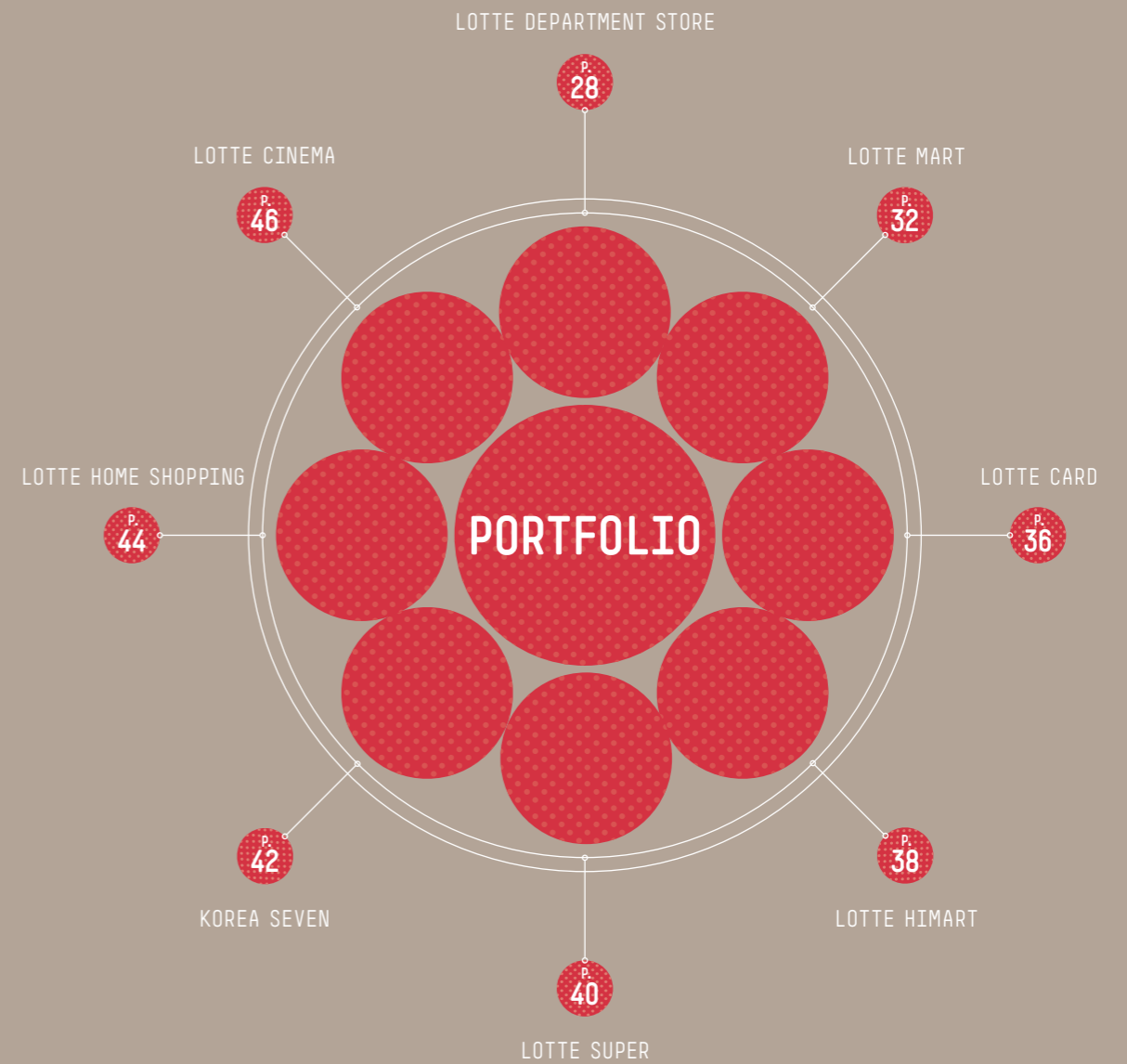


We focus on turning possibilities into realities.



Our diversified businesses are the result of such insights.

BUSINESS OVERVIEW



This leads to solid performances in all our business areas.

FINANCIAL HIGHLIGHTS

Korea's retail industry was faced with the twin challenges of an ongoing global economic recession and dampened demand from domestic consumers in 2012. In response to this situation, Lotte Shopping opted for a strategy of strategic expansion and profitable and practical management.

Condensed Consolidated Financial Position Statements

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

	2012	2011	2010
ASSETS	36,857	33,061	29,191
Current assets	13,071	12,728	10,029
Non-current assets	23,786	20,333	19,162
LIABILITIES	21,139	18,382	15,549
Current liabilities	11,089	9,911	9,003
Non-current liabilities	10,050	8,471	6,546
SHAREHOLDERS' EQUITY	15,718	14,679	13,642
Controlling shareholders' equity holdings	14,878	13,966	13,109
Capital stock	145	145	145
Capital surplus	3,622	3,622	3,622
Capital adjustments	(49)	(31)	(16)
Retained earnings	11,093	10,092	9,211
Accumulated other comprehensive income	67	138	147
Non-controlling shareholders' equity holdings	840	713	533

Condensed Consolidated Comprehensive Income Statements

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

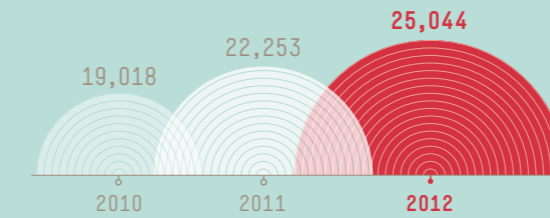
	2012	2011	2010
SALES	25,044	22,253	19,018
SALES COST	17,415	15,377	13,089
GROSS PROFIT	7,628	6,876	5,929
SELLING & ADMINISTRATIVE EXPENSES	6,161	5,181	4,271
OPERATING PROFIT	1,467	1,695	1,598
PROFIT BEFORE INCOME TAX	1,631	1,555	1,540
NET PROFIT	1,158	1,013	1,104

Key Operating Results

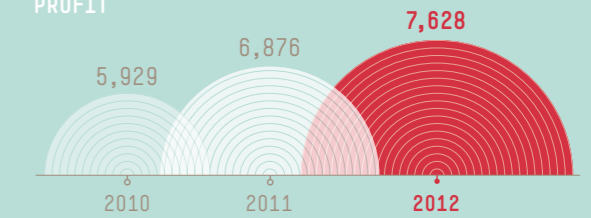
(Based on K-IFRS and consolidated financial statements, in billions of KRW)

Lotte Shopping posted KRW 25,044.0 billion in sales in 2012, up 12.5% over the year. Net profit surged by 14.3% to KRW 1,157.6 billion. Operating profit fell by 13.4%, mostly because of large-scale renovations to Lotte Department Store's main store and new store openings. These moves are expected to make a significant contribution to the company's "bottom line" going forward.

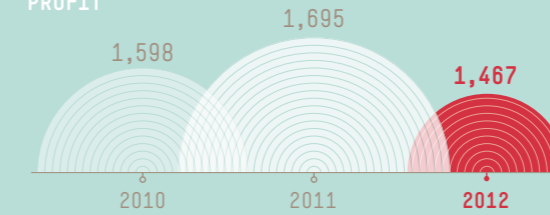
SALES



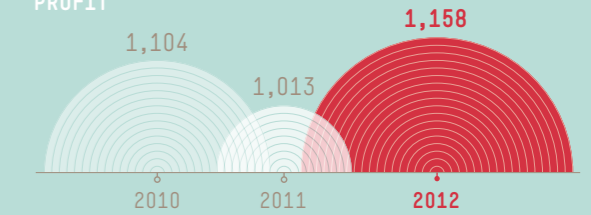
GROSS PROFIT



OPERATING PROFIT



NET PROFIT

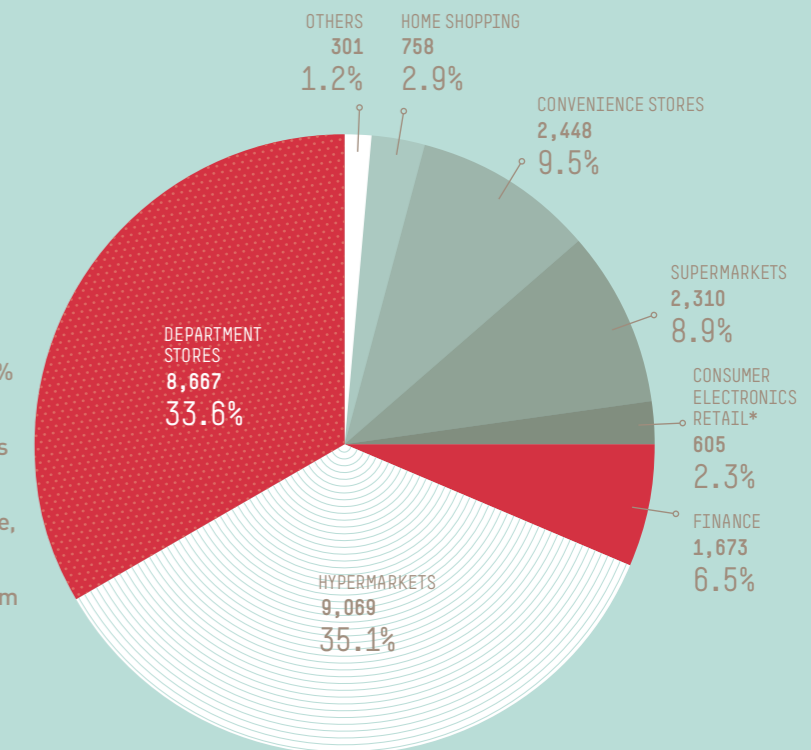


Sales by Business Division

(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, consumer finance, and convenience stores. Our department stores and hypermarkets account for the lion's share of our sales, making up 33.6% and 35.1% respectively. Our department stores and supermarkets boast the largest market share in Korea, while our hypermarket, convenience store, and home shopping businesses are also gaining ground in their fields. Each of them ranks third in its respective market.

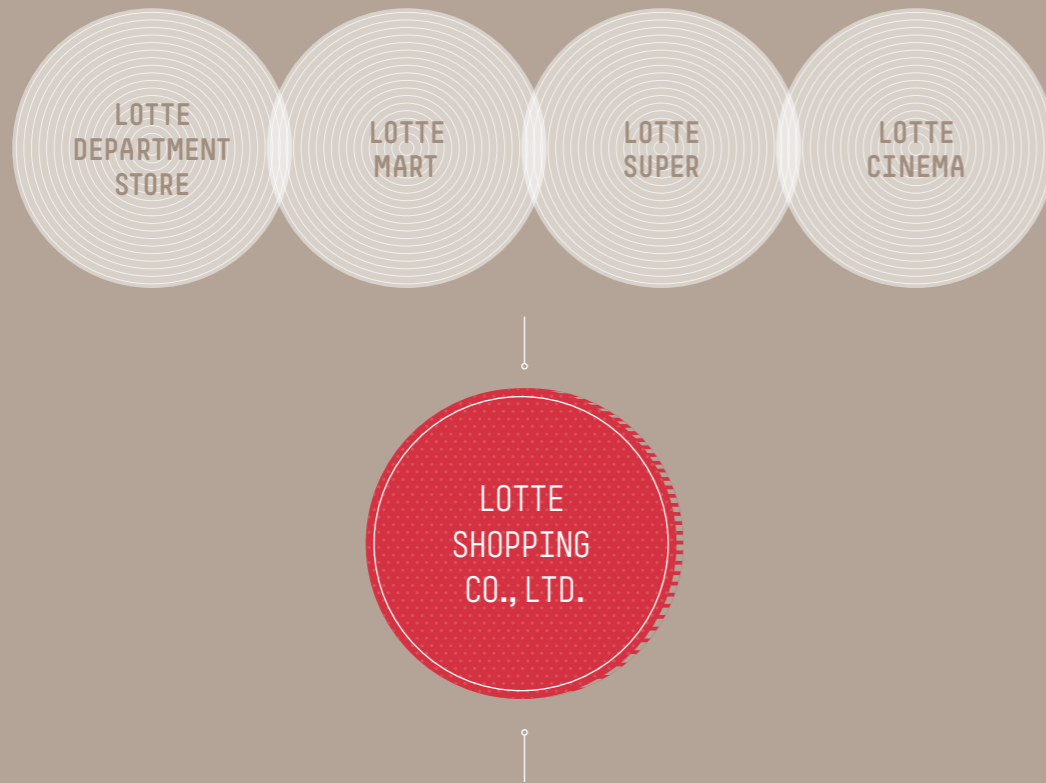
* Results from Lotte Himart's consumer electronics business are from November to December 2012, after its acquisition by Lotte Shopping.



BUSINESS OVERVIEW

Lotte Shopping's business divisions include department stores, hypermarkets, supermarkets, and multiplex cinemas. Subsidiaries include Lotte Himart, Lotte Home Shopping, Lotte Card, and Korea Seven. In this overview, Lotte Card and Lotte Himart are categorized as business divisions, as are Lotte Department Store and Lotte Mart. Lotte Super, Korea Seven, Lotte Home Shopping, and Lotte Cinema are classified as other businesses. Results for Lotte Himart only apply to November-December 2012, when we took over its operations.

BUSINESS DIVISIONS



KEY SUBSIDIARIES AND AFFILIATES



CONSOLIDATED AFFILIATES

Lotte Shopping has 55 affiliates: 23 in Korea and 32 abroad. Fifteen of them are subsidiaries, including CS Mart and Lotte Himart. They have been included in our consolidated financial statements because they meet at least one of three criteria: their total assets in 2012 were worth more than 10% of the parent company's, their assets amounted to more than KRW 50 billion, or they exercised a great influence on the operations of the parent company.

DOMESTIC

- Lotte Midopa Co., Ltd.
- Lotte Card Co., Ltd.
- eB Card Co., Ltd.
- Gyeonggi Smartcard Co., Ltd.
- Inchon Smartcard Co., Ltd.
- Chungnam Smartcard Co., Ltd.
- Woori Home Shopping & Television Co., Ltd.
- Korea Seven Co., Ltd.
- Buy the way Inc.
- Lotte Boulangerie Co., Ltd.
- NCF Co., Ltd.
- Lotte Gimhae Development Co., Ltd.
- Lotte Suwon Station Shopping Town Co., Ltd.
- Lotte Songdo Shopping Town Co., Ltd.
- CS Mart Co., Ltd.
- LOTTE Himart Co., Ltd.
- Himart Logitech Co., Ltd.
- Himart Shopping Mall Co., Ltd.
- The 2nd Supreme
- The 3rd Supreme
- The 4th Supreme
- The 5th Supreme
- Himart 1st ABS Specialty Co., Ltd.

OVERSEAS

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

LOTTE DEPARTMENT STORE

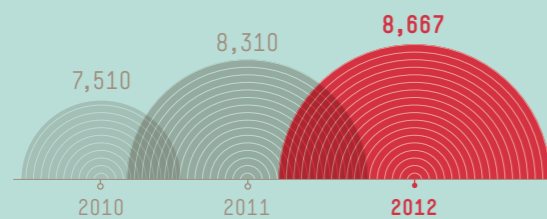
Lotte Department Store's gross sales in 2012 went up by 4.3% year-on-year to KRW 8,667.0 billion.

The company achieved this satisfying result by adding to its number of stores and through improved performances at newly renovated ones. Operating profit declined by 15.3% to KRW 746.0 billion.

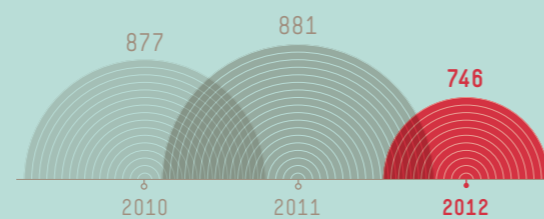
 www.lotteshopping.com

 m.lotteshopping.com

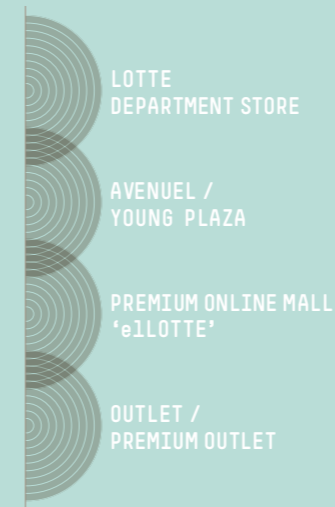
GROSS SALES (Based on K-IFRS and consolidated financial statements, in billions of KRW)



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



KEY BUSINESS PORTFOLIO



NUMBER OF OVERSEAS STORES



NUMBER OF DOMESTIC STORES



*including three stores managed under contract

01

MARCH 2012 OPENED LOTTE DEPARTMENT STORE PYEONGCHON

Located in the very heart of Pyeongchon city, this is the largest mixed-use shopping mall in all of Gyeonggi-do province.

RESULTS AND ACHIEVEMENTS IN 2012

The Korean department store industry suffered from a significant slowdown in consumer demand, due in large part to the ongoing worldwide economic recession. Consumer behavior was very variable, with some shoppers focusing on a product's quality and others on its price. Demand was low as well. As a result, both our brick and mortar stores and our online sectors enjoyed substantial growth. We were able to post a stable and satisfying financial performance by responding proactively to new consumer trends and using a process of selection and concentration to aid us in cutting costs.

Seven of our outlets, including Lotte Premium Outlets in Gimhae and Paju and an urban outlet in Cheongju, enjoyed spectacular growth, with cumulative sales exceeding KRW 1 trillion. Lotte Premium Outlet Paju recorded sales of KRW 306.0 billion, an industry record for a store in its first year of operation. This was achieved by offering its customers a wide range of high-end brand products at reasonable prices, and by adding a number of attractions to their operations that would keep people interested and involved. This included a cinema and a cultural center. In the same vein, Lotte Outlet Cheongju, which opened in November 2012, offers customers an optimal shopping and leisure environment through the addition of a Lotte Mart, a Digital Park, a Lotte Cinema, and a Toys "R" Us.

Another reason for our growth and success is the opening of new stores and making extensive renovations to existing ones. Lotte Department Store Pyeongchon, which opened in March 2012, has become a new landmark in the southwest part of the province of Gyeonggi-do by developing a product mix that is aimed squarely at meeting the needs and tastes of local residents. It also boasts a cultural center.

The Young Plaza at our main store in Seoul specializes in fashions for young people. It was extensively refurbished over a period of three months, with the end result being a store that looks completely different from other businesses in its neighborhood. It is also attracting young shoppers through its SPA and imported denim brands. Lotte Department Store Jamsil was recast as a completely new mall department store last August. It now boasts the nation's largest cosmetics hall and a "Young Street" fashion zone. Lotte Department Store made renovations to more than ten stores in 2012, with their sales growing by 7.4% over the year.

BUSINESS OVERVIEW

02

SEPTEMBER 2012
OPENED SECOND LOTTE DEPARTMENT STORE IN TIANJIN, CHINA

Lotte Department Store opened its second store in the Cultural Center, the largest cultural and commercial complex in the Chinese city of Tianjin.

LOTTE DEPARTMENT STORE

03

OCTOBER 2012
COMPLETED RENOVATION OF MAIN STORE IN SEOUL

Lotte Department Store refurbished 90% of the stores in its Young Plaza. The complex is rapidly becoming one of Seoul's "go-to" shopping magnets for young and trend-conscious consumers.

04

DECEMBER 2012
LOTTE PREMIUM OUTLET PAJU SETS RETAIL INDUSTRY SALES RECORD

Lotte Premium Outlet Paju posted sales of KRW 306.0 billion within a year of its opening in December 2012. It intends to achieve sales growth of more than 10% in 2013.

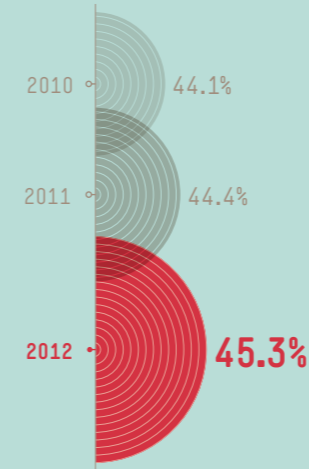
01.



02.



MARKET SHARE



PREMIUM ONLINE MALL

Lotte Department Store's "eLotte" premium online mall has become a very popular online shopping site, with monthly sales exceeding KRW 10.0 billion within seven months of its opening and over 200,000 visitors a day. It operates a year-round, 24/7 customer service center, with service available in English, Chinese, and Japanese.

RANKED FIRST IN NCSI SURVEY FOR TENTH CONSECUTIVE YEAR

Lotte Department Store ranked first in the department store category in the NCSI survey conducted by the Korea Productivity Center for the tenth straight year. The honor reflects the company's commitment to enhanced customer services and its unrivaled ability to keep up with ever-changing fashion trends.

Launched in March 2012, "eLotte(www.ellotte.com)" is Korea's fastest growing premium online mall. It is now a "must-see" online shopping site, recording monthly sales of over KRW 10 billion within seven months of its opening and attracting more than 200,000 visitors a day. In its role as Korea's first-ever on-season premium mall, the store features over 1,000 brand and hard-to-find products. It also boasts a "Smart Finder" function, which analyzes customers' purchasing histories and trends and then recommends suitable products to them. For added convenience, customers can pick up their online purchases at any of our regular department stores. The same service applies to exchanges, refunds, and repairs.

OVERSEAS PERFORMANCE IN 2012

We opened another department store in Tianjin, China. Located within the city's Cultural Center, it opened for business in September 2012. It features more than 360 stores, selling highest-quality Chinese brands along with popular Korean ones. The Cultural Hall, which has a seating capacity of 300 seats, offers customers a wide variety of services, including other sections of the Cultural Center and a children's playground. Lotte Department Store has established a solid foothold in the Chinese market by familiarizing itself with local customs and tastes and offering customers a wide range of high-quality products and services.

OUTLOOK FOR 2013

In 2013, Lotte Department Store will continue its efforts to cope with a lackadaisical operating environment and achieve both qualitative and quantitative growth. Some specific steps that we will take include ensuring that our Lotte Outlet Seoul Station remains another shopping magnet in Seoul and opening a Lotte Outlet Buyeo and a Lotte Premium Outlet Icheon next August and October, respectively. We will also open new Lotte Department Store branches in the cities of Weihei and Chengdu, China, and Jakarta, Indonesia.

LOTTE MART

Lotte Mart posted sales of KRW 9,069.0 billion in 2012, up 5.7% from the year before.

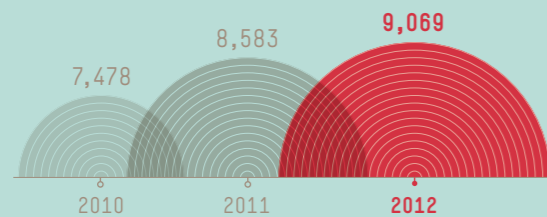
Operating profit fell by 7.3% to KRW 319.0 billion.

The company dealt with weakened consumer demand and increased government regulations regarding the operation of large-scale hypermarkets by opening a number of new businesses.

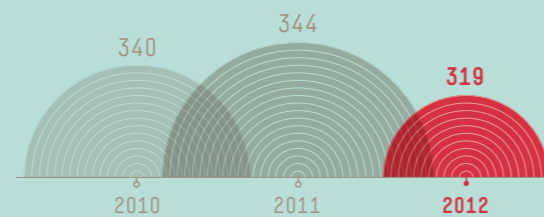
 www.lottemart.com

 m.lottemart.com

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



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



KEY BUSINESS PORTFOLIO



NUMBER OF STORES



01

MARCH AND JULY 2012 HOSTED KOREAN PRODUCTS EXHIBITION IN CHINA

Lotte Mart hosted the Korean Products Exhibition in Beijing and Shanghai in March and July, respectively. The exhibition was carried out in conjunction with a number of Korean SMEs.

RESULTS AND ACHIEVEMENTS IN 2012

The year 2012 was marked by extremely low consumer demand, with the Korean consumer sentiment index falling to its lowest level since the financial meltdown that started in 2008. An ever-increasing number of governmental regulations also contributed to the situation. Despite these difficulties, the company's hypermarket sector continued to experience robust sales growth. In addition, Lotte Mart entered into the wholesale membership club business. It also added to its competitiveness by expanding the range of its products and opening more category killer stores.

We opened a VIC Market's Geumcheon store in June 2012. It was followed by a Sinyeongtong store in September. Their total number of members exceeded 100,000 at the end of 2012. We also converted Lotte Mart's former Yeongdeungpo and Dobong branches into VIC Market stores February 2013. VIC Market helps to keep prices stable by sourcing its products directly and achieving large economies of scale. In addition to offering a number of products and services that cannot be found in other wholesale membership clubs, it is constantly searching for products that dovetail with consumption trends in Korea. This includes such items as leading products from Lotte Mart and seasonal clothing goods.

We also continued with our efforts to develop more high-quality, low-priced products. Much of the success that we enjoyed in doing so was due to our Tongkeun and Sonkeun value innovation brands, which outperformed their peers by adding more than twenty types of products to the seventy that they already sold. We also began making a number of products in collaboration with small- and medium-sized enterprises, including Tongkeun Almond and Tongkeun Wet Tissue. Both of them are very popular with our customers.

Our category killer stores also added to our competitiveness. They include Toys "R" Us, the world's largest toy store, Digital Park, a new-concept consumer electronics store, and Pet Garden, which specializes in products for people's pets. Digital Park added three new stores in 2012, bringing its total to fifteen. It posted a very impressive YoY growth rate of 44.6% in the tablet PC sector by becoming the exclusive Korean seller for the Nexus 7 and the iPad mini. Backed by the addition of five more stores in 2012, Toys "R" Us posted an 11% rate of growth over the year.

BUSINESS OVERVIEW

02

JUNE AND SEPTEMBER 2012
OPENED
VIC MARKET

Lotte Mart opened new VIC Market's Geumcheon and Sinyeongtong in June and September 2012, respectively. The stores specialize in selling high-quality products at rock-bottom prices.

LOTTE MART

03

SEPTEMBER 2012
NUMBER OF STORES IN KOREA AND CHINA
EXCEEDED ONE HUNDRED EACH

Lotte Mart opened sixteen new stores abroad—eleven in China, three in Indonesia, and two in Vietnam—and eight in Korea. Its overseas operations posted double-digit sales growth in both China and Indonesia.

04

DECEMBER 2012
RANKED FIRST IN NCSI FOR
SECOND CONSECUTIVE YEAR

Lotte Mart ranked first in the hypermarket category in the 2012 NCSI survey for the second consecutive year. The award was given in recognition of its efforts to raise its level of customer satisfaction.

02.



03.



PET GARDEN

Lotte Mart introduced Pet Garden, a multi-shop operation that specializes in selling goods targeting people's pets. It is estimated that the animal companion market in Korea is currently worth KRW 2 trillion on an annual basis. The stores also offer animal lovers a wide variety of services.

