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your
lovely life



Lotte Shopping Annual Report 2014



Log In

LOTTE SHOPPING

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Every day, Lotte Shopping creates new, exciting, fun-filled shopping experiences for its many valued customers. Our commitments to evolve and innovate make us the benchmark by which our competitors in the retail shopping industry are measured.

Company Profile

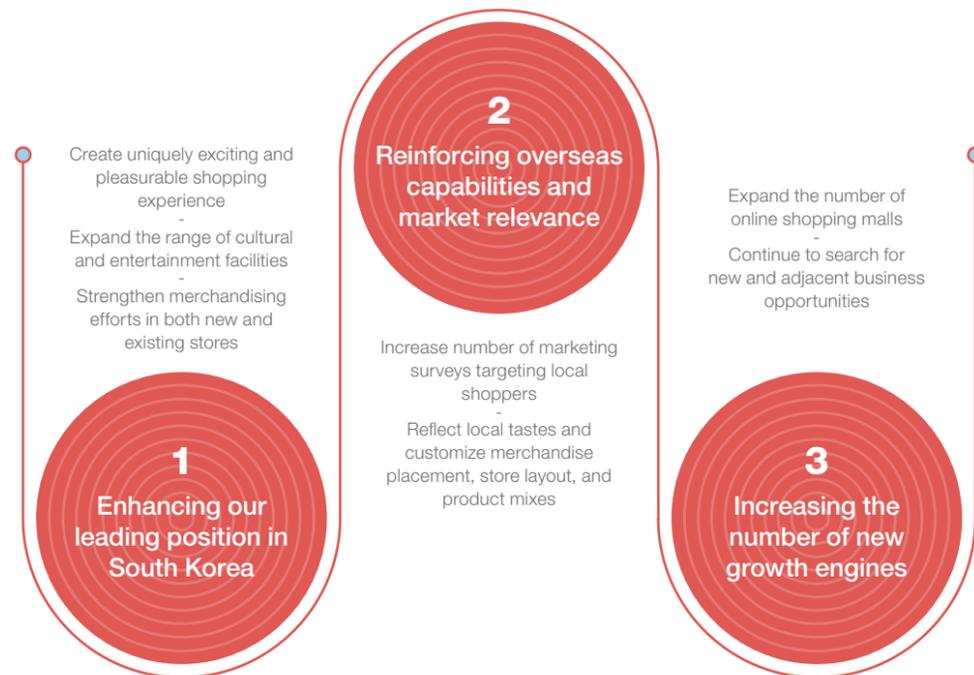
Leading the global retail industry

Overview

Lotte Shopping has been a favorite among South Korean shoppers since 1979. During this time, we've evolved from a traditional department store into the country's retail industry leader, advancing into such areas as hypermarkets, supermarkets, cinemas, finance, home shopping, specialty and convenience stores. We've expanded our presence in overseas markets including Russia, China, Vietnam, and Indonesia, offering our global customers a comfortable and convenient shopping environment accessible through a wide range of sales channels. Our two primary goals are to realize balanced growth in terms of both sales and profits and to faithfully fulfill our corporate social responsibilities. In doing so, our ultimate goal is to become one of the world's leading retail players.