SHARING GROWTH BY ASSISTING SMES

In 2012, our "Choice L" private brand portfolio consisted of seven hundred products, helping many SMEs to access a larger market for their goods. We also assisted in adding to their competitiveness by allowing them to use our domestic and overseas networks. In addition, the value of advance payments to our business partners doubled from the year before to KRW 20.0 billion.

The Pet Garden, which was originally launched in March 2012, added to its competitiveness in the rapidly expanding pet market by opening seven new stores. Our wide range of products and our variety of stores helped us to rank first in the hypermarket category in the 2012 NCSI survey for the second year in a row.

Our online Lotte Mart Mall (www.lottemart.com) also experienced healthy growth. Sales surged by 33.7% over the year, helping us to post an annualized growth rate of 89% since 2008. We bumped up our sales volume significantly in 2012 by opening a number of category killer-type malls in such areas as consumer electronics, toys, and pets.

We increased our profitability by sourcing goods more efficiently and reducing our costs. This included adding to the variety of our products by purchasing goods that were manufactured in the USA, Europe, and other places. We reduced our costs by making more shared purchases with other companies in the Group and by forming alliances with companies that specialize in the production of food products.

OVERSEAS PERFORMANCE IN 2012

One of our major goals is to enhance the profitability levels of all our overseas operations. After making in-depth analyses of local market conditions, we opened eleven new stores in China, three in Indonesia, and two in Vietnam. This led to an increase in sales growth in each country of 11.9%, 23.5%, and 9.5%, respectively, over the year. We also made a number of improvements to the efficiency of our logistics centers in China and Indonesia. For example, the customs clearance pass rate for our facility in Shanghai rose by eight percentage points.

OUTLOOK FOR 2013

Most experts believe that private consumption in Korea will remain at a low level in 2013. We will respond to this situation by developing more PB products and adding to our number of VIC Markets on an ASAP basis. Although Korea's Retail Industry Development Act contains a host of regulations governing the operation of hypermarkets, our intention is to resolve any and all major issues voluntarily. One of the most important areas of discussion will be ways of encouraging the balanced development of large-, medium-, and small-sized retailers. We will also increase the efficiency and profitability of our existing stores and open more overseas to enhance our income dramatically.

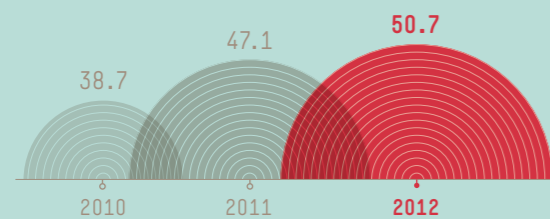
LOTTE CARD

Lotte Card's users charged a total of KRW 50,710.6 billion to their accounts in 2012, up 7.6% from 2011. Despite this, operating profit fell by 9.1% to KRW 219.4 billion. Most of this contraction was caused by the lowering of sales commissions as per central government regulations.

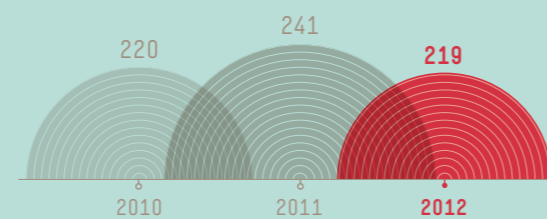
 www.lottecard.co.kr

 m.lottecard.co.kr

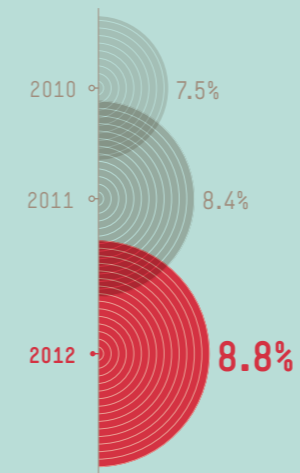
CREDIT CARD USE (in trillions of KRW)



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



MARKET SHARE



CARDHOLDERS

8,058,000

WON A HOST OF CUSTOMER SATISFACTION AWARDS

No.1

Lotte Card placed first in the Korea Service Grand Prix in the customer satisfaction category for the second consecutive year. It was also lauded for having the best call center in the Korea Service Quality Index survey.

01

MARCH 2012 LAUNCHED SMART CONSUMER APP

Lotte Card introduced a "Smart Consumer" smartphone app. It enables users to evaluate stores in which they have used their Lotte Card and share the information with other people.

02

APRIL 2012 SIGNED BUSINESS ALLIANCE WITH EPOS CARD OF MARUI GROUP, JAPAN

We entered into a business alliance with EPOS Card, a major Japanese credit card issuer that boasts 4.34 million members. It is an affiliate of the Marui Group, a leading Japanese retailer.

RESULTS AND ACHIEVEMENTS IN 2012

In 2012, the Korean credit card industry faced two major problems: falling consumer demand and rising household debt. It was also forced to cope with intensifying competition and tightened government regulations in such areas as rates for sales commissions. Despite this, the total volume of transactions showed a continuous upward trend, with credit cards being used to pay for 65% of shoppers' purchases.

Holders of Lotte Cards charged KRW 50.7 trillion to their credit cards in 2012. Credit purchases climbed by 11.6% to KRW 41.7 trillion, while credit financing fell by 7.8% to KRW 9.0 trillion. The company reduced its commission rate by 0.3% points, as per the dictates of the Korean government's Specialized Credit Financial Business Act. Although the number of credit card transactions increased, the actual number of cardholders decreased by 8.8% over the year to 8,058,000.

Some of the steps taken by Lotte Card to add to its profitability included increasing its number of premium card users and focusing on its VIP and large-volume cardholders. We also introduced a number of new cards that reflect the lifestyles and needs of our customers. They included Golden Wave, targeted at trend-conscious male customers, and Lotte Point Plus 410.

Our membership card services are also used by 9.81 million overseas cardholders. This allows them to accumulate points and take advantage of discounts and other benefits at the more than 330 department stores, marts, cinemas, and other businesses that we operate outside of Korea. We also entered into a business alliance with EPOS Card of Japan. It offers cardholders of the two companies such benefits as discounts at department stores and duty-free shops.

OUTLOOK FOR 2013

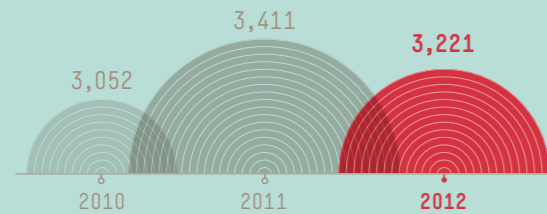
Lotte Card manages risk in a proactive and professional manner. In response to the central government's strengthened guidelines regarding loan loss provisions on revolving assets, we will use more sophisticated interest rates and secure new payment service markets to guarantee healthy bad debt expenses management and minimize the effects of lower sales commissions. We will also reduce waste and inefficiencies in our operations, make improvements to our operating processes, and reduce our use of inefficient discount services and promotional events in favor of improving customer value.

LOTTE HIMART

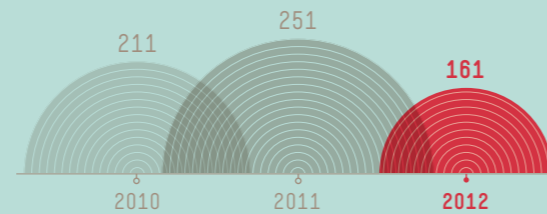
Lotte Shopping acquired Himart in October 2012, and began operating it as Lotte Himart the next month. The company's sales and operating profit as of the end of 2012 were KRW 3,221.1 billion and KRW 161.5 billion, respectively, down 5.6% and 35.6% from a year earlier.

 www.himart.co.kr  m.e-himart.co.kr

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



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



* The 2010 operating profit figure has been adjusted based on results from 2011 and 2012.



01

**JUNE 2012
INTRODUCED
MOBILE SHOP-IN-SHOPS**

Lotte Himart opened experiential shop-in-shops specializing in mobile products at about seventy of its stores in 2012. This number will grow steadily in 2013 and beyond.

02

**OCTOBER 2012
LOTTE SHOPPING
ACQUIRED HIMART**

Lotte Shopping acquired Himart, Korea's largest seller of consumer electronics. It later relaunched the chain as Lotte Himart.

NUMBER OF DOMESTIC STORES

322

MARKET SHARE*

47.0%

INDUSTRY RANKING FROM 2010 TO 2012*

No.1

*Based on public disclosures in 2012 by four major Korean consumer electronics retailers—Lotte Himart, Living Plaza, Hi Plaza, and Electro Land

RESULTS AND ACHIEVEMENTS IN 2012

Lotte Himart is the largest consumer electronics retailer in Korea, with 322 stores, eleven logistics centers, and eleven service centers nationwide. It also boasts the largest share of its market in Korea, with about fourteen million members registered in its point acquisition program. It is the company's main category killer business.

Korea's market for consumer electronics remained in the doldrums in 2012, mainly because of softened consumer demand in the wake of the global financial crisis. Other factors influencing its slow growth included reduced demand for home furnishings purchased for weddings and lower sales of seasonal products. As a result, the company recorded negative growth in terms of both sales and operating profit. Digital consumer electronics such as tablets, PCs, and mobile devices all showed meaningful growth.

One especially bright spot in the company's performance in 2012 was the scale of demand for its lineup of Nexus 7 tablet PCs. Sales of notebooks also ballooned following the release of the new Windows 8 operating system. We refurbished all our stores in the second half of the year, changing our product displays to the "mobile shop-in-shop" format. In addition, our credit rating was upgraded to "AA-" from "A-" as a result of our acquisition by Lotte Shopping. This led to a dramatic reduction in our bank borrowing charges, to 3.9% from 6.7%.

We took a variety of steps to increase consumer interest in our Himart Shopping Mall. We also used social media to ramp up our number of visitors, and enhanced our mix of online products to include small consumer electronics and PC peripherals. In addition, we began managing our inventories more efficiently, both by sharing our database with large manufacturers of consumer electronics and by designing an automatic order-placing system for products from our small- and medium-sized business partners. As a result, Himart Shopping Mall recorded sales of KRW 26.0 billion in 2012.

OUTLOOK FOR 2013

Lotte Himart is Korea's leading category killer company. We are committed to efficient and professional management, and operations that always meet the expectations of our customers. One of the innovative ways in which we will add to our customers' convenience is by increasing our number of mobile shop-in-shops. We will also develop exciting new products and open a number of new stores.

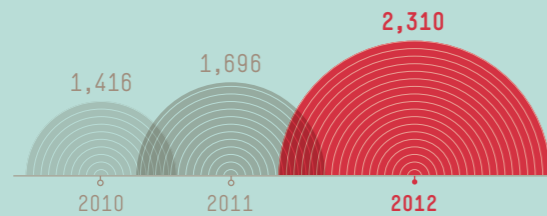
LOTTE SUPER

Lotte Super recorded sales of KRW 2,310.1 billion and operating profit of KRW 56.0 billion in 2012, up 36.2% and 27.3%, respectively. Much of this growth was due to the company's decision to diversify its operations in response to constantly tightening government regulations. The company also made its first inroads into the overseas market during the year.

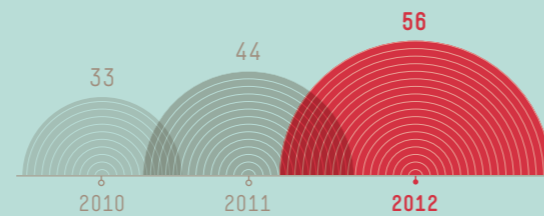
 www.lottesuper.co.kr

 m.lottesuper.co.kr

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



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



NUMBER OF DOMESTIC STORES

391



EXPANDING FRANCHISE BUSINESS

We are expanding our number of franchises and directly-run stores. Our Lotte Super stores will be run as franchises, while our Harmony Mart stores will be run by independent owners.

SALES FORCE EFFECTIVENESS PROGRAM

We are improving the way our stores are managed and enhancing their profitability by applying the Sales Force Effectiveness program at all our worksites. This leads to increased sales and margins.

01

SEPTEMBER 2012
FIRST KOREAN SUPERMARKET TO ENTER OVERSEAS MARKETPLACE

Lotte Super became the first Korean supermarket to expand overseas, opening a store in Beijing, China.

02

2012 MARKET SHARE IN KOREA SURPASSED 50%

We recorded a market share of 50.5% among Korea's three largest industry players. This was accomplished despite constantly intensifying competition from our rivals.

RESULTS AND ACHIEVEMENTS IN 2012

Sales growth in the Korean supermarket sector in 2012 was hampered by intense pricing competition, low consumer demand, and increasing government regulations regarding the number of stores that are permitted to open and their operating hours. As a result, the super supermarket sector recorded very little growth, with sales increasing by a mere 4.8% to KRW 27.9 trillion.

Lotte Super managed to record double-digit growth, largely through economies of scale. Its overall size was increased by the opening of a number of neighborhood stores that fit the needs of budget-conscious shoppers and its acquisition of CS Mart, which was operating more than two hundred stores across the country.

We strengthened our industry-leading share of the market and opened forty-one new stores, bringing our total to 391. Our franchise business expanded to more than seventy stores. We also gave our merchant store owners wider choices and more opportunities to own a Lotte Super franchise.

Lotte Super was the first player in the Korean SSM industry to go global, opening its first store in Beijing in September 2012. After that, we introduced a number of other stores, stocking them with the types of fresh and processed foods that would appeal to housewives, dual-income families, and senior citizens. We also made sure that all our stores were offering a wide assortment of customer services and had flexible opening and closing hours.

We also took steps to improve our operating efficiency. This was done by applying the Sales Force Effectiveness (SEF) program to all our worksites. SEF is designed to enhance employees' skill sets and maximize their productivity by gaining an understanding of their worksite problems and suggesting solutions. SEF is now being used in all our stores, resulting in higher sales and better margins.

OUTLOOK FOR 2013

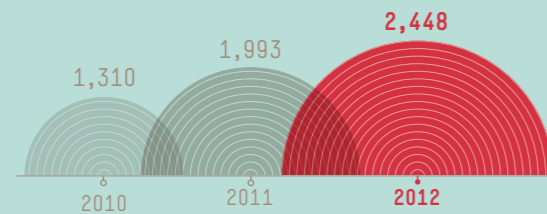
Lotte Super will continue with its focus on growth and the overseas expansion of its operations in light of increased revisions to the Retail Industry Development Act. Some of the innovations that we will introduce include strengthening our risk management processes and rationalizing our cost structure. We will also improve on our sales efficiency, make adjustments to our Internet supermarkets, innovate our product strategies, and open more stores in China.

KOREA SEVEN

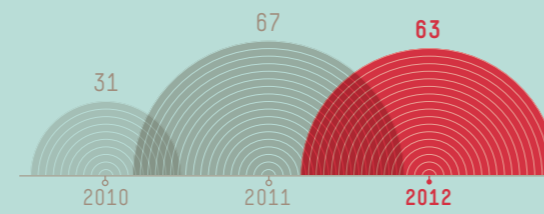
Korea Seven recorded a 22.8% rise in sales over the year to reach KRW 2,447.7 billion. This happened in spite of continuing lackluster demand. The company also added to its competitiveness by adopting a number of strategies to distinguish itself from its competition.

 www.7-eleven.co.kr

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



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



01

JULY 2012 CONTINUED PRICE-CUTTING POLICY

We led the industry once again, lowering the price of our frozen desserts by 40%. This was done to help out budget-conscious shoppers and our own store owners.

02

2012 EXPANDED NUMBER OF NEW-CONCEPT STORES

We introduced more new-concept stores, such as combining a convenience store with a laundry or a bakery.

RESULTS AND ACHIEVEMENTS IN 2012

Korea's convenience store sector grew by 16.8% in 2012, with market volume passing the KRW 12 trillion mark. Part of the reason for this double-digit growth was continuing demand for small-cap franchise start-ups. Consumer demand for low-priced private label products and easy-to-prepare meals rose rapidly.

Korea Seven raised its share of the domestic market through aggressive store openings. Its number of convenience stores exceeded 7,000 at the end of 2012. Sales were KRW 2,447.7 billion, up 22.8% over the year.

We also adopted a policy of using multiple concepts in our stores to ensure an optimal product mix and gain greater customer satisfaction. This included cafes, bakeries, and supermarket-type stores. In addition, we developed a number of shop-in-shop franchises. We also strengthened our growth potential by offering a wide assortment of fresh foods. Sales of our lunchbox meals soared by 57.3% over the year.

We also took a number of steps to help people living on limited budgets. In 2010, 7-Eleven initiated a policy of lowering its prices on a wide selection of goods, including instant noodles, soju, confectioneries, and beverages. It continued this trend in 2012, lowering the price of frozen desserts by 40%. The purpose of this strategy was to increase the sales volume and add to the profitability of all its stores. The chain also started selling budget-priced cell phones.

OUTLOOK FOR 2013

The central government's new regulations regarding store openings will affect convenience stores as well as large marts and supermarkets. According to an announcement on trading standards by the Fair Trade Commission at the end of 2012, the sector's double-digit growth over the past four years will probably slow down appreciably, at least in the short term. Korea Seven's response to these changes involves establishing specialized business districts for medium- to small-sized business owners and prospective franchisees. This will enable us to grow while also observing all of the central government's statutes. We will also increase our number of store brands, continue opening stores in locations that will ensure a high level of profitability, develop more reduced-quantity products for small households and elderly people, and keep offering trend-setting services like the sale of budget-priced cell phones.

SELLING BUDGET-PRICED CELL PHONES

We became the first convenience store chain in Korea to sell budget-priced, prepaid-type cell phones.

LUNCHBOX SALES INCREASED BY 57.3%

Sales of our store brands increased sharply, showing that we are helping to meet the needs of budget-conscious shoppers and small households. Sales of lunchbox meals soared by 57.3%.

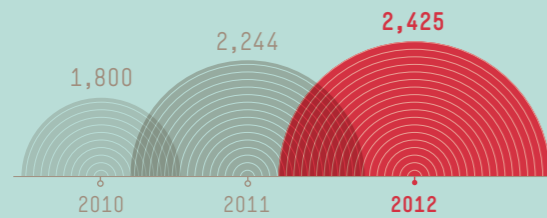
LOTTE HOME SHOPPING

The growth rate for Lotte Home Shopping in 2012 was 8.1%, with sales amounting to KRW 2,424.9 billion and operating profit of KRW 71.2 billion. This success was the result of continuously developing new products and recognizing new shopping trends.

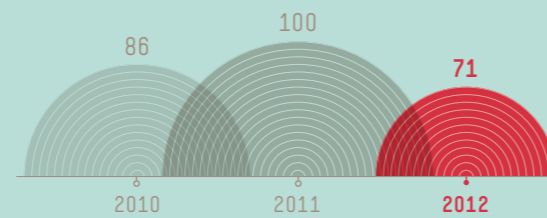
 www.lotteimall.com

 m.lotteimall.com

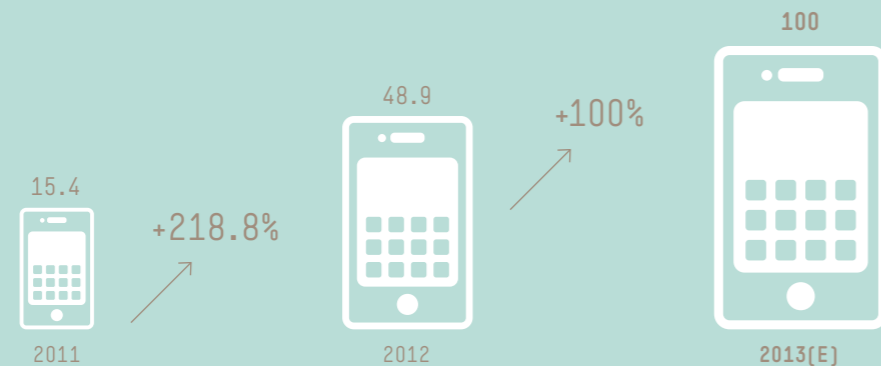
TOTAL TRANSACTION VOLUME (in billions of KRW)



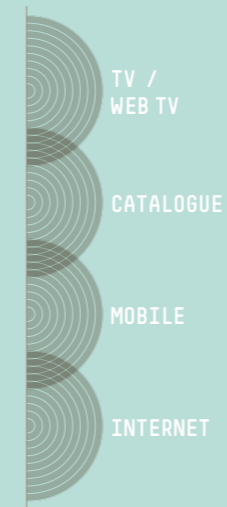
OPERATING PROFIT (Based on K-IFRS and consolidated financial statements, in billions of KRW)



GROWTH IN MOBILE SHOPPING (in billions of KRW)



KEY BUSINESS PORTFOLIO



TV HOME SHOPPING CONTINUES GROWING

The volume of transactions on our TV home shopping channel in 2012 grew by 8.8%. Much of this success was due to our ongoing efforts to improve the quality of our broadcasts. We are aiming for 15% growth in 2013.

RESPONDING TO THE INCREASING POPULARITY OF MOBILE SHOPPING

We have taken a number of steps to accommodate the rapid growth of the mobile shopping market. They include a mobile app automatic messaging service and a broadcast alert SMS service.

01

FEBRUARY 2012 LAUNCHED 24/7 HOME SHOPPING BROADCASTS IN VIETNAM

We started broadcasting in February 2012, targeting 1.5 million households. This followed the formation of a joint venture operation called Lotte DatViet with DatViet, the nation's largest media group.

02

DECEMBER 2012 BEGAN BROADCASTING ON EVERYON TV

We started broadcasting on our exclusive channel on Everyon TV. Everyon provides free access to broadcasts through smart devices and the Internet. We specifically target mobile shoppers.

RESULTS AND ACHIEVEMENTS IN 2012

Korea's Internet shopping mall and TV home shopping sectors recorded 10%-level growth each, as thrifty shoppers searched for bargains in a stagnant economy. Each company made different efforts to attract customers, including developing new products, launching new brands, and upgrading their products and services.

Sales by Lotte Home Shopping rose by 8.1% over the year to KRW 2,424.9 billion. This success was led by sales by its Internet shopping mall and TV home shopping businesses, which recorded 7.5% and 8.8% growth, respectively. Our businesses include Lotte TV Home Shopping, Lotte i-Mall Internet shopping, Lotte IPTV shopping mall, and Lotte m-Mall mobile shopping. We have dealt with the rapid disappearance of the boundaries that used to separate various types of sales channels, including TV, the Internet, and catalogues, by entering such new and innovative mediums as e-TV shopping, e-catalogues, smartphones, and T-commerce. We also built Internet systems and smart contact centers, enabling our customers to shop even more conveniently.

Our overseas operations are also growing. We entered Taiwan in 2005 and China in 2010. In 2011, we formed a joint venture called Lotte DatViet with DatViet, Vietnam's largest media group, and launched 24/7 home shopping broadcasts in February 2012, targeting 1.5 million households in Hanoi and Ho Chi Minh City.

OUTLOOK FOR 2013

Lotte Home Shopping will continue growing in 2013 by making swift responses to changes in its customers' lifestyles. This will include developing new products and strengthening our leadership in Korea's rapidly growing mobile shopping market. We will also launch new products overseas, and make improvements to our TV channels in markets outside of Korea.

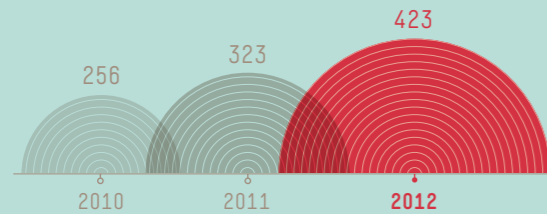
LOTTE CINEMA

Lotte Cinema posted strong results both at home and abroad in 2012. In Korea, sales swelled by 31.0% over the year due to a slew of box office hits and our many new multiplex cinema openings. Overseas sales ballooned by 153.7%, led by growth in China and Vietnam, where the film market is growing rapidly.

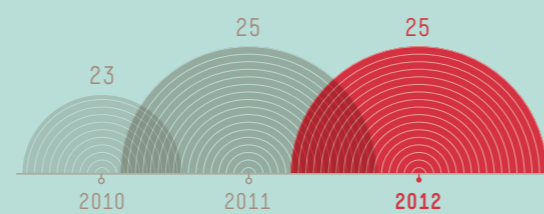
 www.lottecinema.co.kr

 m.locine.co.kr

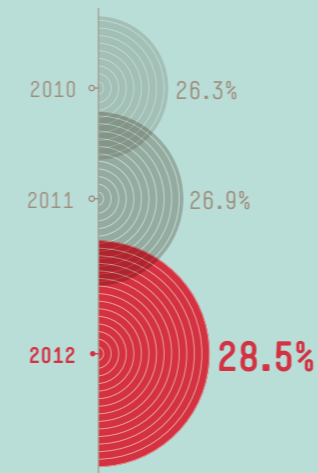
GROSS SALES (Based on K-IFRS and consolidated financial statements, in billions of KRW)



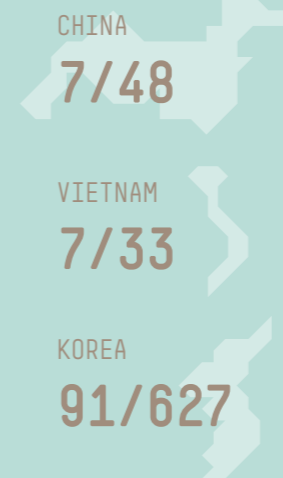
OPERATING PROFIT (Based on K-IFRS and consolidated financial statements, in billions of KRW)



MARKET SHARE



NUMBER OF MULTIPLEX CINEMAS / SCREENS



01

**MAY 2012
RELEASED "ARCHITECTURE 101,"
A LOTTE ENTERTAINMENT MOVIE**

Lotte Entertainment, our film investment and distribution division, invested in and distributed a film called "Architecture 101." It went on to set a Korean box office record, with a total audience of 4.1 million.

02

**OCTOBER 2012
RANKED NUMBER ONE IN THEATER
CATEGORY IN 2012 KS-SQI SURVEY**

Lotte Cinema ranked first in the cinema category in the 2012 Korean Standard Service Quality Index survey. The award was given in recognition of our customer-oriented facilities and services.

RESULTS AND ACHIEVEMENTS IN 2012

The Korean movie industry posted some dramatic achievements in 2012, in terms of both growth and profitability. Our number of viewers surged by 22.0% to 194,890,000, the largest-ever audience in Korean movie history. Ticket sales grew by 17.7% to KRW 1,455.1 billion. In addition, Korean films won a larger share of the domestic market, going from over 50% last year to 58.8% this year. Our rate of return was 13%, the first positive figure in this category since 2005.

These remarkable results in terms of both sales and operating profit resulted from showing a host of hit movies, the opening of sixteen new multiplex cinemas, and a series of exciting and innovative marketing campaigns that we carried out both at home and abroad. We now have ninety-one multiplex cinemas. Our market share in 2012 rose from 26.9% to 28.5%.

We also made remarkable progress in our overseas markets, including an astounding growth rate of 265.8% in China and an almost-as-impressive 114.9% in Vietnam. We opened three new locations in the former country and four in the latter one, bringing our total in those two markets to fourteen. Much of our success in developing new locations resulted from forming strategic alliances with major complex developers.

We are also being recognized and applauded for our efforts to unearth top-flight content and discover talented people who want to work in the Korean movie industry. Our first Lotte Scenario Contest was one method that we used to find outstanding people who will make significant contributions in the future.

OUTLOOK FOR 2013

We believe that our sales and operating profit will grow significantly in 2013, especially since we have taken over the management of the snack bar concessions at all our locations. Our major goal in Korea this year is to add to our expertise in such areas as film distribution and screening. Our overseas operations will be focused on continuing our rate of growth. Most of this will result from our efforts to offer services that conform to Chinese and Vietnamese tastes and sensitivities.

SMART LOTTE. SMART RELATIONSHIP.



The essence of shopping is to make people happier.

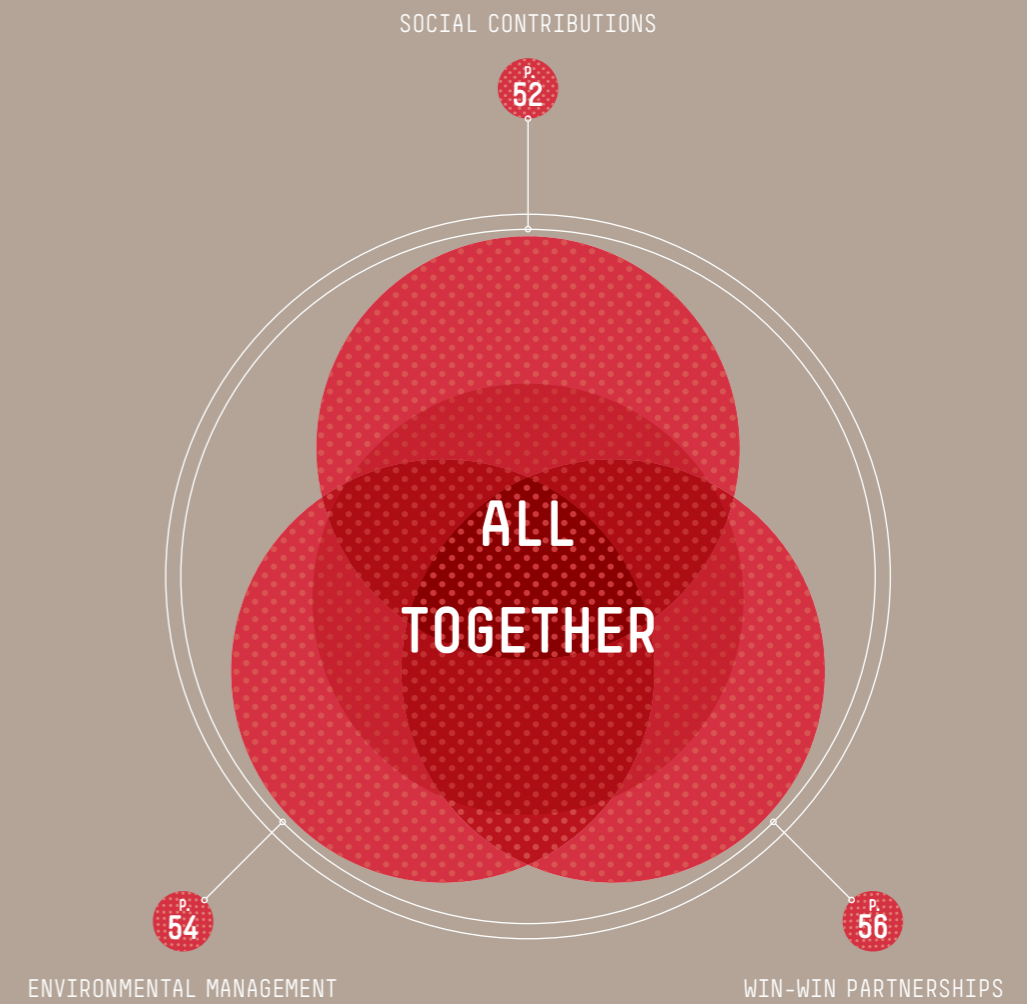


That means that it must always be close to us and the way we live.



Understanding the needs and wants of our customers is

SOCIAL RESPONSIBILITY



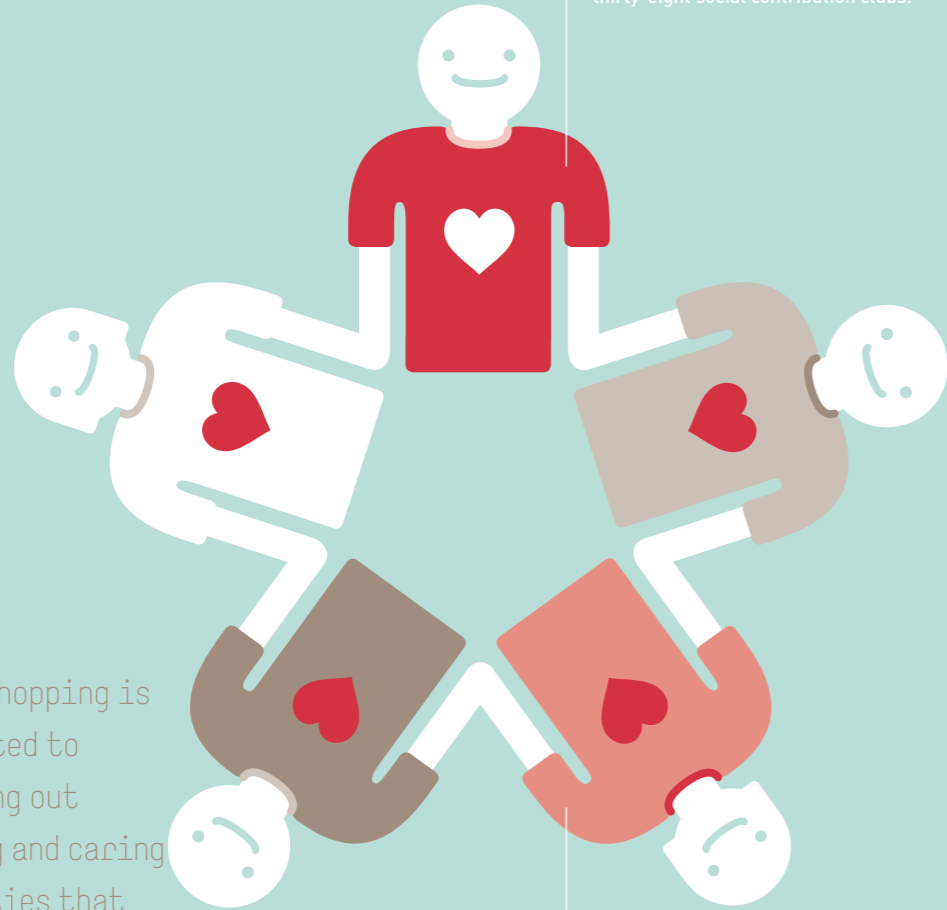
how we ensure a happier and healthier future for everyone.

SOCIAL RESPONSIBILITY

SOCIAL CONTRIBUTIONS

2,500 people

Over 2,500 Lotte Shopping employees participate in volunteer services, dividing themselves up into thirty-eight social contribution clubs.



Lotte Shopping is committed to carrying out sharing and caring activities that benefit society as a whole. Our role as a leading global retailer is to continue doing the things that we do best, so that everyone can lead happier and healthier lives.

7th report

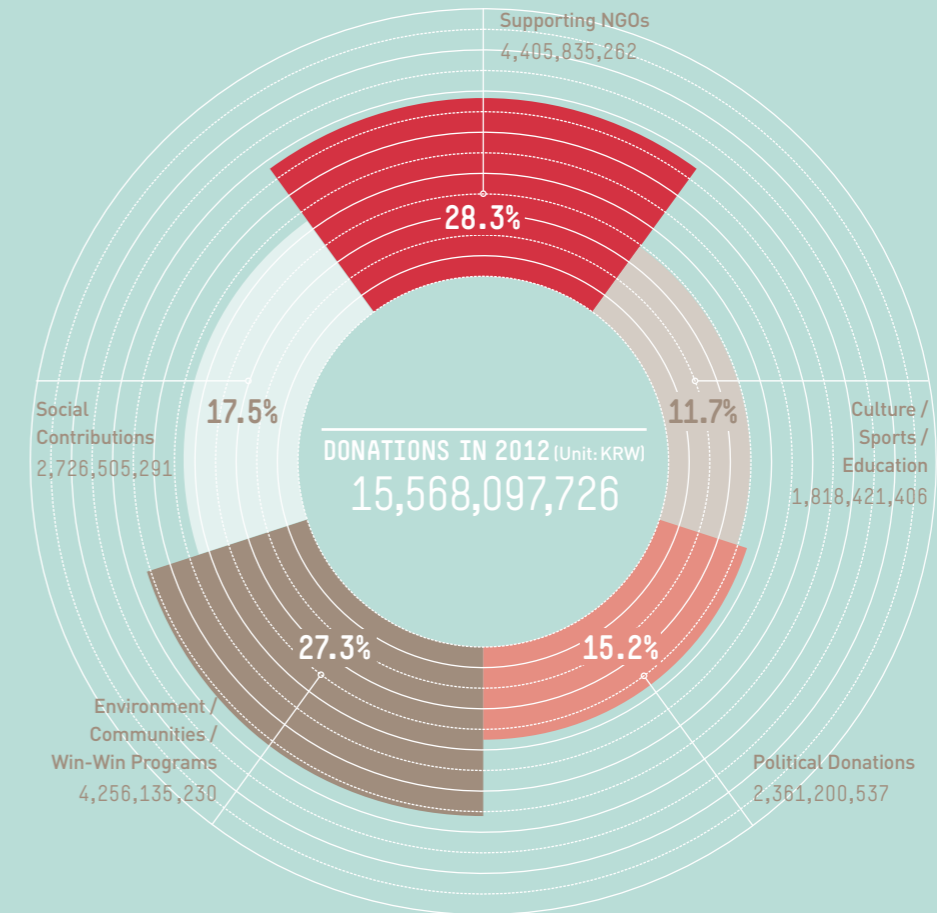
We have been publishing sustainability reports to share our sustainable management goals and performances with our stakeholders since 2005.

PROMOTING A HIGHER BIRTH-RATE

Lotte Department Store has been carrying out a "Giving Birth, Wonderful World" project with the Ministry of Health & Welfare since 2009. In 2012, its focus was on support programs for working mother. They included a "Room with Mom Bus" offering advice and information on childbirth, a variety of care services for would-be and working mothers, and co-hosting the "Mother Plus" festival with the Ministry of Health & Welfare to encourage fathers to participate more in caring for their children. We also offer a flexible work system for pregnant women and nursing mothers. It includes allowing female employees to choose their own work hours.

CERTIFIED FOR BEST FAMILY FRIENDLY MANAGEMENT & DONATION FOR EDUCATION

Lotte Department Store was the first player in the Korean retail industry to obtain a Best Family-Friendly Management Certificate from the Ministry of Gender Equality and Family. This happened in 2009, with a recertification in 2012. The certificate recognizes companies that take extra steps to allow their workers to combine their work and home-life hours. Lotte Department Store also obtained a Donation for Education mark from the Ministry of Education for its social contribution activities in the field of education, such as the Green School for Children.



SUPPORTING FAMILIES HEADED BY GRANDPARENTS

Lotte Himart sponsors about seven hundred families that are headed by grandparents from a fund of about KRW 800 million annually. It also operates a variety of experiential programs, helps needy teenagers to buy middle school and high school uniforms, and hosts a Happy Three Generations Family Camp every summer.

INTEREST-FREE TUITION LOANS

7-Eleven and Lotte Super carried out a "2012 University Students Hope Project," offering a total of KRW 10 billion in interest-free tuition loans to the parents of university-aged children. Operated on a first-come, first-served basis, the project provided one thousand parents with interest-free tuition for two semesters.

SOCIAL RESPONSIBILITY

ENVIRONMENTAL MANAGEMENT



7,500 MWh/year

Lotte Department Store is saving 7,500 MWh of energy a year by turning all its branches into green stores.

Lotte Shopping considers the environment in all its management activities. We try to minimize the environmental impacts that can arise from our retail processes, and participate in programs to preserve the environment and reduce climate change.

1,540 people

The number of graduates from Lotte Department Store's Green School for Children in 2012.

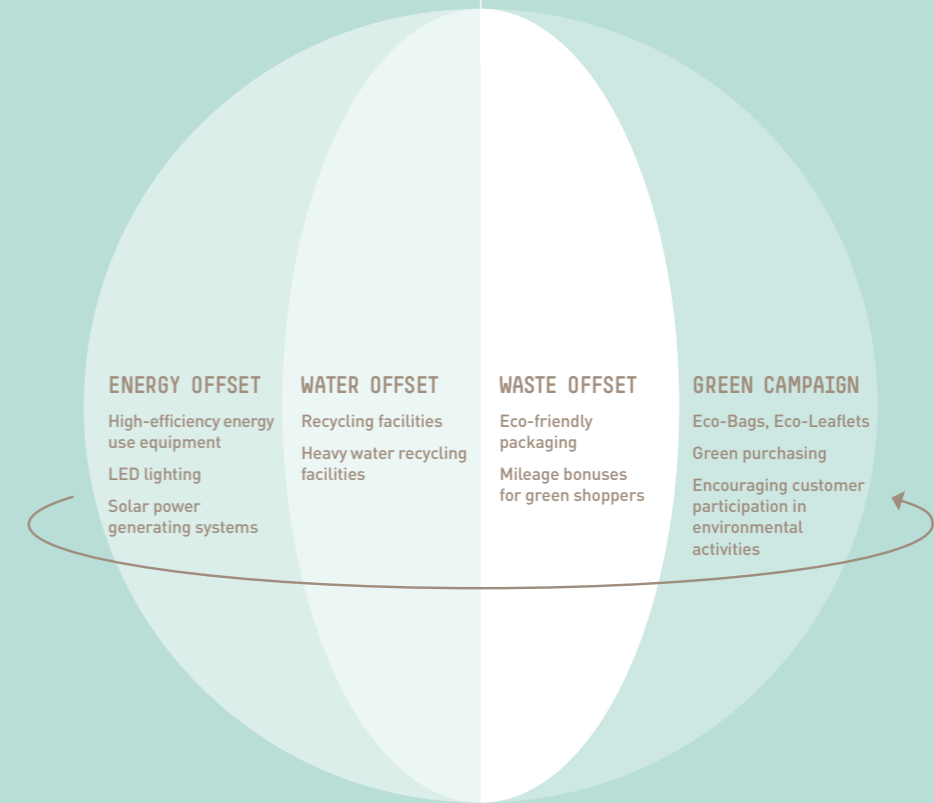
GREEN MANAGEMENT SYSTEM CERTIFICATION

Lotte Department Store obtained an ISO 14001 environmental management system certificate for all its worksites in 2005, and was recertified in 2012. Lotte Mart obtained a Green Management System certification from the Ministry of Knowledge Economy in 2011. Both certifications were industry firsts. Lotte Mart earned very favorable reviews for its environmental management programs to save energy and resources. They include establishing a greenhouse gas emissions control system, increasing its use of green products, and using photovoltaic power generation systems.

LOTTE DEPARTMENT STORE'S GREEN SCHOOL FOR CHILDREN

Lotte Department Store operates a "Green School for Children" program to raise children's awareness of the importance of the environment and living in harmony with it. The program's activities include camping out in natural environments, visiting farm villages, and hands-on training overseas. Over 1,300 students graduated from the school from 2004 to 2008. We began offering the program at eight cultural centers in 2012, and have had 240 graduates so far.

ACTIVITIES TO OFFSET THE ENVIRONMENTAL IMPACT OF OUR OPERATIONS



GREENHOUSE GAS REDUCTIONS AND ECO-FRIENDLY STORES

Lotte Department Store committed itself to reducing its volume of greenhouse gas emissions after signing an MOU with the Seoul Metropolitan Government. The company is also investing in new and renewable energy programs and carrying out a number of energy-saving campaigns. It is reducing its levels of greenhouse gas emissions by transforming all of its stores into green ones. In addition, it saves 7,500 MWh of energy annually by replacing the lighting in its stores and parking lots with LED lighting and using other energy-saving products.

PEACE & GREEN BOAT

Lotte Department Store sponsors a "Peace & Green Boat" campaign that raises people's awareness of the importance of the environment through a broad range of environmental programs. It also makes trips to environmentally-sensitive areas around the globe in an eco-friendly cruise ship. During the trip, the nine hundred or so people on board get to know each other better and find out about other countries' cultures and lifestyles.

SOCIAL RESPONSIBILITY

WIN-WIN PARTNERSHIPS



20 billion

Lotte Department Store is encouraging competent and well-organized owners of smaller businesses to expand their operations abroad by creating a KRW 20 billion overseas mutual growth fund.

100 billion

We help our smaller business partners improve their operations through a KRW 100 billion mutual growth fund.

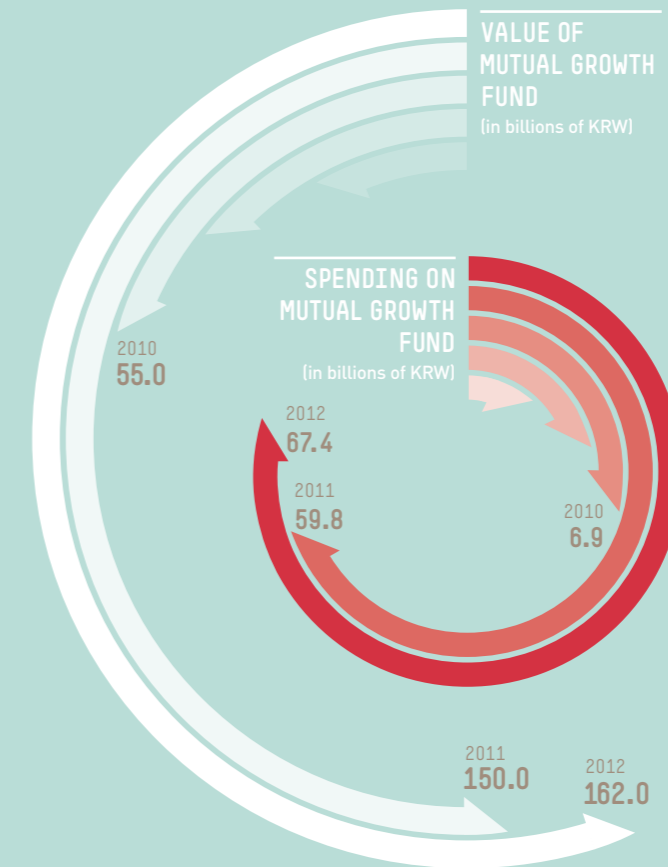
Lotte Shopping helps its business partners strengthen their management processes and add to their competitiveness through a broad range of shared growth programs, including financial and educational supports and improved communications.

MANAGEMENT ASSISTANCE AND FINANCIAL AID

Our small- and medium-sized business partners are offered a number of financial assistance programs to enhance their operations. They include a KRW 100 billion shared growth fund that offers zero-interest loans toward their management activities, and a second one worth KRW 62 billion that offers loans at a 2% reduction in interest. They can also access a product development fund that helps them cover the costs of raw and supplementary materials.

HELPING TO REDUCE COSTS WHILE SHARING BENEFITS

Lotte Department Store helps its business partners to reduce their expenses by covering up to 100% of the cost of shop relocations that are caused by one of our renewal projects, provided that the project take place within a year of the business partner's opening. We also operate a benefit-sharing program that shares sales results with our business partners once pre-arranged sales targets have been met.



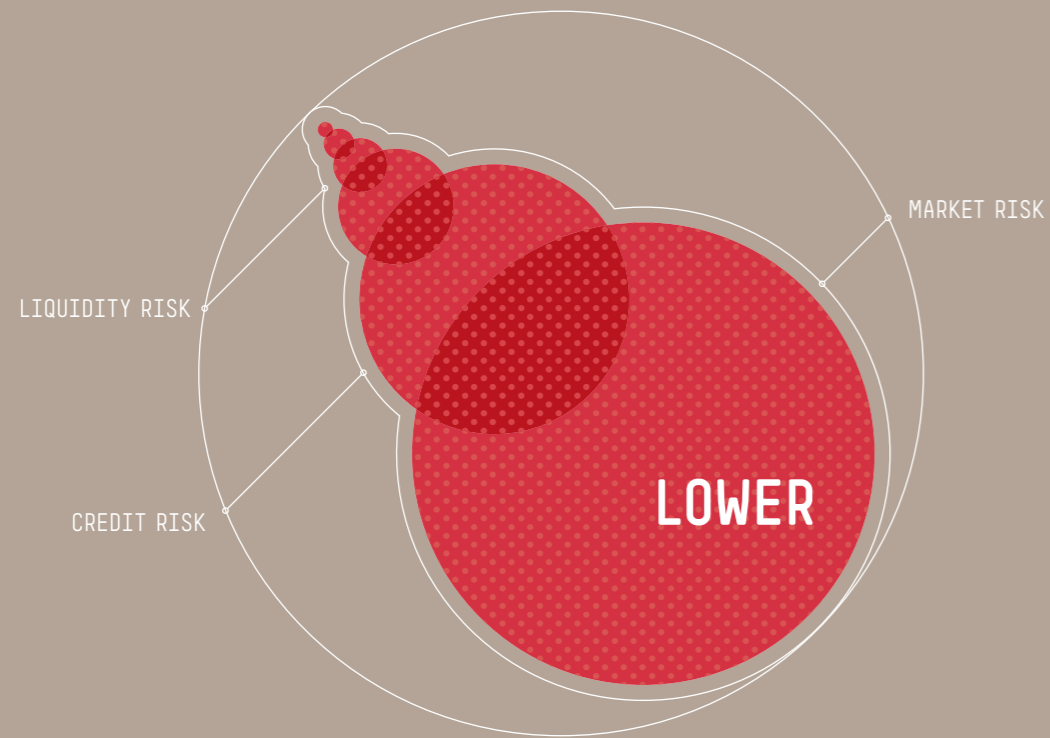
HELPING OUR BUSINESS PARTNERS BECOME MORE COMPETITIVE

We offer a wide range of educational and training programs to enhance the competitiveness of our business partners. They include the Shared Growth Academy, which uses our own human resources training programs. We also hold meetings and workshops for their CEOs, and provide their workers with long- and short-term service, job, and overseas training. In addition, we operate a KRW 20 billion overseas shared growth fund to supplement our partners' working capital when they expand overseas with us. We also help them to access new markets by offering them opportunities to develop new brands and products.

OPERATING SHARED GROWTH WEBSITES

Our shared growth websites enable our business partners to communicate with us easily and efficiently. There is a menu on our Product Division homepage that outlines its business partner support programs, including financial and educational assistance. We also offer advice regarding products and events and operate a communications plaza and a website page that people can use to voice complaints or learn about our programs regarding fair trade and ethical management.

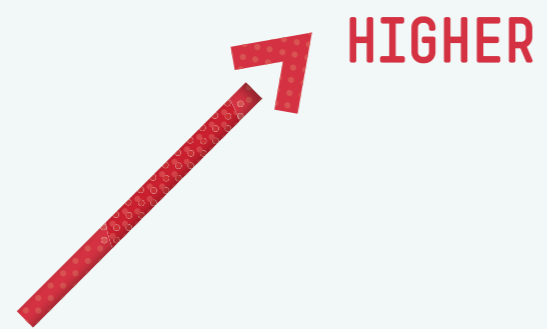
SMART LOTTE. SMART PROGRESS.



Business conditions are constantly changing and difficult to predict.

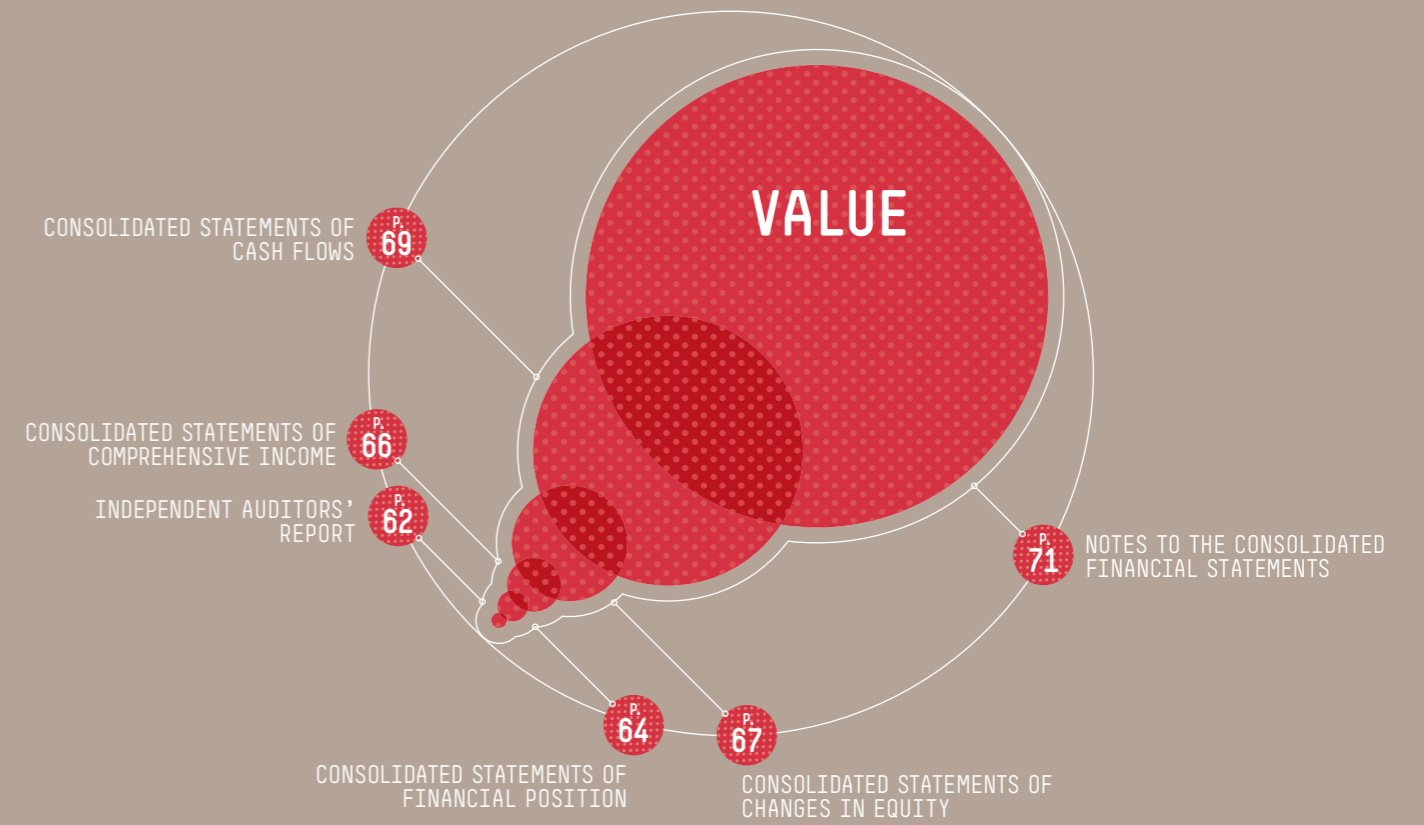


Lotte Shopping is committed to minimizing its risks



and to raising its shareholder and investor value.

FINANCIAL STATEMENTS



We believe in sustained and sustainable growth.



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, 2012 and 2011 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 12.90%, 7.11% of the consolidated total assets as of December 31, 2012 and 2011 and 21.86% and 18.46% of the consolidated total 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, 2012 and 2011 and its financial performance and its 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 and the accompanying consolidated financial statements are for use by those knowledgeable about Korean auditing standards and their application in practice.

As discussed in note ② to the consolidated financial statements, the Group adopted the amendment to K-IFRS No. 1001, 'Presentation of Financial Statements' for the year ended December 31, 2012. The amendment requires operating profit, which is calculated by revenue less: 1) cost of goods sold, and 2) selling, general and administrative expenses, to be separately presented on the statements of comprehensive income. The Group applied this change in accounting policies retrospectively, and accordingly restated the comparative information of the statement of comprehensive income for the year ended December 31, 2011.

KPMG Samjong Accounting Corp.

KPMG Samjong Accounting Corp.
Seoul, Korea

This report is effective as of March 11, 2013, 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, 2012 and 2011

Korean won (millions)

	Notes	December 31, 2012	December 31, 2011
Assets			
Cash and cash equivalents	7 31 37	₩ 933,997	₩ 1,958,204
Trade and other receivables	5 7 36 37	915,693	636,502
Other financial assets	6 7 20 37	8,002,000	7,732,819
Inventories	8	2,750,304	2,042,285
Income tax refund receivable		492	983
Other current non-financial assets	9	468,156	357,367
Total current assets		₩ 13,070,642	₩ 12,728,160
Investments in associates	10 30	₩ 998,432	₩ 940,720
Other financial assets	6 7 20 37	1,845,655	1,651,237
Property, plant and equipment, net	11	14,825,918	13,285,015
Investment property, net	12	508,257	509,494
Goodwill	13	3,488,824	2,067,205
Other intangible assets, net	13	919,612	639,812
Deferred tax assets	30	39,507	56,479
Other non-financial assets	9	1,160,198	1,182,998
Total non-current assets		₩ 23,786,403	₩ 20,332,960
Total assets		₩ 36,857,045	₩ 33,061,120

Continued

Korean won (millions)

	Notes	December 31, 2012	December 31, 2011
Liabilities			
Borrowings and debentures, net of debenture issuance costs	7 15 37	₩ 4,111,136	₩ 3,447,284
Trade and other payables	7 14 36 37	4,934,368	4,724,017
Other financial liabilities	7 20 37	495,899	471,507
Income tax payables		255,155	184,153
Unearned revenues	16	207,145	184,365
Provisions	17	40,367	38,016
Other current non-financial liabilities	18	1,044,949	861,666
Total current liabilities		₩ 11,089,019	₩ 9,911,008
Borrowings and debentures, net of debentures issuance costs	7 15 37	₩ 8,014,280	₩ 6,738,647
Other financial liabilities	7 20 37	337,826	165,276
Employee benefit liabilities	19	164,367	157,267
Deferred tax liabilities	30	1,449,447	1,336,596
Long-term unearned revenues	16	27,020	21,411
Provisions	17	31,625	35,392
Other non-financial liabilities	18	25,136	16,518
Total non-current liabilities		₩ 10,049,701	₩ 8,471,107
Total liabilities		₩ 21,138,720	₩ 18,382,115
Equity			
Common stock of ₩ 5,000 par value			
Authorized - 60,000,000 shares			
Issued and outstanding - 29,043,374 shares	1 21	₩ 145,217	₩ 145,217
Capital surplus	21	3,622,183	3,622,183
Capital adjustments		(49,325)	(30,867)
Retained earnings	22	11,092,726	10,091,896
Accumulated other comprehensive income	23	67,577	137,806
Stockholders' equity attributable to owners of the Company		₩ 14,878,378	₩ 13,966,235
Non-controlling interests		₩ 839,947	₩ 712,770
Total equity		₩ 15,718,325	₩ 14,679,005
Total liabilities and equity		₩ 36,857,045	₩ 33,061,120

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,
2012 and 2011

Korean won (millions, except for earnings per share)

	Notes	2012	2011 (Restated)
Sales	25 35 36	₩ 25,043,680	₩ 22,253,088
Cost of sales	25 28 35 36	(17,415,492)	(15,377,427)
Gross profit		₩ 7,628,188	₩ 6,875,661
Selling, general and administrative expenses	26 28	₩ (6,160,720)	₩ (5,180,763)
Operating income		₩ 1,467,468	₩ 1,694,898
Other income	27	₩ 65,509	₩ 58,913
Other expense	27	(91,018)	(90,910)
Finance income	29	441,002	257,265
Finance cost	29	(322,210)	(426,658)
Equity method income of investments in associates	10	69,929	61,733
Profit before income tax		₩ 1,630,680	₩ 1,555,241
Income tax expense	30	₩ (473,042)	₩ (542,641)
Profit for the year		₩ 1,157,638	₩ 1,012,600
Other comprehensive income:	23		
Net change in unrealized fair value of available-for-sale financial assets		₩ 26,732	₩ 11,929
Exchange differences on translating foreign operations		(102,374)	39,151
Effective portion of net changes in unrealized fair value of cash flow hedges		3,950	25,460
Defined benefit plan actuarial losses		(42,035)	(10,993)
Net change in equity of equity method investments		6,892	(49,393)
Tax effects	30	1,906	(16,170)
Other comprehensive loss for the year, net of tax		₩ (104,929)	₩ (16)
Total comprehensive income for the year		₩ 1,052,709	₩ 1,012,584
Profit attributable to:			
- Owners of the Company		₩ 1,080,261	₩ 931,815
- Non-controlling interests		77,377	80,785
		₩ 1,157,638	₩ 1,012,600
Total comprehensive income attributable to:			
- Owners of the Company		₩ 974,166	₩ 916,316
- Non-controlling interests		78,543	96,268
		₩ 1,052,709	₩ 1,012,584
Earnings per share in won			
- Basic and diluted earnings per share	24	₩ 37,195	₩ 32,084

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Equity

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

For the years ended December 31,
2012 and 2011

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, 2011	₩ 145,217	₩ 3,622,183	₩ (16,097)	₩ 9,211,526	₩ 146,581	₩ 13,109,410	₩ 532,588	₩ 13,641,998
Total comprehensive income for the year								
Profit for the year	-	-	-	931,815	-	931,815	80,785	1,012,600
Other comprehensive income:								
Net change in unrealized fair value of available-for-sale financial assets	-	-	-	-	(20,323)	(20,323)	12,337	(7,986)
Exchange differences on translating foreign operations	-	-	-	-	37,394	37,394	1,612	39,006
Effective portion of net changes in unrealized fair value of cash flow hedges	-	-	-	-	16,730	16,730	896	17,626
Defined benefit plan actuarial losses	-	-	-	(6,724)	-	(6,724)	(1,115)	(7,839)
Net change in equity of equity method investments	-	-	-	-	(42,576)	(42,576)	1,754	(40,822)
Sub total	₩ -	₩ -	₩ -	₩ (6,724)	₩ (8,775)	₩ (15,499)	₩ 15,484	₩ (15)
Total comprehensive income for the year	₩ -	₩ -	₩ -	₩ 925,091	₩ (8,775)	₩ 916,316	₩ 96,269	₩ 1,012,585
Transactions with owners of the Company, recognized directly in equity:								
Dividends to owners of the Company	-	-	-	(43,565)	-	(43,565)	(10,077)	(53,642)
Capital increase and initial consolidation of subsidiary	-	-	(15,477)	-	-	(15,477)	91,664	76,187
Other	-	-	707	(1,156)	-	(449)	2,326	1,877
Balance at December 31, 2011	₩ 145,217	₩ 3,622,183	₩ (30,867)	₩ 10,091,896	₩ 137,806	₩ 13,966,235	₩ 712,770	₩ 14,679,005

Continued

Consolidated Statements of Changes in Equity, Continued

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

For the years ended December 31,
2012 and 2011

Korean won (millions)

	Capital stock	Capital surplus	Capital adjustments	Retained earnings	Accumulated other comprehensive income (loss)	Stockholders' equity attributable to owners of the Company	Non-controlling interests	Total equity
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 for the year:								
Profit for the year	-	-	-	1,080,261	-	1,080,261	77,377	1,157,638
Other comprehensive income:								
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 net changes in unrealized fair value of cash flow hedges	-	-	-	-	3,021	3,021	(177)	2,844
Defined benefit plan actuarial losses	-	-	-	(30,279)	-	(30,279)	(745)	(31,024)
Net 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 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
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

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,
2012 and 2011

Korean won (millions)

	2012	2011
Cash flows from operating activities		
Profit for the year	₩ 1,157,638	₩ 1,012,600
Income tax expense	473,042	542,641
Post-employment benefits	87,304	77,273
Long-term employee benefits	4,110	7,587
Depreciation	591,008	482,002
Amortization	133,260	77,902
Loss on foreign currency translation	2,002	84,194
Loss on disposal of property, plant and equipment	12,935	24,148
Loss on valuation of financial liabilities at fair value through profit or loss	-	54,544
Loss on transaction of derivative instruments	2,788	19,904
Loss on valuation of derivative instruments	89,815	35,305
Equity method loss of investments in associates	13,784	25,600
Rental expenses	60,269	30,761
Other expenses	31,419	58,199
Gain on foreign currency translation	(209,754)	(1,008)
Gain on disposal of property, plant and equipment	(1,688)	(10,303)
Equity method gain of investments in associates	(83,713)	(87,333)
Gain on transaction of derivative instruments	(50)	(26,492)
Gain on valuation of derivative instruments	-	(18,978)
Gain on valuation of financial liabilities at fair value through profit or loss	(98,586)	-
Gain on disposal of available-for-sale financial assets	(1,210)	(64,572)
Other income	(10,213)	(11,934)
Income of card business	(786,082)	(659,640)
Cost of card business	512,957	380,156
Interest expense	206,048	191,325
Interest income	(114,608)	(105,673)
Dividends income	(8,948)	(6,448)
Trade receivables	(192,453)	(117,433)
Other receivables	(46,955)	(66,539)
Other financial assets	(621,992)	(1,113,285)
Inventories	(344,307)	(384,964)
Other non-financial assets	(116,965)	(264,602)
Trade payables	(37,972)	427,897
Other payables	148,165	240,286
Other financial liabilities	8,610	58,284
Unearned revenues	12,614	20,158
Provisions	(16,667)	(9,665)
Other non-financial liabilities	125,433	147,480
Payment of post-employment benefits	(47,179)	(48,194)
Plan assets	(99,037)	(42,196)
Income tax paid	(363,019)	(491,470)
Interest received	658,454	621,403
Interest paid	(229,951)	(218,343)
Dividends received	3,669	421
Net cash provided by operating activities	₩ 903,975	₩ 870,998

Continued

Consolidated Statements of Cash Flows, Continued

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

For the years ended December 31,
2012 and 2011

Korean won (millions)

	2012	2011
Cash flows from investing activities		
Proceeds from sale of financial assets	₩ 747,437	₩ 604,560
Collection of loans	17,138	40,231
Proceeds from sale of available-for-sale financial assets	63,639	77,235
Proceeds from sale of investments in associates	10,817	2,166
Proceeds from disposal of property, plant and equipment	58,161	141,074
Proceeds from disposal of intangible assets	49,061	1,042
Decrease of other non-financial assets	6,398	4,672
Purchase of short-term financial assets	(718,577)	(903,838)
Increase of loans	(26,462)	(19,149)
Purchase of available-for-sale financial assets	(53,915)	(30,324)
Purchase of investments in associates	(64,037)	(63,735)
Acquisition of property, plant and equipment	(1,778,530)	(1,592,148)
Acquisition of investment properties	-	(3,350)
Acquisition of intangible assets	(107,898)	(82,026)
Acquisition of other investments	(1,939)	(10,331)
Business combination, net of cash acquired	(1,431,660)	-
Interest received	79,106	64,462
Dividends received	77,618	12,895
Net cash used in investing activities	₩ (3,073,643)	₩ (1,756,564)
Cash flows from financing activities		
Proceeds from borrowings	₩ 5,490,052	₩ 7,104,970
Proceeds from issuance of debentures	2,873,351	3,495,255
Capital contribution from non-controlling interests	61,921	89,258
Cash inflows from other financing activities	155	-
Repayment of borrowings	(5,226,349)	(7,827,431)
Redemption of debentures	(1,799,535)	(1,024,169)
Acquisition of interest in subsidiaries	(28,367)	(19,699)
Interest paid	(155,563)	(168,033)
Dividends paid	(54,113)	(53,642)
Cash outflows from other financing activities	-	(1,123)
Net cash provided by financing activities	₩ 1,161,552	₩ 1,595,386
Net increase (decrease) in cash and cash equivalents	₩ (1,008,116)	₩ 709,820
Cash and cash equivalents at beginning of the year	₩ 1,958,204	₩ 1,242,426
Impact of foreign currency exchange rates on cash and cash equivalents	₩ (231)	₩ (137)
Exchange differences on translating foreign operations	₩ (15,860)	₩ 6,095
Cash and cash equivalents at end of the year	₩ 933,997	₩ 1,958,204

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

December 31, 2012 and 2011

Notes to the Consolidated Financial Statements

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

December 31, 2012 and 2011

note 1

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, 2012 are as follows:

Stockholder	Number of shares	Ownership (%)
Shin, Dong Bin	4,237,627	14.6%
Shin, Dong Ju	4,235,883	14.6%
Shin, Kyuk Ho	293,877	1.0%
Shin, Young Ja	232,818	0.8%
Hotel Lotte Co., Ltd.	2,781,947	9.6%
Korea Fuji Film Co., Ltd.	2,474,543	8.5%
Lotte Confectionery Co., Ltd.	2,474,543	8.5%
Lotte Data Communication Company	1,515,653	5.2%
Lotte Chilsung Beverage Co., Ltd.	1,237,272	4.3%
Lotte Engineering & Construction Co., Ltd.	300,019	1.0%
Hotel Lotte Pusan Co., Ltd.	246,720	0.9%
Others	9,012,472	31.0%
Total	29,043,374	100.0%

(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, 2012 and 2011 is as follows:

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
Woori Home Shopping & Television Co., Ltd.	Korea	Distribution	Dec. 31	53.03
Korea Seven Co., Ltd.	Korea	Distribution	Dec. 31	51.14
Buy the way Inc.	Korea	Distribution	Dec. 31	100.00
Lotte Boulangerie Co., Ltd.	Korea	Bakery	Dec. 31	90.54
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

Continued

Subsidiaries	December 31, 2012			
	Location	Products or services	Fiscal year	Percentage of ownership (%)
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
Lotte Vietnam Shopping Co., Ltd.	Vietnam	Distribution	Dec. 31	100.00
Qingdao Lotte Mart Commercial Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Mart Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Shopping Holdings (Singapore) Co., Ltd.	Singapore	Holding company	Dec. 31	100.00
PT. Lotte Shopping Indonesia	Indonesia	Distribution	Dec. 31	80.00
PT. Lotte Mart Indonesia	Indonesia	Distribution	Dec. 31	100.00
Lotte Shopping India Pvt., Ltd.	India	Distribution	Dec. 31	100.00
Lotte Hotel & Retail Vietnam Pte. Ltd.	Singapore	Holding company	Dec. 31	60.00
Kotobuki Holding (HK) Ltd.	Vietnam	Holding company	Dec. 31	100.00
Hai Thanh - Kotobuki Joint Venture Company	Vietnam	Hotel	Dec. 31	70.00
Lotte Shopping Holdings (Hong Kong) Co., Ltd.	Hong Kong	Holding company	Dec. 31	100.00
Lotte Mart China Co., Ltd. and its subsidiaries	China	Distribution	Dec. 31	100.00
Lotte Home Shopping Company Limited	Cayman	Holding company	Dec. 31	89.91
Lucky Pai Ltd. and its subsidiaries	China	Distribution	Dec. 31	89.21
Lotte Business Management (Tianjin) Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Mart Global Sourcing Center Co., Ltd.	China	Trading company	Dec. 31	100.00
Liaoning Lotte Mart Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Cinema Vietnam Co., Ltd.	Vietnam	Cinema	Dec. 31	90.00
Jilin Lotte Mart Co., Ltd.	China	Distribution	Dec. 31	100.00
LOTTE SHOPPING Avenue INDONESIA (Formerly PT. Lotte Shopping Plaza Indonesia)	Indonesia	Distribution	Dec. 31	100.00
Lotte Department Store (Shenyang) Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte International Department Store (Weihai) Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte DatViet Homeshopping Co., Ltd.	Vietnam	Distribution	Dec. 31	86.17
Lottemart Danang Co., Ltd.	Vietnam	Distribution	Dec. 31	100.00
Lotte Department Store (Tianjin) Co., Ltd.	China	Distribution	Dec. 31	100.00
Lottemart C&C India Pvt. Ltd.	India	Distribution	Dec. 31	100.00
Lotte Shopping Business Management (Hong Kong) Limited	Hong Kong	SPC	Dec. 31	100.00
LOTTE PROPERTIES (CHENGDU) HK LIMITED	Hong Kong	Holding company	Dec. 31	73.46
Lotte Properties (Chengdu) Limited	China	Distribution	Dec. 31	100.00
Lotte (China) Company Management Co., Ltd.	China	Business management	Dec. 31	70.00
LOTTE DEPARTMENT STORE (CHENGDU) CO., LTD	China	Distribution	Dec. 31	100.00
Lottemart (ChongQing) Commercial Company Limited	China	Distribution	Dec. 31	100.00
The 2nd Supreme (*1)	Korea	SPC	Dec. 31	0.90
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
Himart 1st ABS Specialty Co., Ltd. (*2)	Korea	SPC	Dec. 31	0.10

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

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

Notes to the Consolidated Financial Statements

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

December 31, 2012 and 2011

note 1

Subsidiaries	December 31, 2011			
	Location	Products or services	Fiscal year	Percentage of ownership (%)
Lotte Midopa Co., Ltd.	Korea	Distribution	Dec. 31	79.01
Lotte Card Co., Ltd.	Korea	Credit card, capital	Dec. 31	92.54
eB Card Co., Ltd.	Korea	Electronic banking business	Dec. 31	95.00
Gyeonggi Smartcard Co., Ltd.	Korea	Electronic banking business	Dec. 31	100.00
Inchon Smartcard Co., Ltd.	Korea	Electronic banking business	Dec. 31	100.00
Chungnam Smartcard Co., Ltd.	Korea	Electronic banking business	Dec. 31	100.00
Woori Home Shopping & Television Co., Ltd.	Korea	Distribution	Dec. 31	53.03
Korea Seven Co., Ltd.	Korea	Distribution	Dec. 31	51.14
Buy the way Inc.	Korea	Distribution	Dec. 31	100.00
Lotte Boulangerie Co., Ltd.	Korea	Bakery	Dec. 31	90.54
Lotte Square Co., Ltd.	Korea	Distribution	Dec. 31	100.00
NCF Co., Ltd.	Korea	Apparel manufacturing	Dec. 31	94.50
Lotte Gimhae Development Co., Ltd.	Korea	Service company	Dec. 31	100.00
Lotte Suwon Station Shopping Town Co., Ltd.	Korea	Real estate development	Dec. 31	95.00
Lotte Songdo Shopping Town Co., Ltd.	Korea	Real estate development	Dec. 31	58.82
Lotte Vietnam Shopping Co., Ltd.	Vietnam	Distribution	Dec. 31	94.55
Qingdao Lotte Mart Commercial Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Mart Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Shopping Holdings (Singapore) Co., Ltd.	Singapore	Holding company	Dec. 31	100.00
PT. Lotte Shopping Indonesia	Indonesia	Distribution	Dec. 31	80.00
PT. Lotte Mart Indonesia	Indonesia	Distribution	Dec. 31	100.00
Lotte Shopping India Pvt., Ltd.	India	Distribution	Dec. 31	100.00
Lotte Hotel & Retail Vietnam Pte. Ltd.	Singapore	Holding company	Dec. 31	60.00
Lotte Shopping Holdings (Hong Kong) Co., Ltd.	Hong Kong	Holding company	Dec. 31	100.00
Lotte Mart China Co., Ltd. and its subsidiaries	China	Distribution	Dec. 31	100.00
Lotte Home Shopping Company Limited	Cayman	Holding company	Dec. 31	88.98
Lucky Pai Ltd. and its subsidiaries	China	Distribution	Dec. 31	73.80
Lotte Business Management (Tianjin) Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Mart Global Sourcing Center Co., Ltd.	China	Trading company	Dec. 31	100.00
Liaoning Lotte Mart Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Cinema Vietnam Co., Ltd.	Vietnam	Cinema	Dec. 31	90.00
Jilin Lotte Mart Co., Ltd.	China	Distribution	Dec. 31	100.00
PT. Lotte Shopping Plaza Indonesia	Indonesia	Distribution	Dec. 31	100.00
Lotte Department Store (Shenyang) Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte International Department Store (Weihai) Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte DatViet Homeshopping Co., Ltd.	Vietnam	Distribution	Dec. 31	63.03
Lottmart Danang Co., Ltd.	Vietnam	Distribution	Dec. 31	100.00
Lottmart C&C India Pvt. Ltd.	Indonesia	Distribution	Dec. 31	100.00
The 4th Sprint (*)	Korea	SPC	Dec. 31	0.90
The 2nd Supreme (*)	Korea	SPC	Dec. 31	0.90
The 3rd Supreme(*)	Korea	SPC	Dec. 31	0.90
The 4th Supreme(*)	Korea	SPC	Dec. 31	0.90

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

(c) Financial Information of Subsidiaries as of and for the years ended December 31, 2012 and 2011 are summarized as follows:

Korean won (millions)

Company	December 31, 2012			
	Total assets	Total liabilities	Sales	Net income (loss)
Lotte Midopa Co., Ltd.	₩ 1,113,731	₩ 223,302	₩ 375,405	₩ 43,739
Lotte Card Co., Ltd.	7,949,005	6,289,018	1,616,039	162,356
eB Card Co., Ltd.	172,096	116,724	46,098	(6,806)
Gyeonggi Smartcard Co., Ltd.	19,232	3,877	23,255	4,695
Inchon Smartcard Co., Ltd.	20,312	11,363	12,466	1,708
Chungnam Smartcard Co., Ltd.	3,549	6,494	459	(687)
Woori Home Shopping & Television Co., Ltd.	715,750	288,089	670,127	66,897
Korea Seven Co., Ltd.	888,701	640,779	1,900,264	41,638
Buy the way Inc.	238,041	87,279	548,787	12,350
Lotte Boulangerie Co., Ltd.	45,160	41,241	86,102	(2,091)
NCF Co., Ltd.	32,588	14,389	48,863	29
Lotte Gimhae Development Co., Ltd.	716	197	2,051	100
Lotte Suwon Station Shopping Town Co., Ltd.	64,870	15,128	-	281
Lotte Songdo Shopping Town Co., Ltd.	190,179	94,497	-	(5,457)
CS Mart Co., Ltd.	155,590	87,749	396,626	11,694
LOTTE Himart Co., Ltd.	2,604,671	1,128,075	3,212,151	71,378
Himart Logitech Co., Ltd.	10,333	9,162	109,877	(1,273)
Himart Shopping Mall Co., Ltd.	2,473	687	4,835	1,138
Lotte Vietnam Shopping Co., Ltd.	208,095	131,653	67,639	(992)
Qingdao Lotte Mart Commercial Co., Ltd.	119,178	105,893	53,163	(34,264)
Lotte Mart Co., Ltd.	177,892	151,251	348,748	(11,972)
Lotte Shopping Holdings (Singapore) Co., Ltd.	229,004	11	-	(15)
PT. Lotte Shopping Indonesia	242,376	131,754	839,394	12,377
PT. Lotte Mart Indonesia	191,310	141,995	195,107	(18,897)
Lotte Shopping India Pvt., Ltd.	4	62	-	(5)
Lotte Hotel & Retail Vietnam Pte. Ltd.	112,729	880	-	6,372
Kotobuki Holding (HK) Ltd.	34,590	52	-	(16)
Hai Thanh - Kotobuki Joint Venture Company	84,527	9,755	5,559	1,122
Lotte Shopping Holdings (Hong Kong) Co., Ltd.	1,059,440	130,373	-	(50,596)
Lotte Mart China Co., Ltd. and its subsidiaries	779,069	557,374	1,033,092	(9,245)
Lotte Home Shopping Company Limited	171,218	28	-	(5)
Lucky Pai Ltd. and its subsidiaries	34,954	32,085	84,354	(9,020)
Lotte Business Management (Tianjin) Co., Ltd.	28,679	32,345	19,089	(25,588)
Lotte Mart Global Sourcing Center Co., Ltd.	106	1,311	1,907	(483)
Liaoning Lotte Mart Co., Ltd.	52,550	43,837	37,879	(8,580)
Lotte Cinema Vietnam Co., Ltd.	28,733	26,917	6,925	(1,383)
Jilin Lotte Mart Co., Ltd.	36,952	31,510	27,840	(7,640)
LOTTE SHOPPING Avenue INDONESIA	18,454	852	-	(2,873)
Lotte Department Store (Shenyang) Co., Ltd.	1,966	41	-	(988)
Lotte International Department Store (Weihai) Co., Ltd.	23,510	5,870	-	(3,990)
Lotte DatViet Homeshopping Co., Ltd.	4,409	653	852	(2,391)
Lottmart Danang Co., Ltd.	31,031	10,223	1,152	(42)
LOTTE DEPARTMENT STORE (TIANJIN) CO., LTD.	₩ 48,742	₩ 21,648	₩ 4,175	₩ (16,989)

Continued

Notes to the Consolidated
Financial Statements

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

December 31, 2012 and 2011

note 1

Korean won (millions)

Korean won (millions)

Company	December 31, 2012			
	Total assets	Total liabilities	Sales	Net income (loss)
Lotte Shopping Business Management (Hong Kong) Limited	₩ 130,517	₩ 130,474	₩ -	₩ 33
LOTTE PROPERTIES (CHENGDU) HK LIMITED	212,105	3	-	(302)
Lotte Properties (Chengdu) Limited	317,515	218,581	-	(1,655)
Lotte (China) Company Management Co., Ltd.	7,320	42	1,377	(1,366)
LOTTE DEPARTMENT STORE (CHENGDU) CO., LTD.	26,431	5,854	-	(4,474)
Lottemart C&C India Pvt. Ltd.	2,190	-	-	(98)
Lottemart (ChongQing) Commercial Company Limited	10,992	1,241	-	(1,142)
The 2nd Supreme	228,751	229,528	927	-
The 3rd Supreme	337,949	339,419	966	-
The 4th Supreme	161,065	161,069	380	-
The 5th Supreme	186,309	185,630	405	-
Himart 1st ABS Specialty Co., Ltd.	₩ 40	₩ 12	₩ 9,438	₩ 18

Korean won (millions)

Company	December 31, 2011			
	Total assets	Total liabilities	Sales	Net income (loss)
Lotte Midopa Co., Ltd.	₩ 1,058,431	₩ 219,513	₩ 405,798	₩ 47,429
Lotte Card Co., Ltd.	7,541,569	6,035,433	1,438,574	184,290
eB Card Co., Ltd.	159,199	98,674	35,340	(6,383)
Gyeonggi Smartcard Co., Ltd.	16,963	6,302	19,596	3,676
Inchon Smartcard Co., Ltd.	15,568	8,326	10,714	1,538
Chungnam Smartcard Co., Ltd.	3,617	5,874	384	(933)
Woori Home Shopping & Television Co., Ltd.	639,604	278,010	636,015	87,399
Korea Seven Co., Ltd.	769,815	562,273	1,353,510	30,618
Buy the way Inc.	260,600	122,162	639,287	22,022
Lotte Boulangerie Co., Ltd.	56,126	49,204	90,569	(3,011)
Lotte Square Co., Ltd.	782,256	239,036	452,352	11,776
NCF Co., Ltd.	32,517	14,297	48,501	4,065
Lotte Gimhae Development Co., Ltd.	603	184	1,846	84
Lotte Suwon Station Shopping Town Co., Ltd.	15,590	952	-	(263)
Lotte Songdo Shopping Town Co., Ltd.	180,492	79,353	-	(354)
Lotte Vietnam Shopping Co., Ltd.	132,728	124,604	61,585	(15,994)
Qingdao Lotte Mart Commercial Co., Ltd.	129,919	80,794	28,135	(20,937)
Lotte Mart Co., Ltd.	194,770	154,246	299,634	(7,879)
Lotte Shopping Holdings (Singapore) Co., Ltd.	239,737	19	-	(39)
PT. Lotte Shopping Indonesia	257,485	144,110	775,122	11,573
PT. Lotte Mart Indonesia	205,347	128,998	105,435	(13,711)
Lotte Shopping India Pvt., Ltd.	6	65	-	(1)
Lotte Hotel & Retail Vietnam Pte. Ltd.	114,300	389	-	(1,362)
Lotte Shopping Holdings (Hong Kong) Co., Ltd.	940,220	33	-	(41)
Lotte Mart China Co., Ltd. and its subsidiaries	₩ 766,011	₩ 521,157	₩ 927,164	₩ 1,153

Continued

Company	December 31, 2011			
	Total assets	Total liabilities	Sales	Net income (loss)
Lotte Home Shopping Company Limited	₩ 157,800	₩ 17	₩ -	₩ 15
Lucky Pai Ltd. and its subsidiaries	39,733	27,147	74,082	(13,043)
Lotte Business Management (Tianjin) Co., Ltd.	34,921	12,664	9,055	(21,141)
Lotte Mart Global Sourcing Center Co., Ltd.	357	1,143	890	(1,307)
Liaoning Lotte Mart Co., Ltd.	33,485	15,465	20,058	(7,407)
Lotte Cinema Vietnam Co., Ltd.	10,972	7,630	3,208	(1,033)
Jilin Lotte Mart Co., Ltd.	23,402	9,814	12,811	(4,043)
PT. Lotte Shopping Plaza Indonesia	14,995	250	-	(1,521)
Lotte Department Store (Shenyang) Co., Ltd.	3,062	7	-	(463)
Lotte International Department Store (Weihai) Co., Ltd.	3,257	6	-	(279)
Lotte DatViet Homeshopping Co., Ltd.	2,749	409	-	(104)
Lottemart Danang Co., Ltd.	5,761	6	-	(4)
Lottemart C&C India Pvt. Ltd.	2,190	-	-	(98)
The 4th Sprint	100,204	100,194	7,488	-
The 2nd Supreme	228,723	233,316	10,902	-
The 3rd Supreme	337,945	346,101	10,773	-
The 4th Supreme	₩ 161,054	₩ 161,886	₩ 731	₩ -

(d) Entities included in consolidation in 2012 are as follows:

Description	Subsidiaries
Acquired shares in 2012	CS Mart Co., Ltd.
	LOTTE Himart Co., Ltd.
	Himart Logitech Co., Ltd.
	Himart Shopping Mall Co., Ltd.
	Himart 1st ABS Specialty Co., Ltd.
	Kotobuki Holding (HK) Ltd.
	Hai Thanh - Kotobuki Joint Venture Company
Established entity in 2012	The 5th Supreme
	Lotte Shopping Business Management (Hong Kong) Limited
	LOTTE PROPERTIES (CHENGDU) HK LIMITED
	Lotte (China) Company Management Co., Ltd.
	LOTTE DEPARTMENT STORE (TIANJIN) CO., LTD.
	LOTTE DEPARTMENT STORE (CHENGDU) CO., LTD.
	Lottemart (ChongQing) Commercial Company Limited
	Lotte Properties (Chengdu) Limited

(e) Entities excluded from consolidation in 2012 is as follows:

Description	Subsidiaries
Statutory merger into the Company in 2012	Lotte Square Co., Ltd.
Liquidation in 2012	The 4th Sprint

Notes to the Consolidated Financial Statements

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

December 31, 2012 and 2011

note 2 3

2 Basis of Preparation

(a) Statement of compliance

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

The consolidated financial statements were authorized for issue by the Board of Directors on February 27, 2013, which will be submitted for approval to the shareholders' meeting to be held on March 22, 2013.

(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.

From 2012, the Group changed the measurement method of impairment of card receivables for individual customers from Roll Rate model to Default Mode model based on BASEL II. This change in estimate is accounted for prospectively. As a result of this change, the allowance for doubtful decreased by KRW 18,101 million as of December 31, 2012.

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 7 Fair value of financial instruments
- Note 15 Intangible assets
- Note 17 Provisions
- Note 19 Employee benefits
- Note 30 Income taxes
- Note 34 Contingent liabilities and financial commitments
- Note 37 Risk management

(e) Changes in accounting policies

1) Changes in accounting policies

Presentation of financial statements

The Group adopted the amendments to K-IFRS No. 1001, 'Presentation of Financial Statements' from the annual period ended December 31, 2012. The Group's operating profit is calculated as revenue less: (1) cost of goods sold, and (2) selling, general and administrative expenses, and is presented separately in the statement of comprehensive income.

2) Impact of change in accounting policy

The Group retrospectively applied the amendments to K-IFRS No. 1001, for which the impact is as follows:

Korean won (millions)

	2012	2011
Operating profit before adoption of the amendments	₩ 1,441,959	₩ 1,662,900
Changes:		
Gain on disposal of property, plant and equipment	(1,641)	(10,320)
Gain on foreign currency transactions	(838)	(484)
Gain on foreign currency translation	(628)	(205)
Miscellaneous income	(62,095)	(47,443)
Loss on foreign currency transactions	1,782	1,606
Loss on foreign currency translation	912	109
Impairment of investment property	1,285	549
Loss on disposal of property, plant and equipment	12,935	24,148
Impairment of intangible assets	4,268	1,336
Donation	20,377	20,022
Miscellaneous loss	43,682	39,486
Other bad debt expenses	2,456	3,378
Others	3,014	(184)
Operating profit after adoption of the amendments	₩ 1,467,468	₩ 1,694,898

3 Significant Accounting Policies

The significant accounting policies applied by the Group in preparation of its consolidated financial statements are included below. The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements except that as disclosed on note 2.

(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 3.

(b) Basis of consolidation

(i) Subsidiaries

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

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

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(ii) Special purpose entities

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

(iii) Intra-group transactions

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

(iv) Non-controlling interests

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

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions with owners in their capacity as owners. Adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary. No adjustments are made to goodwill and no gain or loss is recognized in profit or loss. The difference between the consideration and the adjustments made to non-controlling interest is recognized directly in equity attributable to the owners of the Parent Company.

(c) Business combinations

(i) Business combinations

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

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

- Leases and insurance contracts are required to be classified on the basis of their contractual terms and other factors
- Only those contingent liabilities assumed in a business combination that are a present obligation and can be measured reliably are recognized
- Deferred tax assets or liabilities are recognized and measured in accordance with K-IFRS No.1012 *Income Taxes*
- Employee benefit arrangements are recognized and measured in accordance with K-IFRS No.1019 *Employee Benefits*
- Indemnification assets are recognized and measured on the same basis as the indemnified liability or asset

- Reacquired rights are measured on the basis of the remaining contractual terms of the related contract.

- Liabilities or equity instruments related to share-based payment transactions are measured in accordance with the method in K-IFRS No.1102, *Share-based Payment*

- Assets held for sale are measured at fair value less costs to sell in accordance with K-IFRS No.1105, *Non-current Assets Held for Sale*

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

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

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

(ii) Goodwill

The Group measures goodwill at the acquisition date as:

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

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

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

(d) Associates and jointly controlled entities

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

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

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

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

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

(e) Cash and cash equivalents

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

(f) Inventories

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

Inventories are measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an

expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value, are recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

(g) Non-derivative financial assets

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

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

(i) Financial assets at fair value through profit or loss

A financial asset is classified as financial assets are classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Upon initial recognition, transaction costs are recognized in profit or loss when incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

(ii) Held-to-maturity investments

A non-derivative financial asset with a fixed or determinable payment and fixed maturity, for which the Group has the positive intention and ability to hold to maturity, are classified as held-to-maturity investments. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method.

(iii) Loans and receivables

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

(iv) Available-for-sale financial assets

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

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

(v) De-recognition of financial assets

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

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

(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.

(h) Derivative financial instruments, including hedge accounting

Derivatives are initially recognized at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are 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.

(i) Impairment of financial assets

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

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

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

(i) Financial assets measured at amortized cost

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

(ii) Financial assets carried at cost

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

(iii) Available-for-sale financial assets

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

(j) Property, plant and equipment

Property, plant and equipment are initially measured at cost and after initial recognition, are carried at cost less accumulated depreciation and accumulated impairment losses. The cost of property, plant and equipment includes expenditures arising directly from the construction or acquisition of the asset, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. In addition, in the preparation of the opening K-IFRS consolidated statement of financial position on the date of transition to K-IFRS, the Group measures certain property, plant and equipment except for buildings at fair value at the date of transition, which is deemed cost, in accordance with K-IFRS No. 1101.

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

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

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

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

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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
Display fixtures	2 ~ 10
Other property, plant and equipment ["Other PP&E"]	2 ~ 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.

(k) Intangible assets

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

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

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

(l) Investment property

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

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

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

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

(m) Impairment of non-financial assets

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

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

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

Goodwill acquired in a business combination is allocated to each CGU that is expected to benefit from the synergies arising from the goodwill acquired. Any impairment identified at the CGU level will first reduce the carrying value of goodwill and then be used to reduce the carrying amount of the other assets in the CGU on a pro rata basis. Except for impairment losses in respect of goodwill which are never reversed, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that

the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(n) Leases

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

(i) Finance leases

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

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred.

The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use on a systematic basis consistent with the depreciation policy the lessee adopts for depreciable assets that are owned. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life. The Group reviews to determine whether the leased asset may be impaired.

(ii) Operating leases

Leases where the lessor retains a significant portion of the risks and rewards of ownership are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are recognized in profit or loss on a straight-line basis over the period of the lease.

(o) Borrowing costs

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

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

(p) Non-derivative financial liabilities

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

(i) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading or designated as such upon initial recognition. Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss. Upon initial recognition, transaction costs that are directly attributable to the acquisition are recognized in profit or loss as incurred.

(ii) Other financial liabilities

Non-derivative financial liabilities other than financial liabilities at fair value through profit or loss are classified as other financial liabilities. At the date of initial recognition, other financial liabilities are measured at fair value minus transaction costs that are directly attributable to the acquisition. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method.

The Group derecognizes a financial liability from the consolidated statement of financial position when it is extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

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(q) Employee benefits

(i) Short-term employee benefits

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

(ii) Other long-term employee benefits

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

(iii) Retirement benefits: defined benefit plans

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

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

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

Past service costs which are the change in the present value of the defined benefits obligation for employee service in prior periods, resulting in the current period from the introduction of, or change to post-employment benefits, is recognized as an expense on a straight-line basis over the average period until the benefits

become vested. To the extent that the benefits are already vested immediately following the introduction of, or changes to, a defined benefit plan, the Group recognizes the past service cost immediately.

(r) Provisions

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

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

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

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

(s) Foreign currencies

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency using the reporting date's exchange rate. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges, which are recognized in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(ii) Foreign operations

If the presentation currency of the Group is different from a foreign operation's functional currency, the financial statements of the foreign operation are translated into the presentation currency using the following methods:

The assets and liabilities of foreign operations, whose functional currency is not the currency of a hyperinflationary economy, are translated to presentation currency at exchange rates at the reporting date. The income and expenses of foreign operations are translated to functional currency at exchange rates at the dates of the transactions. Foreign currency differences are recognized in other comprehensive income.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation is treated as assets and liabilities of the foreign operation. Thus they are expressed in the functional currency of the foreign operation and translated at the closing rate.

When a foreign operation is disposed of, the relevant amount in the translation is transferred to profit or loss as part of the profit or loss on disposal. On the partial disposal of a subsidiary that includes a foreign operation, the relevant proportion of such cumulative amount is reattributed to non-controlling interest. In any other partial disposal of a foreign operation, the relevant proportion is reclassified to profit or loss.

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognized in other comprehensive income in the translation reserve.

(t) Equity capital

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

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

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

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

(u) Revenue

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

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

(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.

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(v) Finance income and finance costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on foreign currency transactions, gains on foreign currency translation, gains on the disposal of available-for-sale financial assets, gains on disposal of investments in associates, 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, losses on foreign currency transactions, losses on foreign currency translation, losses on disposal of available-for-sale financial assets, losses on disposal of investments in associates, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognized on financial assets, and losses on hedging instruments that are recognized in profit or loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

(w) Income taxes

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

(i) Current tax

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

(ii) Deferred tax

Deferred tax is recognized, using the asset-liability method, in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. A deferred tax liability is recognized for all taxable temporary differences. A deferred tax asset is recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which they can be utilized. However, deferred tax is not recognized for the following temporary differences: taxable temporary differences arising on the initial recognition of goodwill, or the initial recogni-

tion of assets or liabilities in a transaction that is not a business combination and that affects neither accounting profit or loss nor taxable income.

The Group recognizes a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, associates, and interests in joint ventures, except to the extent that the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The Group recognizes a deferred tax asset for all deductible temporary differences arising from investments in subsidiaries and associates, to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized.

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

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

(x) Earnings per share

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

(y) Reclassifications

The Group has reclassified certain accounts to conform to the current year presentations. Such reclassifications have no impact on net asset or profit.

(z) New standards and interpretations not yet adopted

The following new standards, interpretations and amendments to existing standards have been published and are mandatory for the Group for annual periods beginning after January 1, 2012, and the Group has not early adopted them. Management believes the impacts of these new pronouncements on the Group's consolidated financial statements are not significant.

(i) Amendments to K-IFRS No. 1110 *Consolidated Financial Statements*

The amendments require an entity (the *parent*) that controls one or more other entities (*subsidiaries*) to present consolidated financial statements. And the amendments define the principle of *control*, and establish control as the basis for Consolidation. The amendments will be applied prospectively for the Group's annual periods beginning on or after January 1, 2013.

(ii) Amendments to K-IFRS No. 1111 *Joint Arrangements*

An entity shall determine the type of joint arrangement in which it is involved. The classification of a joint arrangement as a joint operation or a joint venture depends upon the rights and obligations of the parties to the arrangement. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Those parties are called joint operators. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Those parties are called joint venturers. A joint operator shall account for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the K-IFRSs applicable to the particular assets, liabilities, revenues and expenses. A party that participates in, but does not have joint control of, a joint operation shall also account for its interest in the arrangement in accordance with K-IFRS (No. 1028 *Investments in Associates and Joint Ventures*) if that party has rights to the assets, and obligations for the liabilities, relating to the joint operation. The amendments will be applied prospectively for the Group's annual periods beginning on or after January 1, 2013.

(iii) Amendments to K-IFRS No. 1112 *Disclosure of Interests in Other Entities*

The amendments require making consistent the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities and present those requirements in a single K-IFRS. The K-IFRS requires an entity to disclose information that enables users of financial statements to evaluate: the nature of, and risks associated with, its interests in other entities; and the effects of those interests on its financial position, financial performance and cash flows. The amendments will be applied prospectively for the Group's annual periods beginning on or after January 1, 2013.

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

The standard requires recognition of actuarial gains and losses immediately in other comprehensive income and to calculate expected return on plan assets based on the rate used to discount the defined benefit obligation. The standard requires an entity determine the discount rate by reference to market yields at the end of the reporting period on high quality corporate bonds (or, in countries where there is no deep market in such bonds, government bonds) of a currency and term consistent with the currency and term of the plan assets. The standard will be applied retrospectively for the Group's annual periods beginning on or after January 1, 2013.

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

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

(vi) Amendments to K-IFRS No.1001 *Presentation of Financial Statements*

The amendments require an entity to disclose reclassification adjustments and income tax relating to each component of other comprehensive income. Reclassification adjustments are the amounts reclassified to profit or loss in the current period that were previously recognized in other comprehensive income. The standard will be applied prospectively for the Group's annual periods beginning on or after January 1, 2013.

4 Business Combination and Additional Acquisitions from Entities Under Common Control

(a) Business combination

Significant business combinations of the Group 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 additionally acquired the shares and owns 99.94% interest as of December 31, 2012. 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.

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(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 Hi-mart 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.

(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.

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 acquired	(8,193)	(109,392)	(16,485)
Net cash outflow	₩ 236,687	₩ 1,138,676	₩ 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.

(b) Additional acquisition of subsidiaries' shares

During 2012, the Group acquired additional shares of its subsidiaries as follows:

Korean won (millions)

Subsidiaries	Additional acquisition	Percentage of ownership (%)		Parent's ownership interest	
		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
LOTTE SHOPPING 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.	77,578	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

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

Korean won (millions)

Subsidiaries	Additional acquisition	Percentage of ownership (%)		Parent's ownership interest	
		Before additional acquisition	After additional acquisition	Before additional acquisition	After additional acquisition
Lotte Suwon Station Shopping Town Co., Ltd.	₩ 14,250	95.00%	95.00%	₩ (19)	₩ 14,231
Liaoning Lotte Mart Co., Ltd.	13,387	100.00%	100.00%	9,094	22,482
Lotte Business Management (Tianjin) Co., Ltd.	21,578	100.00%	100.00%	14,139	35,716
PT. Lotte Mart Indonesia	21,652	100.00%	100.00%	62,274	83,926
Lotte Cinema Vietnam Co., Ltd.	3,851	90.00%	90.00%	(552)	3,298
Qingdao Lotte Mart Commercial Co., Ltd.	18,360	100.00%	100.00%	38,247	56,607
Lotte Vietnam Shopping Co., Ltd.	47,666	80.00%	94.55%	(23,456)	17,345
Lucky Pai Limited	10,386	63.22%	73.80%	8,450	9,865
Total	₩ 151,130			₩ 108,177	₩ 243,470

5 Trade and Other Receivables

Trade and other receivables as of December 31, 2012 and 2011 are summarized as follows:

Korean won (millions)

	December 31, 2012	December 31, 2011
Trade receivables	₩ 638,765	₩ 444,143
Other receivables	291,899	204,286
Allowance for doubtful accounts	(14,971)	(11,927)
Trade and other receivables	₩ 915,693	₩ 636,502

6 Restricted Deposits

Restricted deposits included in short-term and long-term financial instruments as of December 31, 2012 and 2011 are summarized as follows:

Korean won (millions)

Description	Depository	December 31, 2012	December 31, 2011
Current:			
Time deposits	Woori Bank and others	₩ 42,056	₩ 27,295
Special deposits	Industrial Bank of Korea	89,500	74,500
Money Market Fund	Citibank and others	66,740	22,415
Non-current:			
Special deposits	Shinhan Bank and others	100	89
Available-for-sale financial assets	Gyeongsangnam-do Metropolitan Government and others	38,479	32,211
Total		₩ 236,875	₩ 156,510

7 Fair Value of Financial Instruments

[a] The carrying amount and the fair value of financial instruments as of December 31, 2012 and 2011 are summarized as follows:

Korean won (millions)

		December 31, 2012		December 31, 2011	
		Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	Cash and cash equivalents	₩ 933,997	₩ 933,997	₩ 1,958,204	₩ 1,958,204
Financial assets at fair value through profit or loss	Non-current derivative assets held for the purpose of trading	-	-	1,697	1,697
Loans and receivables (*1)	Trade and other receivables	915,693	915,693	636,502	636,502
	Short-term financial instruments	740,966	740,966	745,294	745,294
	Short-term loans	4,285	4,285	7,702	7,702
	Other financial assets	20	20	20	20
	Accrued income	41,453	41,453	48,980	48,980
	Long-term financial instruments	300	300	289	289
	Long-term loans	76,399	76,399	76,399	76,399
	Deposits	1,191,714	1,191,714	1,014,554	1,014,554
	Long-term trade accounts receivable	6,080	6,080	6,080	6,080
	Card financial assets	7,125,763	7,125,763	6,802,395	6,802,395
Subtotal	₩ 10,102,673	₩ 10,102,673	₩ 9,338,215	₩ 9,338,215	
Available-for-sale financial assets	Marketable available-for-sale financial assets (*2)	338,935	338,935	316,070	316,070
	Non-marketable available-for-sale financial assets (*3)	321,692	321,692	324,737	324,737
	Subtotal	₩ 660,627	₩ 660,627	₩ 640,807	₩ 640,807
Held-to-maturity investment	Held-to-maturity investment	-	-	10	10
Derivative assets held for the purpose of hedging	Current	-	-	27,545	27,545
	Non-current	48	48	12,283	12,283
	Subtotal	₩ 48	₩ 48	₩ 39,828	₩ 39,828
Total		₩ 11,697,345	₩ 11,697,345	₩ 11,978,761	₩ 11,978,761

(*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, 2012 and 2011 are summarized as follows:

Korean won (millions)

Account	December 31, 2012		December 31, 2011	
Current:				
Short-term financial instruments	₩ 740,966		₩ 745,294	
Short-term loans	4,285		7,702	
Available-for-sale financial assets	108		9,762	
Accrued income	41,453		48,980	
Deposits	89,405		91,121	
Card business financial assets	7,125,763		6,802,395	
Derivative assets held for the purpose of hedging	-		27,545	
Other	20		20	
Subtotal	₩ 8,002,000		₩ 7,732,819	
Non-current:				
Long-term financial instruments	₩ 300		₩ 289	
Available-for-sale financial assets	660,519		631,045	
Held-to-maturity investment	-		10	
Long-term loans	76,399		76,399	
Deposits	1,102,309		923,434	
Long-term trade receivables	6,080		6,080	
Derivative assets held for the purpose of hedging	48		12,283	
Derivative assets held for the purpose of trading	-		1,697	
Subtotal	₩ 1,845,655		₩ 1,651,237	
Total	₩ 9,847,655		₩ 9,384,056	

(c) Available-for-sale financial assets as of December 31, 2012 and 2011 are summarized as follows:

Korean won (millions)

	December 31, 2012				December 31, 2011
	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	₩ 69,427	₩ 58,119
SHINHAN FINANCIAL GROUP CO., LTD	311,118	0.07%	2,247	12,087	12,367
LOTTE CHILSUNG BEVERAGE CO., LTD (Common stock)	101,024	8.17%	99,179	153,051	148,000
LOTTE CHILSUNG BEVERAGE CO., LTD (Preferred stock)	385	0.32%	179	124	143
LOTTE CONFECTIONARY CO., LTD	42,062	2.96%	64,699	68,561	71,800
LOTTE SAMKANG CO., LTD.	47,180	3.75%	10,167	31,044	19,367
Others	-	-	5,638	4,641	6,274
Subtotal			₩ 206,986	₩ 338,935	₩ 316,070

Continued

Korean won (millions)

	December 31, 2012				December 31, 2011
	Number of shares	Percentage of ownership	Acquisition cost	Carrying amount	Carrying amount
Non-marketable available-for-sale financial assets:					
LOTTE TRADING CO., LTD.	94,785	10.58%	₩ 34,465	₩ 45,785	₩ 49,839
Lotte Aluminum Co., Ltd.	62,609	6.03%	55,881	74,809	72,495
LOTTE LOGISTICS CORP.	66,308	4.64%	4,000	8,455	7,060
Cosmo Investment Management Co., Ltd.	149,807	17.70%	42,436	38,589	44,967
Lotte Properties (Chengdu) Co., Ltd.	29,928,756	17.93%	41,919	41,919	41,919
FUBON Multimedia Technology Co., Ltd.	21,906,421	17.13%	40,499	61,173	13,602
Investment in government bonds	-	-	198	197	44,467
Others	-	-	69,653	50,765	50,388
Subtotal			₩ 289,051	₩ 321,692	₩ 324,737
Total			₩ 496,037	₩ 660,627	₩ 640,807

(d) The carrying amount and the fair value of financial liabilities as of December 31, 2012 and 2011 are summarized as follows:

Korean won (millions)

	December 31, 2012		December 31, 2011	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities at fair value through profit or loss				
Overseas convertible bonds	₩ 908,633	₩ 908,633	₩ 1,007,219	₩ 1,007,219
Financial liabilities based on amortized cost (*)				
Trade and other payables	4,934,368	4,934,368	4,724,017	4,724,017
Short-term borrowings	2,171,551	2,171,551	1,176,921	1,176,921
Short-term debentures	-	-	17,294	17,294
Accrued expenses	222,281	222,281	217,483	217,483
Long-term borrowings	1,053,445	1,053,445	1,111,411	1,111,411
Debentures	7,991,788	7,991,788	6,873,086	6,873,086
Deposit received	440,057	440,057	391,131	391,131
Finance lease liabilities	-	-	126	126
Other liabilities	3,368	3,368	280	280
Subtotal	₩ 16,816,858	₩ 16,816,858	₩ 14,511,749	₩ 14,511,749
Derivative liabilities held for the purpose of hedging				
Currency swap	168,019	168,019	27,763	27,763
Total	₩ 17,893,510	₩ 17,893,510	₩ 15,546,731	₩ 15,546,731

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

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December 31, 2012 and 2011

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(e) Other financial liabilities as of December 31, 2012 and 2011 are summarized as follows:

Korean won (millions)

	December 31, 2012	December 31, 2011
Current:		
Finance lease liabilities	₩ -	₩ 7
Financial guarantee liabilities	115	153
Accrued expenses	222,281	217,483
Deposits received	267,908	238,790
Derivative liabilities held for the purpose of hedging	5,595	15,074
Subtotal	₩ 495,899	₩ 471,507
Non-current:		
Finance lease liabilities	₩ -	₩ 118
Deposits received	172,150	152,342
Other financial liabilities	3,252	127
Derivative liabilities held for the purpose of hedging	162,424	12,689
Subtotal	₩ 337,826	₩ 165,276
Total	₩ 833,725	₩ 636,783

(f) The fair value hierarchy

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

The different levels have been defined as follows:

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

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

Korean won (millions)

Description	Level 1	Level 2	Level 3	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

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

Korean won (millions)

Description	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets	₩ 316,070	₩ 44,467	₩ 218,009	₩ 578,546
Derivative assets	-	41,525	-	41,525
Total financial assets	₩ 316,070	₩ 85,992	₩ 218,009	₩ 620,071
Financial liabilities at fair value through profit or loss	-	1,007,219	-	1,007,219
Derivative liabilities	-	27,763	-	27,763
Total financial liabilities	₩ -	₩ 1,034,982	₩ -	₩ 1,034,982

8 Inventories

(a) Inventories as of December 31, 2012 and 2011 are summarized as follows:

Korean won (millions)

	December 31, 2012	December 31, 2011
Merchandise, net of allowance for valuation losses	₩ 2,356,862	₩ 2,008,138
Finished goods	9,361	7,438
Goods in process	978	1,576
Raw materials	1,454	1,444
Subsidiary materials	452	353
Supplies	2,297	3,723
Materials-in-transit	303	158
Finished apartment units	-	879
Unfinished apartment units	23,931	18,576
Lots	354,666	-
Total	₩ 2,750,304	₩ 2,042,285

(b) During 2012 and 2011, changes of allowance for valuation reserve of inventories are summarized as follows:

Korean won (millions)

	2012	2011
Cost of goods sold:		
Changes of allowance for valuation reserve of inventories	₩ 1,289	₩ [986]

9 Other Non-financial Assets

Other non-financial assets as of December 31, 2012 and 2011 are summarized as follows:

Korean won (millions)

Description	December 31, 2012	December 31, 2011
Current:		
Advance payments	₩ 202,378	₩ 115,199
Prepaid expenses	188,668	186,450
Prepaid value added tax	76,765	55,694
Other	345	24
Subtotal	₩ 468,156	₩ 357,367
Non-current:		
Long-term advance payments	₩ 82,632	₩ 126,007
Long-term prepaid expenses (*)	1,069,914	1,051,315
Other	7,652	5,676
Subtotal	₩ 1,160,198	₩ 1,182,998
Total	₩ 1,628,354	₩ 1,540,365

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

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LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

10 Investments in Associates and Joint Ventures

(a) The details of associates and joint ventures as of December 31, 2012 and 2011 are summarized as follows:

Korean won (millions)

Company	December 31, 2012			
	Location	Principal business	Percentage of Ownership (%)	Balance at December 31, 2012
Associates:				
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	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
Shandong Luckypai TV Shopping	China	Distribution	49.00	5,813
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
Lotte Capital Indonesia	Indonesia	Capital	25.00	2,817
Hemisphere Film Investors II LLC(*1)	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 services	30.58	12,316
Subtotal				₩ 996,276
Jointly controlled entities:				
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	1,186
Subtotal				₩ 2,156
Total				₩ 998,432

(*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.

Korean won (millions)

Company	December 31, 2011			
	Location	Principal business	Percentage of Ownership (%)	Balance at December 31, 2011
Associates:				
Lotte Station Building Co., Ltd.	Korea	Distribution	25.00	₩ 192,645
Daehong Communications Co., Ltd.	Korea	Advertisement agency	30.00	93,806
Lotte.Com Inc.	Korea	Distribution	34.39	9,686
Lotte Capital Co., Ltd.	Korea	Capital	22.36	111,280
Lotteria Co., Ltd.	Korea	Restaurant chain	38.68	210,427
FRL Korea Co., Ltd.	Korea	Retail	49.00	71,433
Lakepark Co., Ltd.	Korea	Real estate development	23.90	4,564
Lotte Asset Development Co., Ltd.	Korea	Real estate development	39.14	50,492
Zara Retail Korea Co., Ltd.	Korea	Retail	20.00	16,617
Lotte Buyeo Resort Co., Ltd.	Korea	Real estate development	22.22	13,381
Lotte Giants	Korea	Baseball club	30.00	2,220
Lakepark AMC	Korea	Real estate development	23.90	73
Lotte Europe Holdings B.V.	Netherlands	Holding company	30.81	63,619
Coralis S.A.	Luxembourg	Holding company	45.00	49,178
Bliss Co., Ltd.	Korea	Food manufacturing	30.00	-
M-Venture Culture Investment L.P.	Korea	Film producing company	25.00	2,667
Capital One Diversity Cinema Fund	Korea	Film producing company	20.00	905
Capital One Middle-Low Budget Cinema Fund	Korea	Film producing company	25.00	2,912
Sovik Visual Contents Investment Fund	Korea	Film producing company	26.67	3,985
Shandong Luckypai TV Shopping	China	Distribution	49.00	6,075
Hubei XL Cinema Co., Ltd.	China	Cinema	49.00	5,317
CJ Venture Investment No.14 Culture Contents Fund	Korea	Film producing company	30.00	6,009
Hemisphere Film Investors II LLC (*)	America	Film producing company	100.00	21,633
Subtotal				₩ 938,924
Jointly controlled entities:				
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	1,219
STL Co., Limited	Korea	Retail	50.00	577
Subtotal				₩ 1,796
Total				₩ 940,720

(*) 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.

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LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

December 31, 2012 and 2011

note 10

(b) Changes in investments in associates and joint ventures for the years ended December 31, 2012 and 2011 are as follows:

Korean won (millions)

Company	2012							Balance at December 31, 2012
	Beginning balance	Changes					Other	
		Acquisition	Dividends	Net income (loss)	Capital adjustment	Disposals		
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.Com Inc.	9,686	-	-	(1,803)	(32)	-	9	7,860
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
Lakepark Co., Ltd.	4,564	11,935	(3,219)	(1,604)	13	(11,689)	-	-
Lotte Asset Development Co., Ltd.	50,492	-	-	(1,845)	2,931	-	(5,143)	46,435
Zara Retail Korea Co., Ltd.	16,617	-	-	3,780	-	-	-	20,397
Lotte Buyeo Resort Co., Ltd.	13,381	-	-	(1,704)	-	-	-	11,677
Lotte Giants	2,220	-	-	2,850	-	-	(52)	5,018
Lakepark AMC	73	204	-	(9)	-	(268)	-	-
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
Bliss Co., Ltd.	-	-	-	-	2	(2)	-	-
M-Venture Culture Investment L.P.	2,667	-	(250)	191	-	-	-	2,608
Capital One Diversity Cinema Fund	905	-	-	(56)	-	-	-	849
Capital One Middle-Low Budget Cinema Fund	2,912	-	-	542	-	-	-	3,454
Shenyang SL Cinema Investment Management Co., Ltd.	1,219	-	-	(185)	(64)	-	-	970
Sovik Visual Contents Investment Fund	3,985	-	-	541	-	-	-	4,526
Shandong Luckypai TV Shopping	6,075	-	-	95	-	-	(357)	5,813
Hubei XL Cinema Co., Ltd.	5,318	2,157	-	(971)	(315)	-	-	6,189
STL Co., Limited	576	1,500	-	(866)	(23)	-	-	1,187
Hemisphere Film Investors II LLC	21,633	3,479	-	1,818	(1,835)	-	-	25,095
CJ Venture Investment No.14 Culture Contents Fund	6,009	-	-	(366)	-	-	-	5,643
Lotte Capital Indonesia	-	3,120	-	43	-	-	(346)	2,817
Intime Lotte Department Store Co., Ltd.	-	-	-	-	-	-	-	-
D-Cinema of Korea Co., Ltd.	-	-	-	-	-	-	-	-
Shandong Longzhile Cinema Co., Ltd.	-	1,735	-	(73)	(48)	-	-	1,614
Leading Asia Cultural Industry Fund	-	4,000	-	(6)	-	-	-	3,994
LOTTE Payment & Settlement Networks Inc.	-	12,315	-	-	-	-	-	12,315
	₩ 940,720	₩ 64,037	₩ (68,671)	₩ 69,929	₩ 11,362	₩ (11,959)	₩ (6,986)	₩ 998,432

Korean won (millions)

Company	2011							Balance at December 31, 2011
	Beginning balance	Changes					Other	
		Acquisition	Dividends	Net income (loss)	Capital adjustment	Disposals		
Lotte Station Building Co., Ltd.	₩ 172,984	₩ -	₩ (1,350)	₩ 18,907	₩ 2,103	₩ -	₩ 1	₩ 192,645
Daehong Communications Co., Ltd.	100,454	-	(6)	11,257	(19,438)	-	1,539	93,806
Lotte.Com Inc.	10,444	-	-	(900)	242	-	(100)	9,686
Lotte Capital Co., Ltd.	93,557	-	(1,683)	18,777	678	-	(49)	111,280
Lotteria Co., Ltd.	218,042	-	-	7,666	(14,812)	-	(469)	210,427
FRL Korea Co., Ltd.	47,191	-	(3,528)	27,770	-	-	-	71,433
Lakepark Co., Ltd.	4,034	-	-	530	-	-	-	4,564
Lotte Asset Development Co., Ltd.	40,342	8,877	-	(1,529)	2,922	-	(120)	50,492
Zara Retail Korea Co., Ltd.	17,759	-	-	(1,142)	-	-	-	16,617
Lotte Buyeo Resort Co., Ltd.	15,155	-	-	(1,773)	-	-	(1)	13,381
Lotte Giants	1,130	-	-	1,121	-	-	(31)	2,220
Lakepark AMC	72	-	-	1	-	-	-	73
Lotte Europe Holdings B.V.	100,380	-	-	(16,155)	(20,606)	-	-	63,619
Coralis S.A.	39,157	11,323	-	654	(1,956)	-	-	49,178
Bliss Co., Ltd.	150	-	-	(148)	(2)	-	-	-
M-Venture Culture Investment L.P.	2,524	-	-	143	-	-	-	2,667
Capital One Diversity Cinema Fund	966	-	-	(61)	-	-	-	905
Capital One Middle-Low Budget Cinema Fund	-	3,000	-	(88)	-	-	-	2,912
Shenyang SL Cinema Investment Management Co., Ltd.	699	744	-	(302)	78	-	-	1,219
Isu Entertainment Investment Union	2,023	-	-	-	-	(2,023)	-	-
Sovik Visual Contents Investment Fund	-	4,000	-	(15)	-	-	-	3,985
Shandong Luckypai TV Shopping	2,442	-	-	499	174	-	2,960	6,075
Hubei XL Cinema Co., Ltd.	-	5,530	-	(469)	257	-	-	5,318
STL Co., Limited	-	1,000	-	(424)	-	-	-	576
Hemisphere Film Investors II LLC	-	23,261	-	(2,595)	967	-	-	21,633
CJ Venture Investment No.14 Culture Contents Fund	-	6,000	-	9	-	-	-	6,009
Intime Lotte Department Store Co., Ltd.	-	-	-	-	-	-	-	-
D-Cinema of Korea Co., Ltd.	-	-	-	-	-	-	-	-
	₩ 869,505	₩ 63,735	₩ (6,567)	₩ 61,733	₩ (49,393)	₩ (2,023)	₩ 3,730	₩ 940,720

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LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

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note 10

(c) Financial information of associates and joint ventures as of and for the years ended December 31, 2012 and 2011 are summarized as follows:

Korean won (millions)

Company	December 31, 2012			
	Total assets	Total liabilities	Sales	Net income (loss)
Lotte Station Building Co., Ltd.	₩ 788,319	₩ 229,048	₩ 682,352	₩ 11,837
Daehong Communications Co., Ltd.	519,292	177,876	348,476	14,170
Lotte.Com Inc.	144,521	121,668	199,681	(5,236)
Lotte Capital Co., Ltd.	4,353,106	3,789,766	585,747	68,507
Lotteria Co., Ltd.	928,054	391,126	985,254	19,643
FRL Korea Co., Ltd.	323,441	141,050	605,015	60,609
Lotte Asset Development Co., Ltd.	273,084	155,328	57,254	(4,713)
Zara Retail Korea Co., Ltd.	161,489	59,504	203,744	10,602
Lotte Buyeo Resort Co., Ltd.	239,238	186,691	11,055	(7,670)
Lotte Giants	26,322	9,593	44,765	9,502
Lotte Europe Holdings B.V.	685,582	450,864	150,596	(15,271)
Coralis S.A.	288,671	219,303	-	(1,094)
M-Venture Culture Investment L.P.	10,433	3	993	762
Capital One Diversity Cinema Fund	4,319	75	130	(297)
Capital One Middle-Low Budget Cinema Fund	13,998	180	3,715	2,093
Sovik Visual Contents Investment Fund	16,974	-	2,533	2,227
Shandong Luckypai TV Shopping	42,620	28,151	77,834	2,904
Hubei XL Cinema Co., Ltd.	15,217	2,587	4,636	(1,981)
Hemisphere Film Investors II LLC	25,095	-	-	1,818
CJ Venture Investment No.14 Culture Contents Fund	18,914	105	1,666	(1,223)
Lotte Capital Indonesia	11,297	28	301	172
Intime Lotte Department Store Co., Ltd.	23,527	139,015	15,667	(28,971)
D-Cinema of Korea Co., Ltd.	78,503	84,739	22,325	(1,308)
Shenyang SL Cinema Investment Management Co., Ltd.	2,415	440	1,256	(378)
STL Co., Limited	3,070	697	3,098	(1,733)
Shandong Longzhile Cinema Co., Ltd.	3,352	59	-	(149)
Leading Asia Contents Fund	19,012	3	110	(31)
LOTTE Payment & Settlement Networks Inc.	₩ 80,523	₩ 78,218	₩ 32,407	₩ (8,599)

Korean won (millions)

Company	December 31, 2011			
	Total assets	Total liabilities	Sales	Net income (loss)
Lotte Station Building Co., Ltd.	₩ 1,007,921	₩ 237,340	₩ 713,653	₩ 75,615
Daehong Communications Co., Ltd.	541,317	228,709	235,353	7,539
Lotte.Com Inc.	147,376	119,216	176,523	(4,121)
Lotte Capital Co., Ltd.	4,157,778	3,660,292	501,505	84,923
Lotteria Co., Ltd.	911,058	391,061	810,112	23,879
FRL Korea Co., Ltd.	265,861	120,079	414,231	56,674
Lakepark Co., Ltd.	41,090	21,995	64,038	2,214
Lotte Asset Development Co., Ltd.	202,199	74,079	21,202	(4,389)
Zara Retail Korea Co., Ltd.	138,992	55,908	149,480	776
Lotte Buyeo Resort Co., Ltd.	177,117	116,901	8,893	(8,061)
Lotte Giants	12,682	5,282	40,060	3,669
Lakepark AMC	1,593	1,288	1,744	4
Lotte Europe Holdings B.V.	641,643	461,546	128,607	(59,508)
Coralis S.A.	205,094	130,326	-	1,471
Bliss Co., Ltd.	2,726	4,491	5,042	(2,215)
M-Venture Culture Investment L.P.	10,721	53	1,210	584
Capital One Diversity Cinema Fund	4,600	75	147	(305)
Capital One Middle-Low Budget Cinema Fund	11,828	180	161	(352)
Sovik Visual Contents Investment Fund	14,943	-	248	(57)
Shandong Luckypai TV Shopping	22,832	13,236	29,337	1,198
Hubei XL Cinema Co., Ltd.	12,173	1,322	651	(958)
Hemisphere Film Investors II LLC	21,633	-	-	(2,595)
CJ Venture Investment No.14 Culture Contents Fund	20,085	54	87	31
Intime Lotte Department Store Co., Ltd.	36,820	129,842	91,119	(28,149)
D-Cinema of Korea Co., Ltd.	77,645	82,541	17,513	(2,071)
Shenyang SL Cinema Investment Management Co., Ltd.	2,807	324	903	(620)
STL Co., Limited	₩ 2,666	₩ 1,514	₩ 422	₩ (848)

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

Korean won (millions)

Company	December 31, 2012	
	Unrecognized losses for the period	Unrecognized accumulated losses
Intime Lotte Department Store Co., Ltd.	₩ (14,485)	₩ (54,781)
D-Cinema of Korea Co., Ltd.	(670)	(3,118)
Total	₩ (15,155)	₩ (57,899)

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note 11

11 Property, Plant and Equipment

(a) Changes in acquisition cost of property, plant and equipment for the years ended December 31, 2012 and 2011 are as follows:

Korean won (millions)

	2012					Acquisition cost as of December 31, 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	₩ 7,571,892
Buildings	5,407,196	58,376	318,951	(42,912)	552,190	6,293,801
Structures	268,785	8,614	2,722	(2,824)	13,427	290,724
Machinery	242,998	16,544	3,110	(751)	2,149	264,050
Vehicles	8,591	1,153	791	(674)	(407)	9,454
Display fixtures	368,505	52,407	4,330	(9,051)	47,066	463,257
Furniture and fixtures	2,123,654	183,153	178,873	(90,172)	346,400	2,741,908
Tools and equipment	193,750	31,224	-	(3,177)	(14,531)	207,266
Other PP&E	202,193	19,950	515	(2,200)	(8,548)	211,910
Construction-in-progress	885,733	1,401,951	980	(190)	(1,313,235)	975,239
Total	₩ 16,778,314	₩ 1,778,530	₩ 755,981	₩ (153,422)	₩ (129,902)	₩ 19,029,501

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

Korean won (millions)

	2011				Acquisition cost as of December 31, 2011
	Acquisition cost as of January 1, 2011	Acquisition	Disposals	Others (*)	
Land	₩ 6,894,103	₩ 128,627	₩ (99,387)	₩ 153,566	₩ 7,076,909
Buildings	5,191,616	66,241	(47,848)	197,187	5,407,196
Structures	258,180	8,638	(3,291)	5,258	268,785
Machinery	232,507	28,029	(1,544)	(15,994)	242,998
Vehicles	7,946	804	(386)	227	8,591
Display fixtures	353,139	54,107	(68,377)	29,636	368,505
Furniture and fixtures	2,009,632	174,669	(212,001)	151,354	2,123,654
Tools and equipment	140,390	31,357	(3,806)	25,809	193,750
Other PP&E	126,062	60,779	(2,962)	18,314	202,193
Construction-in-progress	860,049	1,039,430	(346)	(1,013,400)	885,733
Total	₩ 16,073,624	₩ 1,592,681	₩ (439,948)	₩ (448,043)	₩ 16,778,314

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

(b) Changes in accumulated depreciation of property, plant and equipment for the years ended December 31, 2012 and 2011 are as follows:

Korean won (millions)

	2012					Accumulated depreciation as of December 31, 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	₩ 1,817,002
Structures	56,333	(156)	857	12,770	1,154	70,958
Machinery	115,760	(557)	2,621	26,689	(2,006)	142,507
Vehicles	5,463	(572)	260	1,189	(265)	6,075
Display fixtures	226,016	(6,155)	1,133	49,070	(2,203)	267,861
Furniture and fixtures	1,411,716	(68,291)	106,646	286,476	(470)	1,736,077
Tools and equipment	86,712	(2,717)	-	21,275	(8,188)	97,082
Other PP&E	54,897	(897)	374	15,169	(3,522)	66,021
Total	₩ 3,492,427	₩ (84,014)	₩ 217,318	₩ 583,583	₩ (5,731)	₩ 4,203,583

Korean won (millions)

	2011				Accumulated depreciation as of December 31, 2011
	Accumulated depreciation as of January 1, 2011	Disposals	Depreciation	Others	
Buildings	₩ 1,390,283	₩ (12,465)	₩ 152,866	₩ 4,846	₩ 1,535,530
Structures	45,083	(441)	12,154	(463)	56,333
Machinery	106,249	(1,388)	25,732	(14,833)	115,760
Vehicles	4,466	(314)	965	346	5,463
Display fixtures	257,354	(66,690)	33,234	2,118	226,016
Furniture and fixtures	1,385,025	(202,832)	222,708	6,815	1,411,716
Tools and equipment	58,673	(902)	17,328	11,613	86,712
Other PP&E	41,488	-	10,009	3,399	54,897
Total	₩ 3,288,621	₩ (285,032)	₩ 474,996	₩ 13,841	₩ 3,492,427

(c) Changes in accumulated impairment losses of property, plant and equipment for the years ended December 31, 2012 and 2011 are as follows:

Korean won (millions)

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

Korean won (millions)

	2011			Accumulated impairment as of December 31, 2011
	Accumulated impairment as of January 1, 2011	Impairment loss	Others	
Other PP&E	₩ 868	₩ -	₩ 4	₩ 872

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(d) Pledged property, plant and equipment provided by the Group as of December 31, 2012 are as follows:

Korean won (millions)

	Book value	Guaranteed amount	Type of borrowings	Amount of borrowings	Guarantee recipient
Land and buildings	₩ 549,026	₩ 1,257,929	Secured Loan and others	₩ 650,726	Kookmin Bank and others

(e) During 2012 and 2011, capitalized borrowing costs and capitalization interest rates are as follows:

Korean won (millions)

	2012	2011
Capitalized borrowing costs	₩ 7,423	₩ 9,744
Capitalization interest rates (%)	1.7% ~ 13.5%	3.01% ~ 13.05%

12 Investment Property

(a) Changes in acquisition cost of investment property for the years ended December 31, 2012 and 2011 are as follows:

Korean won (millions)

	2012			Acquisition cost as of December 31, 2012
	Acquisition cost as of January 1, 2012	Increase from business combination	Others (*)	
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.

Korean won (millions)

	2011				Acquisition cost as of December 31, 2011
	Acquisition cost as of January 1, 2011	Acquisition	Disposal	Others	
Land	₩ 316,052	₩ 665	₩ (6)	₩ (22,816)	₩ 293,895
Buildings	249,808	2,152	-	37,680	289,640
Total	₩ 565,860	₩ 2,817	₩ (6)	₩ 14,864	₩ 583,535

(*) 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, 2012 and 2011 are as follows:

Korean won (millions)

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

Korean won (millions)

	2011			Accumulated depreciation as of December 31, 2011
	Accumulated depreciation as of January 1, 2011	Depreciation (*)	Others	
Buildings	₩ 66,235	₩ 7,006	₩ 216	₩ 73,457

(c) Changes in accumulated impairment losses of investment property for the years ended December 31, 2012 and 2011 are as follows:

Korean won (millions)

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

Korean won (millions)

	2011			Accumulated impairment as of December 31, 2011
	Accumulated impairment as of January 1, 2011	Impairment loss	Others	
Buildings	₩ -	₩ 584	₩ -	₩ 584

(d) Income and expense from investment property

The details of income and expense from investment property during 2012 and 2011 are as follows:

Korean won (millions)

Description	2012	2011
Rent income	₩ 42,027	₩ 45,131
Direct operating expense (including maintenance and repair expenses)	12,464	11,438

(e) Fair value of investment property as of December 31, 2012 was as follows:

Korean won (millions)

Description	Book value	Fair value
Land and buildings	₩ 508,257	₩ 726,580

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13 Intangible Assets

(a) Changes in intangible assets for the year ended December 31, 2012 are as follows:

Korean won (millions)

	2012							Book value as of December 31, 2012
	Book value as of January 1, 2012	Acquisition	Increase from business combination	Amortization	Impairment	Disposals	Others (*)	
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.

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

Korean won (millions)

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

(*) 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 65.

Details of the goodwill allocated to the groups of cash-generating units as of December 31, 2012 and 2011 are as follows:

Korean won (millions)

Cash-generating units	December 31, 2012	December 31, 2011
Department stores	₩ 237,284	₩ 237,284
Discount stores	1,027,295	1,059,150
Finance business	118,733	118,733
Consumer electronics retail	1,282,696	-
Others	822,816	652,038
Total	₩ 3,488,824	₩ 2,067,205

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, 2012 was consistent with those used in 2011. 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 point five percent.
- The Group's weighted average cost of capital was applied as the discount rate in determining recoverable amount of cash-generating units.

Value in use is based on the above assumptions representing management's estimation of future cash flows, and is calculated using external and internal sources of the Group. As a result of impairment testing, value in use of each cash-generating unit is higher than their respective carrying amount as of December 31, 2012 and 2011, except for the other cash-generating unit as of December 31, 2011.

As of December 31, 2012, recoverable amount of the cash-generating units in others was less than its book value, including goodwill, therefore an impairment loss of ₩271 million was recognized.

(d) Impairment test of other intangible assets with indefinite useful lives

The details of intangible assets with indefinite useful lives as of December 31, 2012 and 2011 are as follows:

Korean won (millions)

Cash-generating units	December 31, 2012	December 31, 2011
Department stores	₩ 10,708	₩ 6,780
Discount stores	1,976	1,531
Finance business	4,177	3,765
Consumer electronics retail	138,660	-
Others	12,377	7,413
Total	₩ 167,898	₩ 19,489

As a result of the Group's impairment test on indefinite intangible assets, discounted future cash flows of memberships, which was previously impaired, recovered to an amount more than the book value of memberships, therefore an reversal of impairment losses of ₩10 million was recognized in 2012.

14 Trade and Other Payables

Trade and other payables as of December 31, 2012 and 2011 are summarized as follows:

Korean won (millions)

	December 31, 2012	December 31, 2011
Trade payables	₩ 3,313,337	₩ 3,188,569
Other payables	1,621,031	1,535,448
Total	₩ 4,934,368	₩ 4,724,017

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15 Borrowings and Debentures

(a) Borrowings and debentures as of December 31, 2012 and 2011 are summarized as follows:

Korean won (millions)

	December 31, 2012	December 31, 2011
Current:		
Short-term borrowings	₩ 2,171,551	₩ 1,176,921
Short-term debentures	-	17,299
Discount on debentures	-	(6)
Current portion of long-term borrowings	83,112	762,793
Current portion of long-term debentures	1,857,018	1,490,756
Discount on debentures	(545)	(479)
Subtotal	₩ 4,111,136	₩ 3,447,284
Non-current:		
Long-term borrowings	₩ 970,332	₩ 348,619
Long-term debentures	7,124,033	6,406,009
Discount on debentures	(80,085)	(15,981)
Subtotal	₩ 8,014,280	₩ 6,738,647
Total	₩ 12,125,416	₩ 10,185,931

(b) Short-term borrowings as of December 31, 2012 and 2011 are summarized as follows:

Korean won (millions)

Lender	Details	Annual Interest rate (%)	December 31, 2012	December 31, 2011
KOREA EXCHANGE BANK and others	General	1.70~6.89	₩ 1,450,079	₩ 627,557
Kookmin Bank and others	Financial notes	2.92~6.16	524,700	544,500
Others	Other	3.94~7.44	196,772	4,864
Total			₩ 2,171,551	₩ 1,176,921

(c) Long-term borrowings as of December 31, 2012 and 2011 are summarized as follows:

Korean won (millions)

Lender	Details	Annual Interest rate (%)	December 31, 2012	December 31, 2011
Korea Development Bank and others	Local currency	3.09~6.77	₩ 656,300	₩ 414,301
Lotte Co., Ltd. (Japan) and others	Foreign currency	2.30~5.57	397,144	697,111
Subtotal			₩ 1,053,444	₩ 1,111,412
Less current portion			(83,112)	(762,793)
Total			₩ 970,332	₩ 348,619

(d) Debentures as of December 31, 2012 and 2011 are summarized as follows:

Korean won (millions)

Description	Maturity	Interest rate (%)	December 31, 2012	December 31, 2011
50th placed	Feb. 05, 2012	-	₩ -	₩ 200,000
51st placed (foreign currency)	Jun. 26, 2012	-	-	148,516
53rd placed	Dec. 03, 2014	5.30	250,000	250,000
54-1st placed	Mar. 12, 2013	4.44	200,000	200,000
54-2nd placed	Mar. 12, 2015	4.82	400,000	400,000
55th placed (foreign currency)	May 20, 2013	3M USD Libor+0.80	107,110	115,330
57th placed (foreign currency)	Mar. 17, 2014	3M USD Libor+0.80	214,220	230,660
1st placed (Global bond)	Apr. 07, 2016	3.88	428,440	461,320
2nd placed (Global bond)	May 09, 2017	3.38	428,440	-
58-1st placed (foreign currency)	Dec. 05, 2014	3M JPY Libor+0.60	187,125	222,774
58-2nd placed (foreign currency)	Nov. 28, 2014	3M USD Libor+1.50	107,110	115,330
59-1st placed	Aug. 07, 2015	2.98	350,000	-
59-2st placed	Aug. 07, 2017	3.20	230,000	-
59-3st placed	Aug. 07, 2019	3.33	200,000	-
60th placed (foreign currency)	Dec. 13, 2015	3M USD Libor+0.68	107,110	-
USD convertible bonds (*)	Jul. 05, 2016	-	515,644	539,614
JPY convertible bonds (*)	Jul. 05, 2016	-	392,989	467,605
Korea Seven Co., Ltd.	Mar. 19, 2013	5.35	100,000	100,000
Korea Seven Co., Ltd.	Jan. 30, 2015	4.02	40,000	-
Korea Seven Co., Ltd. (foreign currency)	Jan. 27, 2015	3M Euro Yen Libor+0.70	27,445	-
Lotte Boulangerie Co., Ltd.	-	-	-	5,000
Lotte Card Co., Ltd.	Multiple	2.31~5.63	4,247,795	4,457,915
CS Mart Co., Ltd.	Oct. 29, 2015	3.09	18,713	-
LOTTE Himart Co., Ltd.	Dec. 17, 2015	3.22	300,000	-
LSBM	Feb. 09, 2015	4.00	128,910	-
Subtotal			₩ 8,981,051	₩ 7,914,064
Less: Discount on debentures			(80,630)	(16,466)
Total book value			₩ 8,900,421	₩ 7,897,598
Less: Current portion of debentures, net of discount			(1,856,473)	(1,490,277)
Less: Short-term debentures, net of discount			-	(17,293)
Total			₩ 7,043,948	₩ 6,390,028

(*) USD convertible bonds and JPY convertible bonds have been designated as financial liabilities at fair value through profit of loss as of December 31, 2012. The terms and conditions are summarized as follows:

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

(c) Exchange Rate

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

(b) Total face value of bonds:

JPY Fixed Exchange Rate: exchange rate of KRW 13.4529/JPY 1.00

USD Bonds: 500,000,000

JPY Bonds: 32,500,000,000

Total (in won): 978,969,250,000

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(d) Bond interest rate

Coupon rate (%): -

Yield to maturity (%):

0 (overseas convertible bonds without guarantee in U.S. dollars)
0.25 (overseas convertible bonds without guarantee in Japanese yen)

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

(f) Principal redemption method:

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

(g) Put option by bondholders:

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

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

(h) Call option by the company:

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

- i. If the closing price for 20 transactional days in 30 consecutive transaction days reaches 130% or more of the conversion price between 3 years from the issuance date and 30 business days to the maturity date;

(e) Maturities of long-term borrowings and debentures as of December 31, 2012 are scheduled as follows:

Korean won (millions)

	Borrowings	Debentures	Total
Within 1 year	₩ 83,112	₩ 1,857,018	₩ 1,940,130
1 ~ 2 years	239,300	2,341,498	2,580,798
2 ~ 3 years	646,250	2,277,023	2,923,273
3 ~ 4 years	-	1,337,072	1,337,072
More than 4 years	84,783	1,168,440	1,253,223
Total	₩ 1,053,445	₩ 8,981,051	₩ 10,034,496

- 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.

16 Unearned Revenues

The details of unearned revenues as of December 31, 2012 and 2011 are as follows:

Korean won (millions)

	December 31, 2012	December 31, 2011
Current:		
Membership point	₩ 76,857	₩ 64,585
Other points	92,253	85,466
Unearned rental income	7,230	7,760
Others	30,805	26,554
Subtotal	₩ 207,145	₩ 184,365
Non-current:		
Other points	₩ 5,067	₩ -
Unearned rental income	21,953	21,411
Subtotal	₩ 27,020	₩ 21,411
Total	₩ 234,165	₩ 205,776

17 Provisions

Provisions as of December 31, 2012 and 2011 are summarized as follows:

Korean won (millions)

	December 31, 2012	December 31, 2011
Current:		
Provision for bonus points reward program	₩ 17,119	₩ 14,596
Provision for bonus payable	6,010	6,106
Provision for sales return	6,606	6,928
Other provisions	10,632	10,386
Subtotal	₩ 40,367	₩ 38,016
Non-current:		
Provision for unused credit card limits (*)	₩ 30,419	₩ 34,711
Other provisions	1,206	681
Subtotal	₩ 31,625	₩ 35,392
Total	₩ 71,992	₩ 73,408

(*) 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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18 Other Non-financial Liabilities

Other non-financial liabilities as of December 31, 2012 and 2011 are summarized as follows:

Korean won (millions)

	December 31, 2012	December 31, 2011
Current:		
Withholdings	₩ 131,781	₩ 78,150
Withholdings of value added tax	87,557	52,346
Advances received	824,858	730,129
Other liabilities	753	1,041
Subtotal	₩ 1,044,949	₩ 861,666
Non-current:		
Other liabilities	25,136	16,518
Total	₩ 1,070,085	₩ 878,184

19 Employee Benefits

(a) Details of defined benefit liabilities as of December 31, 2012 and 2011 are summarized as follows:

Korean won (millions)

	December 31, 2012	December 31, 2011
Present value of defined benefit obligations	₩ 437,436	₩ 291,927
Fair value of plan assets	(319,320)	(181,411)
Total	₩ 118,116	₩ 110,516

(b) Details of present value of other long-term employee benefits as of December 31, 2012 and 2011 are summarized as follows:

Korean won (millions)

	December 31, 2012	December 31, 2011
Present value of other long-term employee benefits	₩ 46,251	₩ 46,751

(c) Changes in employee benefits for the years ended December 31, 2012 and 2011 are as follows:

Korean won (millions)

	2012	2011
Beginning of the year	₩ 291,927	₩ 237,555
Current service costs	81,781	68,068
Interest costs	17,382	15,754
Defined benefit plan actuarial losses	37,108	10,093
Payments	(42,832)	(48,194)
Business combination	47,530	-
Others	4,540	8,651
End of the year	₩ 437,436	₩ 291,927

(d) During 2012 and 2011, the changes on plan assets of an employee benefit plan are as follows:

Korean won (millions)

	2012	2011
Beginning of the year	₩ 181,411	₩ 133,189
Expected return on plan assets	11,859	6,549
Actuarial gain (loss)	(4,927)	(900)
Employer contribution	128,537	63,764
Payments	(29,500)	(21,568)
Business combination	31,489	-
Others	451	377
End of the year	₩ 319,320	₩ 181,411

(e) The components of plan assets as of December 31, 2012 and 2011 are summarized as follows:

Korean won (millions)

	December 31, 2012	December 31, 2011
Principal guarantee insurance policy	₩ 319,096	₩ 181,316
Others	224	95
Total	₩ 319,320	₩ 181,411

(f) Expenses recognized for the years ended December 31, 2012 and 2011 are as follows:

Korean won (millions)

	2012	2011
Current service costs	₩ 81,781	₩ 68,068
Interest costs	17,382	15,754
Expected return on plan assets	(11,859)	(6,548)
Long-term employee benefits	4,110	7,587
Total	₩ 91,414	₩ 84,861

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

	December 31, 2012	December 31, 2011
Discount rate	3.30~6.00%	4.62~7.00%
Expected rate of return on plan assets	4.20~5.50%	4.50~7.00%
Expected rate of promotion	1.62~3.57%	1.89~3.36%
Expected rate of increase in salaries	1.50~7.00%	3.50~7.00%

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(h) Historical information for the amounts related to defined benefit plans recognized for the current year and previous years are as follows:

Korean won (millions)

	December 31, 2012	December 31, 2011	December 31, 2010	January 1, 2010
Defined benefit obligation	₩ (437,436)	₩ (291,927)	₩ (237,555)	₩ (198,259)
Plan assets	319,320	181,411	133,189	122,543
Deficit	(118,116)	(110,516)	(104,366)	(75,717)
Experience adjustments on plan liabilities	(22,311)	1,099	17,424	-
Experience adjustments on plan assets	₩ (4,927)	₩ (900)	₩ 9,429	₩ -

20 Derivative Instruments and Hedge Accounting

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

Type	Description	Description
Cash flow hedge	Currency swap	At the maturity of the swap, the principal amounts of the debentures in USD and JPY and borrowings in USD are exchanged back
	Interest swap	Sell fixed interest to buy floating rate in KRW short-term borrowings

(b) Fair value of derivatives outstanding As of December 31, 2012 and 2011 are summarized as follows:

Korean won (millions)

Description	Type	December 31, 2012		December 31, 2011	
		Assets	Liabilities	Assets	Liabilities
Trade	Equity option	₩ -	₩ -	₩ 1,697	₩ -
Cash flow hedge	Currency swap	-	166,234	39,828	27,763
	Interest swap	48	1,785	-	-
Total		₩ 48	₩ 168,019	₩ 41,525	₩ 27,763

(c) Changes in the fair value of derivative instruments for the years ended December 31, 2012 are as follows:

Description	Type	Related accounts	Korean won (millions)
Cash flow hedge	Currency swap	Loss on valuation of derivatives instruments	₩ (89,815)
		Gain on valuation of derivatives instruments (card business)	755
		Unrealized gain on valuation of derivative instruments, net of tax effect	3,865
	Interest swap	Gain on valuation of derivatives instruments	1
		Unrealized loss on valuation of derivative instruments, net of tax effect	(1,021)

21 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, 2012, the Company has not issued any preferred stock and 29,043,374 shares of common stock were issued and outstanding as of December 31, 2012.

(b) Capital surplus as of December 31, 2012 and 2011 consists of the following:

Korean won (millions)

	December 31, 2012	December 31, 2011
Additional paid-in capital	₩ 3,605,117	₩ 3,605,117
Others	17,066	17,066
	₩ 3,622,183	₩ 3,622,183

22 Retained Earnings

(a) Details of retained earnings as of December 31, 2012 and 2011 are as follows:

Korean won (millions)

	December 31, 2012	December 31, 2011
Legal reserve	₩ 175,307	₩ 170,950
Voluntary reserve	9,160,052	5,420,052
Unappropriated retained earnings	1,757,367	4,500,894
	₩ 11,092,726	₩ 10,091,896

(b) Changes in retained earnings for the years ended December 31, 2012 and 2011 were as follows:

Korean won (millions)

	2012	2011
Beginning of the year	₩ 10,091,896	₩ 9,211,526
Profit for the year	1,080,261	931,815
Dividends	(43,565)	(43,565)
Actuarial losses on defined benefit pension plans	(30,279)	(6,724)
Adjustment on retained earnings of associates	(5,587)	(1,156)
End of the year	₩ 11,092,726	₩ 10,091,896

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23 Accumulated Other Comprehensive Income

Changes in accumulated other comprehensive income (loss) for the years ended December 31, 2012 and 2011 were as follows:

Korean won (millions)

	2012			
	Beginning balance	Changes for the period	Tax effects for the period	Balance as of December 31, 2012
Change in fair value of available-for-sale financial assets	₩ 82,362	₩ 10,245	₩ (4,750)	₩ 87,857
Exchange differences on translating foreign operations	30,084	(93,747)	3,205	(60,458)
Effective portion of changes in fair value 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

Korean won (millions)

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

24 Earnings per Share

(a) Basic earnings per share for the years ended December 31, 2012 and 2011 are as follows:

Korean won (millions, except per share amount)

	2012	2011
Profit for the year	₩ 1,080,261	₩ 931,815
Weighted-average number of common shares outstanding	29,043,374	29,043,374
Earnings per share		
Basic and diluted earnings per share (*)	₩ 37,195	₩ 32,084

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

(b) Potential ordinary shares from conversion of convertible bonds as of December 31, 2012 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.

25 Sales and Cost of Sales

(a) Details of sales for the years ended December 31, 2012 and 2011 are as follows:

Korean won (millions)

	2012	2011
Sales of merchandise	₩ 21,157,718	₩ 18,948,555
Sales of products	131,252	82,452
Other operating revenue	2,337,971	1,978,499
Revenue of card business	1,416,739	1,243,582
Total	₩ 25,043,680	₩ 22,253,088

(b) Details of cost of sales for the years ended December 31, 2012 and 2011 are as follows:

Korean won (millions)

	2012	2011
Cost of merchandise sold	₩ 16,350,196	₩ 14,505,746
Cost of products sold	82,231	76,820
Cost of other operating revenue	172,664	109,505
Cost of card business	810,401	685,356
Total	₩ 17,415,492	₩ 15,377,427

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26 Selling, general and administrative expenses:

Details of selling, general and administrative expenses for the years ended December 31, 2012 and 2011 are as follows:

Korean won (millions)

	2012	2011
Salaries	₩ 1,052,967	₩ 937,830
Retirement and termination benefits	86,327	76,267
Other employee benefits	4,107	7,584
Employee welfare	229,121	194,411
Education and training	16,638	17,826
Travel	34,709	32,555
Maintenance fee for car	6,385	3,887
Insurance premium	11,412	10,078
Taxes and dues	134,915	121,489
Entertainment expense	9,333	8,885
Supplies and stationery	79,663	74,248
Communications	46,606	43,115
Utilities	299,407	252,644
Maintenance	68,751	63,289
Rent	677,756	512,097
Depreciation	578,298	470,752
Amortization of intangible assets	59,089	22,553
Commissions and fees	953,777	797,369
Service commission expenses	780,362	689,433
Advertising	335,247	296,569
Sales promotion expenses	556,464	434,911
Decoration	23,074	16,570
Bad debt expenses	361	739
Transportation	100,958	78,574
Provisions	10	7
Others	14,983	17,081
Total	₩ 6,160,720	₩ 5,180,763

27 Other income and expense

Details of other income and expenses for the years ended December 31, 2012 and 2011 are as follows:

Korean won (millions)

	2012	2011
Other income:		
Gain on foreign currency transactions	₩ 838	₩ 484
Gain on foreign currency translation	628	205
Gain on disposal of property, plant and equipment	1,641	10,320
Gain on disposal of intangible assets	297	461
Reversal of impairment of intangible asset	10	-
Others (*1)	62,095	47,443
Total	₩ 65,509	₩ 58,913

Continued

Korean won (millions)

	2012	2011
Other expense:		
Loss on foreign currency transactions	₩ 1,782	₩ 1,606
Loss on foreign currency translation	912	109
Impairment of investment property	1,285	549
Loss on disposal of investment property	-	2
Loss on disposal of property, plant and equipment	12,935	24,148
Loss on disposal of intangible assets	98	3
Impairment of intangible assets	4,268	1,336
Loss on disposal of trade receivables	56	-
Loss on disposal of other non-current assets	56	-
Impairment of other non-current assets	149	204
Donation	20,377	20,022
Other bad debt expenses	2,456	3,378
Taxes and dues	2,962	67
Others (*2)	43,682	39,486
Total	₩ 91,018	₩ 90,910

(*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.

28 Nature of Expenses

Details of nature of expenses for the years ended December 31, 2012 and 2011 are as follows:

Korean won (millions)

	2012	2011
Purchase of inventories	₩ 17,529,722	₩ 15,615,517
Changes in inventories	(282,613)	(372,317)
Employee benefits expense	1,386,507	1,229,356
Rent	678,585	512,651
Depreciation and amortization and impairment	724,268	559,904
Commissions	684,724	562,012
Sales promotion expenses	556,464	434,911
Decoration	23,074	16,570
Transportation	100,994	78,599
Others (*)	2,174,487	1,920,987
Total	₩ 23,576,212	₩ 20,558,190

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

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29 Finance Income and Finance Costs

(a) Details of finance income and finance costs for the years ended December 31, 2012 and 2011 are as follows:

Korean won (millions)

	2012	2011
Finance income:		
Interest income	₩ 114,608	₩ 105,673
Dividend income	8,948	6,448
Gain on foreign currency transactions	7,952	34,096
Gain on foreign currency translation	209,126	802
Gain on valuation of financial liability at fair value through profit or loss	98,586	-
Gain on disposal of available-for-sale financial assets	1,210	64,572
Gain on valuation of derivative instruments held for the purpose of hedging	-	18,978
Gain on transaction of derivative instruments held for the purpose of hedging	50	25,917
Gain on transaction of derivative instruments held for the purpose of trading	-	575
Gain on disposal of investments in associates	522	204
Total	₩ 441,002	₩ 257,265
Finance costs:		
Interest expense	₩ 206,048	₩ 191,325
Loss on foreign currency transactions	1,423	29,759
Loss on foreign currency translation	1,090	84,084
Loss on valuation of financial liabilities at fair value through profit or loss	-	54,544
Loss on disposal of available-for-sale financial assets	1,288	919
Impairment loss of available-for-sale financial assets	5,041	9,506
Loss on valuation of derivative instruments held for the purpose of hedging	89,815	426
Loss on valuation of derivative instruments held for the purpose of trading	-	34,879
Loss on transaction of derivative instruments held for the purpose of hedging	2,788	16,504
Loss on transaction of derivative instruments held for the purpose of trading	-	3,400
Losses on early redemption of bonds	11,103	-
Other bad debt losses	1,950	1,312
Loss on disposal of investments in associates	1,664	-
Total	₩ 322,210	₩ 426,658

(b) Details of finance income and finance costs by financial instruments category for the years ended December 31, 2012 and 2011 are as follows:

Korean won (millions)

Category	Details	2012	2011
Cash and cash equivalents:	Cash and cash equivalents:		
	Interest income	₩ 44,763	₩ 53,884
Loans and receivables:	Short-term financial instruments:		
	Interest income	22,690	12,395
	Loans:		
	Interest income	2,799	2,385
	Guarantee deposits:		
	Interest income	42,811	35,590
Available-for-sale financial assets:	Available-for-sale financial assets:		
	Interest income	1,545	1,419
	Dividend income	8,948	6,448
	Gain on valuation	26,732	11,929
	Gain on disposal	(78)	63,653
	Impairment loss	5,041	9,506
Investments in associates	Investments in associates:		
	Gain (loss) on disposal	(1,142)	204
Financial liabilities based on amortized cost:	Borrowings:		
	Interest expense	73,205	60,301
	Debentures:		
	Interest expense	125,043	120,829
	Losses on early redemption of bonds	11,103	-
	Rental guarantee deposits:		
	Interest expense	7,800	10,195
Financial assets and liabilities at fair value through profit or loss:	Derivatives:		
	Gain (loss) on valuation	-	(34,879)
	Gain (loss) on transaction	-	(2,825)
	Overseas convertible bonds:		
	Gain (loss) on valuation	98,586	(54,544)
Derivative assets and liabilities held for the purpose of hedging:	Derivatives:		
	Gain (loss) on valuation	(89,815)	18,552
	Gain (loss) on transaction	(2,738)	9,413
	Gain (loss) on valuation (other comprehensive income)	₩ 3,950	₩ 25,460

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30 Income Taxes

(a) The components of income tax expense for the years ended December 31, 2012 and 2011 are as follows:

Korean won (millions)

	2012	2011
Current tax	₩ 422,898	₩ 380,326
Deferred tax	43,814	178,485
Income taxes directly recorded in equity	6,330	(16,170)
Income tax expense	₩ 473,042	₩ 542,641

(b) During 2012 and 2011, the details of income tax expense recognized directly to equity are as follows:

Korean won (millions)

	2012	2011
Change in fair value of available-for-sale financial assets	₩ (10,225)	₩ (19,916)
Exchange differences on translating foreign operations	3,205	(146)
Effective portion of changes in fair value of cash flow hedges	(1,106)	(7,834)
Defined benefit plan actuarial losses	11,011	3,154
Change in equity of equity method investments	(979)	8,572
Others	4,424	-
Income tax directly recorded in equity	₩ 6,330	₩ (16,170)

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

(c) During 2012 and 2011, statutory to actual effective tax rates are reconciled as follows:

Korean won (millions)

	2012	2011
Profit before income tax	₩ 1,630,680	₩ 1,555,241
Income tax using statutory tax rates	441,292	399,365
Adjustment:		
Tax effects on non-taxable income	(8,193)	(3,668)
Tax effects on non-deductible income	2,579	6,170
Tax credit	(2,106)	(2,889)
Adjustments for prior periods	3,916	(936)
Effect of change in tax rate	-	112,605
Tax effects on share of net income of subsidiaries	29,762	33,257
Others	5,792	(1,263)
Income tax expenses	₩ 473,042	₩ 542,641
Effective tax rate (%)	29.01%	34.89%

(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 2012 and 2011, the changes on deferred tax assets (liabilities) are as follows:

Korean won (millions)

	2012				
	Beginning balance	Business combination	Profit or loss	Other comprehensive income	Ending balance
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)
Unearned revenues	20,332	-	491	-	20,823
Provision for mileage program	11,439	136	1,702	-	13,277
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)

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	2011			
	Beginning balance	Profit or loss	Other comprehensive income	Ending balance
Impairment loss of available-for-sale financial assets	₩ 460	₩ 46	₩ -	₩ 506
Buildings	(10,979)	314	-	(10,665)
Depreciation expense	42,813	(1,971)	-	40,842
Allowance for doubtful accounts	17,464	(13,825)	-	3,639
Accrued revenues	(3,335)	(1,141)	-	(4,476)
Unearned revenue	-	2,646	-	2,646
Non-current prepaid expenses	(10,137)	253	-	(9,884)
Losses on valuation of inventories	3,304	(939)	-	2,365
Provision for sales return	1,653	(276)	-	1,377
Property, plant and equipment (capitalization of borrowing costs)	(12,976)	(331)	-	(13,307)
Land (asset revaluation)	(953,020)	(78,186)	-	(1,031,206)
Unearned revenues	16,596	3,736	-	20,332
Provision for mileage program	13,000	(1,561)	-	11,439
Accrued expense	12,765	64	-	12,829
Foreign currency translation gains (losses)	37,840	(33,800)	-	4,040
Losses on valuation of convertible bonds	-	(11,502)	-	(11,502)
Construction-in-progress	403	40	-	443
Other intangible assets	(4,538)	3,414	-	(1,124)
Rental guarantee deposits	7,097	1,543	-	8,640
Goodwill	(9,462)	(12,366)	-	(21,828)
Investments in subsidiaries and associates	(188,297)	(56,568)	8,572	(236,293)
Losses (gains) on valuation of available-for-sale financial assets	(33,212)	120	(19,916)	(53,008)
Losses (gains) on valuation of derivatives	(19,485)	31,001	(7,834)	3,682
Salaries and retirement benefits	24,270	174	3,154	27,598
Translation difference of foreign subsidiaries	546	-	(146)	400
Others	(34,403)	6,801	-	(27,602)
Total	₩ (1,101,633)	₩ (162,314)	₩ (16,170)	₩ (1,280,117)

(f) As of December 31, 2012 and 2011, the amounts of total temporary differences related to investments of subsidiaries and associates which deferred tax assets were not recognized are as follows:

Korean won (millions)

	December 31, 2012	December 31, 2011
Investments in associates	₩ 113,502	₩ 114,549
Investments in subsidiaries	438,135	187,498
Total	₩ 551,637	₩ 302,047

31 Consolidated statements of cash flows

As of December 31, 2012 and 2011, the details of cash and cash equivalents are as follows:

Korean won (millions)

	December 31, 2012	December 31, 2011
Cash	₩ 59,138	₩ 62,946
Deposits	345,043	206,972
Other cash equivalents	529,816	1,688,286
Total	₩ 933,997	₩1,958,204

32 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, 2012 and 2011 are as follows:

Korean won (millions)

	2012	2011
Within 1 year	₩ 421,736	₩ 256,288
1 ~ 5 years	1,537,437	965,928
Thereafter	3,664,790	1,633,761
Total	₩ 5,623,963	₩ 2,855,977

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 ₩60,269 million and ₩42,811 million during 2012 and ₩30,761 million and ₩35,590 million during 2011, respectively. The related deposit balances amount to ₩1,598,457 million and ₩1,375,955 million as of December 31, 2012 and 2011 respectively. Such amounts were calculated on the fixed interest rate for time deposits with similar maturities.

(b) Lessor

1) The Group has entered into operating leases of certain of its properties and equipments. Future lease payments receivable under operating leases as of December 31, 2012 and 2011 are as follows:

Korean won (millions)

	2012	2011
Within 1 year	₩ 144,805	₩ 108,466
1 ~ 5 years	158,122	120,504
Thereafter	148,282	129,283
Total	₩ 451,209	₩ 358,253

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35 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 (new from 2012) and others (convenience stores, television home shopping, supermarkets, movie theaters, and clothing retail) as follows:

Korean won (millions)

	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

(b) Information about reportable segments as December 31, 2012 and 2011 are as follows:

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	51,677	10,270	1,308	1,599	53,594	118,448
Interest expenses	92,942	71,858	2,731	9,202	33,154	209,887
Depreciation and amortization	231,299	207,603	20,516	7,541	155,522	622,481
Other bad debt expenses	756	15	-	50	1,757	2,578
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
Acquisition of non-current assets	737,065	2,009,739	28,340	8,735	672,113	3,455,992
Segment liabilities	₩ 9,709,881	₩ 2,126,180	₩ 6,426,157	₩ 1,129,080	₩ 2,017,286	₩ 21,408,584

Korean won (millions)

	December 31, 2011				
	Department stores	Discount stores	Card business	Others	Total
External sales	₩ 7,891,623	₩ 8,468,048	₩ 1,289,463	₩ 4,603,954	₩ 22,253,088
Internal sales	29,432	882	195,531	132,417	358,262
Total sales	₩ 7,921,055	₩ 8,468,930	₩ 1,484,994	₩ 4,736,371	₩ 22,611,350
Interest income	56,805	8,499	1,098	40,474	106,876
Interest expenses	99,108	64,295	2,117	27,009	192,529
Depreciation and amortization	166,936	177,423	25,775	120,648	490,782
Other bad debt expenses	-	38	-	3,346	3,384
Equity method income (loss) of investments in associates	64,613	-	-	(2,880)	(984)
Income tax expense	313,982	74,930	57,820	62,651	509,383
Segment profit	604,902	85,637	182,189	153,746	1,026,474
Segment assets	15,848,109	9,315,146	7,655,660	4,092,747	36,911,662
Acquisition of non-current assets	755,847	406,358	27,671	497,676	1,687,552
Segment liabilities	₩ 8,968,413	₩ 1,983,088	₩ 6,148,110	₩ 1,481,021	₩ 18,580,632

(c) Reconciliations of total segment sales and profit to their respective consolidated financial statements line items for the years ended December 31, 2012 and 2011 are summarized as follows:

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

Korean won (millions)

	2011	
	Sales	Profit for the year
Department stores	₩ 7,921,055	₩ 604,902
Discount stores	8,468,930	85,637
Card business	1,484,994	182,189
Others	4,736,371	153,746
Segment totals	₩ 22,611,350	₩ 1,026,474
Elimination of inter-segment amounts	(358,262)	(13,874)
After consolidated adjustments	₩ 22,253,088	₩ 1,012,600

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(d) Reconciliation of segment assets and liabilities to their respective consolidated financial statement line items as of December 31, 2012 and 2011 are summarized as follows:

Korean won (millions)

	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	2,017,285
Segment totals	₩ 42,241,831	₩ 21,408,583
Elimination of inter-segment assets and liabilities	₩ (269,864)	₩ (269,864)
Adjustments of business combinations	1,015,299	-
Investments in subsidiaries and associates	(6,130,221)	-
Subtotal	₩ (5,384,786)	₩ (269,864)
After consolidated adjustments	₩ 36,857,045	₩ 21,138,720

Korean won (millions)

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

(e) Sales by geographical areas for the years ended December 31, 2012 and 2011 are summarized as follows:

Korean won (millions)

Region	2012	2011
Domestic	₩ 22,322,706	₩ 19,937,519
China	1,607,808	1,370,842
Vietnam	79,900	64,216
Indonesia	1,033,266	880,511
Total	₩ 25,043,680	₩ 22,253,088

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

(f) Sales by types of products and services for each operating segment for the years ended December 31, 2012 and 2011 are summarized as follows:

Korean won (millions)

	December 31, 2012					Total
	Department stores	Discount stores	Card business	Consumer electronics retail	Others (*)	
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	59,715	362,184	52,054	2,111	419,458	895,522
Total segment sales	₩ 8,245,900	₩ 8,954,593	₩ 1,672,961	₩ 604,662	₩ 5,956,174	₩ 25,434,290

Korean won (millions)

	December 31, 2011				Total
	Department stores	Discount stores	Card business	Others (*)	
Sales of merchandise	₩ 7,407,165	₩ 8,034,706	₩ 4,950	₩ 3,529,966	₩ 18,976,787
Sales of products	-	-	-	131,701	131,701
Financial income	-	-	1,438,316	-	1,438,316
Commissions	-	-	-	757,926	757,926
Rental income	459,645	81,544	-	56,570	597,759
Others	54,245	352,680	41,728	260,208	708,861
Total segment sales	₩ 7,921,055	₩ 8,468,930	₩ 1,484,994	₩ 4,736,371	₩ 22,611,350

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

(g) Non-current assets by geographical areas as of December 31, 2012 and 2011 are as follows

Korean won (millions)

	December 31, 2012	December 31, 2011
Domestic	₩ 17,910,503	₩ 14,821,655
China	1,197,934	1,188,688
Vietnam	220,963	92,399
Indonesia	413,210	398,656
India	1	128
Total	₩ 19,742,611	₩ 16,501,526

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

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

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34 Contingent Liabilities and Financial Commitments

(a) As of December 31, 2012, the Group has the following credit facility commitments with financial institutions:

Korean won (millions), Foreign currency (thousands)

	Credit line		Amount used under credit facility	
General loan	KRW	1,046,000	KRW	244,000
	CNY	1,555,800	CNY	1,170,470
	USD	137,000	USD	130,000
	IDR	1,690,000,000	IDR	1,321,077,000
	HKD	150,000	HKD	133,200
Discount of bill	KRW	677,000	KRW	355,000
Buyer's credit	KRW	502,689	KRW	52,263
Bank overdraft	KRW	324,000	KRW	1,210
Guarantee	KRW	44,755	KRW	44,365
Letter of credit	USD	18,300	USD	3,301
Others	KRW	7,000	KRW	28

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

Company	Contractor	Description of contract
Lotte Shopping Co., Ltd.	Lotte Midopa Co., Ltd., Lotte Station Building Co., Ltd. and 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 tie-up and issuing credit cards
	Korea Express Co., Ltd.	Logistics services
	Cable TV operators	Providing broadcast programs
Korea Seven Co., Ltd.	7-Eleven, Inc.	Using the registered trademark and operating know-how
Lotte Boulangerie Co., Ltd.	Shikishima Baking Co., Ltd.	Bread baking skills and techniques
NCF Co., Ltd.	Nice Claup Co., Ltd.	Royalty payments based on net revenue of selling and manufacturing amounts
Buy the way Inc.	Korea Smart Card Co., Ltd. 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, 2012, the Group are the plaintiff in various lawsuits claiming damages totaling ₩17,607 million and the Group are the defendant in various lawsuits with damage claims totaling ₩46,163 million.

(d) As of December 31, 2012, the Group has provided one promissory note as collateral for borrowings from Koryo Central Educational Institution.

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

(f) Lotte Card Co., Ltd. has sold certain card assets to SPCs pursuant to the Assets-Backed Securitization Law of the Republic of Korea and assumed the liability to pay the outstanding card assets when the transferred card assets cannot meet the prescribed qualifications in the contract or fall into arrears in accordance with the terms of assets transfer agreement and other contracts. Accordingly, as prescribed in the assets transfer agreement and other contracts, the SPCs have obligations of early redemption of the asset-backed securities when average portfolio earning ratio during three consecutive settlement periods is lower than the average primary cost ratio or when outstanding balance of adjusted securitized assets is less than the minimum principal balance as of closing date of each settlement period and others.

35 Inter-company Transactions and Balances with Consolidated Companies

The Group has provided guarantees for consolidated companies as of December 31, 2012 as follows:

Consolidated company	Provided by	Guarantee recipient	2012	
			Type of borrowings	Guaranteed amount (thousands)
Lotte Shopping Business Management [Hong Kong] Limited	Lotte Shopping Co., Ltd.	HSBC, Deutsche Bank	Working capital	RMB 750,000
Lotte Cinema Vietnam Co., Ltd.	Lotte Shopping Co., Ltd.	The Export-Import Bank of Korea	Working capital	USD 24,000

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36 Transactions and Balances with Related Companies

(a) Details of investor and subsidiary relationships with the Company as of December 31, 2012 are as follows:

Related company	Ownership (%)	Control relationship (*)
Hotel Lotte Co., Ltd.	9.58	Affiliate of Lotte Group
Korea Fuji Film Co., Ltd.	8.52	Affiliate of Lotte Group
Lotte Confectionery Co., Ltd.	8.52	Affiliate of Lotte Group
Lotte Data Communication Company	5.22	Affiliate of Lotte Group
Lotte Chilsung Beverage Co., Ltd.	4.26	Affiliate of Lotte Group
Lotte Engineering & Construction Co., Ltd.	1.03	Affiliate of Lotte Group
Hotel Lotte Pusan Co., Ltd.	0.85	Affiliate of Lotte Group

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

(b) Significant transactions which occurred in the normal course of business with related companies for the years ended December 31, 2012 and 2011 are summarized as follows:

Korean won (millions)

Related company	2012		2011	
	Revenues	Expenses	Revenues	Expenses
Hotel Lotte Co., Ltd.	₩ 43,508	₩ 94,322	₩ 37,527	₩ 78,538
Lotte Confectionery Co., Ltd.	22,074	133,227	14,437	138,601
Lotte Chilsung Beverage Co., Ltd.	15,480	96,056	11,045	72,785
Lotte Engineering & Construction Co., Ltd.	7,871	619,795	10,689	603,916
Hotel Lotte Pusan Co., Ltd.	8,455	20,907	7,761	14,689
Lotte Station Building Co., Ltd.	25,952	6,884	25,643	6,452
Lotte Samkang Co., Ltd.	6,487	51,768	3,594	29,296
Lotte Ham Co., Ltd.	9,782	61,408	6,378	62,452
Lotte Fresh Delica Co., Ltd.	8,415	61,330	9,925	70,377
Lotte Trading Co., Ltd.	14,457	286,904	9,347	239,348
Lotte Aluminium Co., Ltd.	2,504	88,887	1,860	84,522
Lotte Logistics Co., Ltd.	14,404	1,541,730	21,718	1,093,039
Others	182,817	609,954	138,055	672,257
Total	₩ 362,206	₩ 3,673,172	₩ 297,979	₩ 3,166,272

(c) Account balances with related companies as of December 31, 2012 and 2011 are summarized as follows:

Korean won (millions)

Related company	December 31, 2012		December 31, 2011	
	Receivables	Payables	Receivables	Payables
Hotel Lotte Co., Ltd.	₩ 37,102	₩ 21,720	₩ 30,015	₩ 14,339
Lotte Confectionery Co., Ltd.	13,553	17,393	12,535	17,375
Lotte Chilsung Beverage Co., Ltd.	3,741	8,781	3,638	4,178
Lotte Engineering & Construction Co., Ltd.	66,377	150,863	115,366	232,209
Hotel Lotte Pusan Co., Ltd.	7,396	4,175	526	2,301
Lotte Station Building Co., Ltd.	27,335	10,707	28,245	11,318
Lotte Aluminium Co., Ltd.	16,485	13,700	16,367	27,300
Lotte Samkang Co., Ltd.	3,326	19,447	998	11,549
Lotte Ham Co., Ltd.	3,673	4,706	4,363	8,376
Lotte Fresh Delica Co., Ltd.	-	-	280	5,848
Lotte Trading Co., Ltd.	4,661	12,445	6,980	17,391
Lotte Logistics Co., Ltd.	1,550	163,908	1,677	170,740
Others	239,125	141,439	527,826	172,657
Total	₩ 424,324	₩ 569,284	₩ 748,816	₩ 695,581

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

Related company	Guarantee recipient	Type of borrowings	Guaranteed amount (thousand)
Lotte Shopping Rus Ltd	Korea Development Bank	Working capital	USD 10,000
Intime Lotte Department Store Co., Ltd.	Woori Bank	Working capital	RMB 72,000
	Standard Chartered Bank	Working capital	RMB 70,000
	Shinhan Bank	Working capital	USD 8,125

(e) The fulfillment of the VPF contract between D-Cinema of Korea Co., Ltd. and Twentieth Century Fox Film Corporation was equally guaranteed by CGV and the Group in October 2008.

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

37 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.

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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, 2012 and 2011 are as follows:

Korean won (millions)

Account	December 31, 2012	December 31, 2011
Cash equivalent(*1)	₩ 874,859	₩ 1,895,258
Trade and other receivables	915,693	636,502
Other financial assets (current) (*2)	8,002,000	7,732,819
Other financial assets (non-current) (*2)	1,185,224	1,174,904
Total	₩ 10,977,776	₩ 11,439,483

(*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, 2012 and 2011 are summarized as follows:

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.

Korean won (millions)

Description	December 31, 2011			
	Receivables that are neither past due nor impaired	Receivables that are past due as at the end of the reporting period but not impaired	Receivables impaired (*)	Total
Trade and other receivables	₩ 624,168	₩ 12,334	₩ 11,928	₩ 648,430
Other financial assets (current)	7,599,570	133,249	222,097	7,954,916
Other financial assets (non-current)	941,233	6,080	-	947,313
Total	₩ 9,164,971	₩ 151,663	₩ 234,025	₩ 9,550,659

(*) 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, 2012 and 2011 are summarized as follow:

Korean won (millions)

	2012	2011
Balance at beginning of period	₩ 11,927	₩ 8,466
Impairment loss	4,039	4,197
Reversal of Impairment loss	(32)	(328)
Write-offs	(1,082)	(413)
Recoveries	3	5
Others	116	-
Balance at end of period	₩ 14,971	₩ 11,927

The movement in the allowance for doubtful other financial assets (current) for the years ended December 31, 2012 and 2011 are summarized as follow:

Korean won (millions)

	2012	2011
Balance at beginning of period	₩ 222,097	₩ 172,359
Impairment loss	154,627	124,299
Reversal of Impairment loss	(601)	-
Write-offs	(142,469)	(111,644)
Recoveries	20,998	37,083
Balance at end of period	₩ 254,652	₩ 222,097

The movement in the allowance for doubtful other financial assets (non-current) for the years ended December 31, 2012 and 2011 are summarized as follow:

Korean won (millions)

	2012	2011
Balance at beginning of period	₩ -	₩ -
Impairment loss	2,000	-
Others	376	-
Balance at end of period	₩ 2,376	₩ -

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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, 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

Korean won (millions)

Description	December 31, 2011				
	Carrying amount	3 months or less	3 ~ 6 months	6 ~ 12 months	More than 1 year
Trade and other receivables	₩ 12,334	₩ 6,103	₩ 2,284	₩ 2,200	₩ 1,747
Other financial assets (current)	133,249	116,210	17,039	-	-
Other financial assets (non-current)	6,080	-	-	-	6,080
Total	₩ 151,663	₩ 122,313	₩ 19,323	₩ 2,200	₩ 7,827

5) Guarantees

The Group has provided guarantees to its related companies as discussed in note 36 to the consolidated financial statements.

Liquidity Risks

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

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

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

Aggregate maturities of non-derivative financial liabilities, including estimated interest, as of December 31, 2012 are as follows:

Korean won (millions)

Account	Carrying amount	Contractual cash flows	Within 1 year	1-5 years
Current portion of borrowings and debentures	₩ 4,111,136	₩ 4,189,752	₩ 4,189,752	₩ -
Trade and other payables	4,934,368	4,934,368	4,934,368	-
Other financial liabilities (current) (*)	490,303	491,338	491,338	-
Borrowings and debentures	8,014,280	8,658,368	-	8,658,368
Other financial liabilities (non-current) (*)	175,403	181,096	-	181,096
Total	₩ 17,725,490	₩ 18,454,922	₩ 9,615,458	₩ 8,839,464

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

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

Market Risks

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

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

1) Currency risk

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

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

Assets and liabilities denominated in foreign currencies other than the Group functional currencies as of December 31, 2012 and 2011 are as follows:

Korean won (millions)

	December 31, 2012		December 31, 2011	
	Assets	Liabilities	Assets	Liabilities
USD	₩ 1,008,930	₩ 2,906,270	₩ 1,156,679	₩ 2,754,621
EUR	-	2,088	-	2,120
JPY	38,638	1,050,343	51,979	1,336,630
Total	₩ 1,047,568	₩ 3,958,701	₩ 1,208,658	₩ 4,093,371

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The closing rates as of December 31, 2012 and 2011 and the average rates for the years ended December 31, 2012 and 2011 are as follows:

	Average rate		Closing rate	
	2012	2011	December 31, 2012	December 31, 2011
USD	₩ 1,126.88	₩ 1,108.11	₩ 1,071.10	₩ 1,153.30
EUR	1,448.20	1,541.42	1,416.26	1,494.10
JPY	14.1314	13.9131	12.475	14.8516

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, 2012 and 2011 are summarized as follows:

Korean won (millions)

	December 31, 2012		December 31, 2011	
	10% increase	10% decrease	10% increase	10% decrease
USD	₩ (63,977)	₩ 63,977	₩ (33,079)	₩ 33,079
EUR	(209)	209	(194)	194
JPY	(37,427)	37,427	(67,724)	67,724
Total	₩ (101,613)	₩ 101,613	₩ (100,997)	₩ 100,997

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, 2012 and 2011 of the Group entities in Korea.

2) Interest rate risk

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

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

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

Korean won (millions)

	December 31, 2012	December 31, 2011
Variable rate instruments:		
Financial assets	₩ 416,869	₩ 378,997
Financial liabilities	2,473,551	2,925,941

Sensitivity analysis of interest income and expenses from changes in interest rates as of December 31, 2012 and 2011 are summarized as follows:

Korean won (millions)

	December 31, 2012		December 31, 2011	
	100bps up	100bps down	100bps up	100bps down
Interest income	₩ 4,169	₩ (4,169)	₩ 3,790	₩ (3,790)
Interest expense	4,948	(4,948)	7,865	(7,865)

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

(b) Capital Management

The objective of the Group's capital management is maximizing shareholders' profit through maintaining a sound capital structure. The Group makes necessary improvements to the capital structure through monthly monitoring of financial ratios such as liabilities to equity ratios and net borrowings to equity ratios in order to achieve an optimal capital structure.

The liabilities to equity ratios and net borrowings to equity ratios as of December 31, 2012 and 2011 are as follows:

Korean won (millions)

	December 31, 2012	December 31, 2011
Liabilities (a)	₩ 21,138,720	₩ 18,382,115
Equity (b)	15,718,325	14,679,005
Financial instruments (*) (c)	1,616,024	2,640,760
Borrowings (d)	12,125,416	10,185,931
Liabilities to equity ratio (a/b)	134.48%	125.23%
Net borrowings to equity ratio ((d-c)/b)	66.86%	51.40%

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

38 Subsequent Events

On January 24, 2013, the Group issued five-year bonds which are exchangeable to shares of LOTTE Himart Co., Ltd. and the proceeds from the bonds are USD 300,000,000 (KRW 321,200 million). The qualifying exchange period is from March 5, 2013 to January 15, 2018. Total number of exchangeable shares of the bonds is 3,538,224. If all of the exchangeable bonds are exchanged, the Company's ownership of LOTTE Himart Co., Ltd. will be reduced from 65.25% to 50.26%.

Overseas Store Network

as of December 31, 2012

Department Stores	4
Hypermarkets	137
Cinemas	14
Home Shopping	2

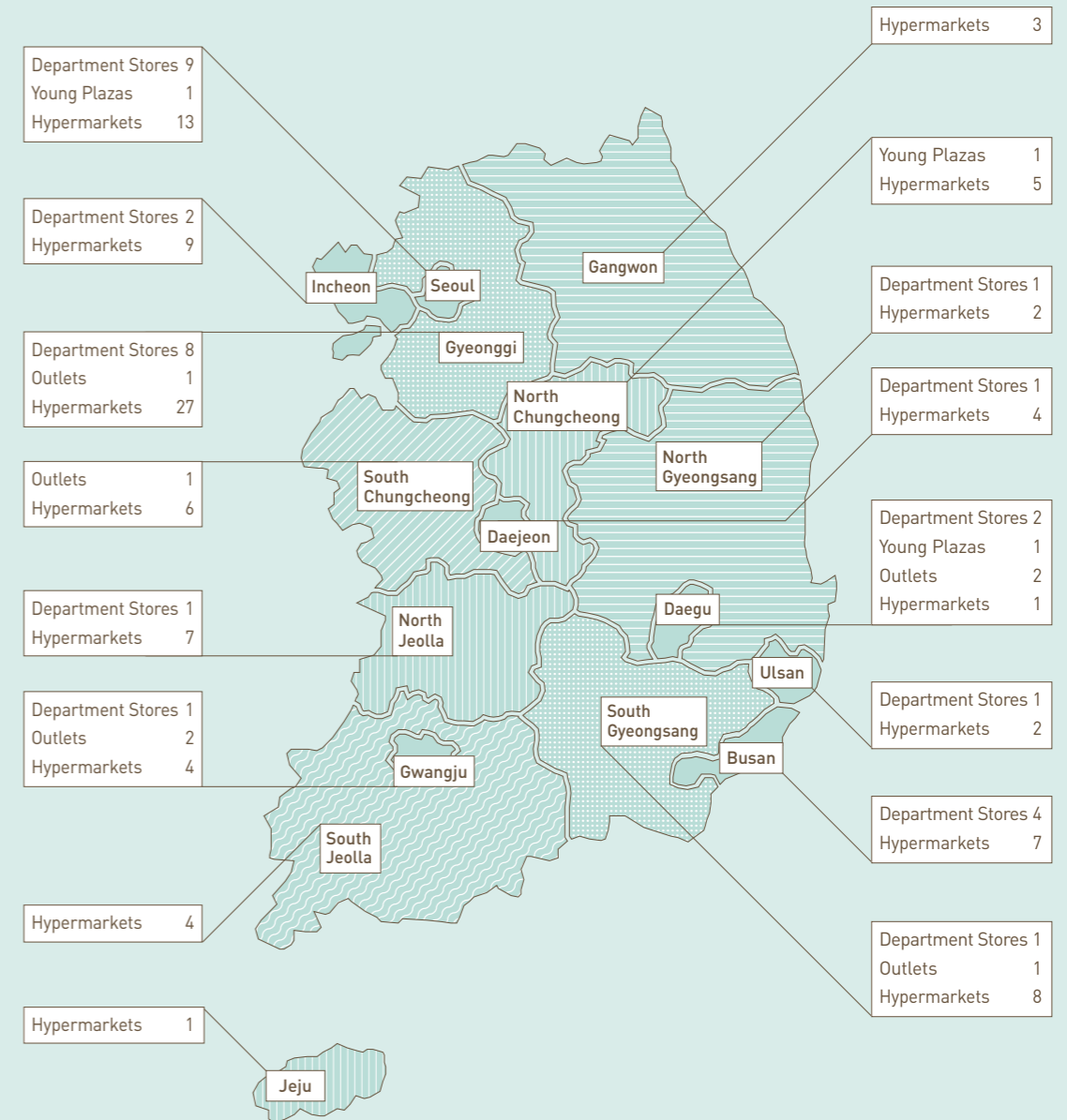


Domestic Store Network

as of December 31, 2012

Department Stores*	31
Young Plazas	3
Outlets	7
Hypermarkets	103

* Includes three stores managed under contract



Leading Korean Retail into a Global Future

Lotte Shopping has been winning the hearts of 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-one department stores*, 103 hypermarkets, and 391 supermarkets in 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. * Includes three stores managed under contract

November 1979

Lotte Shopping Co., Ltd. is founded

December 1979

Opened first Lotte Department Store

June 1996

Launched Lotteshopping.com

April 1998

Opened first Lotte Mart

January 2000

Spun off LotteShopping.com to create Lotte.com

May 2001

Opened first Lotte Super

October 2002

Acquired Nowon department store from Midopa

November 2003

Opened first Lotte Young Plaza

December 2003

Spun off credit card business to subsidiary Lotte Card

March 2004

Acquired 25 supermarkets from Hanwha Super

March 2005

Opened Avenuel

February 2006

Listed on London and Korean stock exchanges

August 2006

Acquired majority stake in Woori Home Shopping

September 2007

Opened first overseas department store in Moscow

December 2007

Entered Chinese hypermarket sector with acquisition of Makro

August 2008

Opened second overseas department store in Beijing

October 2008

Entered Indonesian hypermarket sector with acquisition of Makro

Opened first Lotte Outlets in Gwangju

December 2008

Opened first Lotte Premium Outlets in Gimhae

Opened first hypermarket in Vietnam

September 2009

Opened second Lotte Outlets in Gwangju

Acquired 7-Eleven convenience store chain (Korea Seven)

October 2009

Acquired Times hypermarket chain in China (68 stores)

January 2010

Acquired Buy The Way convenience store chain

February 2010

Acquired GS Square department stores and GS Mart hypermarkets

August 2010

Acquired equity stake in Chinese home shopping network Lucky Pai

Opened first Lotte Outlets in Daegu

Opened first greenfield hypermarket in Indonesia (Store 20)

November 2010

Acquired Nice Claup Fashion

February 2011

Opened Second Lotte School in Vietnam

April 2011

Opened Lotte Mall Daegu Esiapolis

June 2011

Opened third overseas department store in Tianjin

August 2011

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

December 2011

Opened Lotte Premium Outlet Paju

Opened Lotte Mall Gimpo Airport

January 2012

Acquired CS Mart

February 2012

Launched Lotte DatViet home shopping business in Vietnam

March 2012

Launched eLotte premium online mall

Opened Lotte Department Store Pyeongchon

May 2012

Acquired two Grand Department Store branches

June 2012

Opened first VIC Market Geumcheon

August 2012

Acquired Lotte Square

September 2012

Included in DJSI for fourth consecutive year

Opened Lotte Department Store Tianjin

100th Lotte Mart store in China

October 2012

Acquired Himart

December 2012

Opened fourth Lotte Mart store in Vietnam

January 2013

Acquired Lotte Midopa

Opened Lotte Outlet Seoul Station

February 2013

Opened thirty-second Lotte Mart store in Indonesia

May 2013

Named world's third-largest retailer by *Forbes*

Becoming one of Asia's top-ten global corporations

Lotte Group was established when its first chairman, Shin Kyuk-ho, founded Lotte Confectionery in 1967. Over the past forty-plus years, it has grown into one of 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.

Retail	Tourism & Services	Finance
Lotte.com Lotte Midopa Lotte Shopping Lotte Station Building FRL Korea Woori Home Shopping Korea Seven Buy The Way Lotte Himart	Lotte Giants Lotte Corporation Busan Lotte Hotel Hotel Lotte Lotte City Hotel Lotte Jeju Resort Lotte Buyeo Resort Lotte Logistics Lotte International Daehong Communications Lotte Data Communication Company Hyundai Information Technology Cinematrading D-Cinema of Korea Lotte JTB Lote Asset Development	Lotte Card Lotte Capital Lotte Insurance KI Bank Mybi Hanarocard eB Card Gyeonggi Smartcard Incheon Smartcard Chungnam Smartcard
Food	Chemicals & Construction & Manufacturing	Welfare, R&D
Lotte Confectionery Lotte Chilsung Beverage Lotte Samkang Lotte Ham Lotteria Lotte Boulangerie Lotte Asahi Liquor Kirin	KP Chemical KP Chemtech Korea Fuji Film Lotte Chemical Honam Mitsui Chemicals Daesan MMA Lotte Aluminium Canon Korea Business Solutions Lotte Engineering & Construction	Lotte R&D Center Lotte Academy Lotte Scholarship Foundation Lotte Welfare Foundation

Our continuing success is due to our belief that we should be ready and able to serve our customers wherever they are and regardless of what they want.

Now we will satisfy their needs even more by becoming one of the world's retail leaders.



ir.lotteshopping.com

Visit Lotte Shopping's investor information website to find out the latest news and information about us.

LOTTE SHOPPING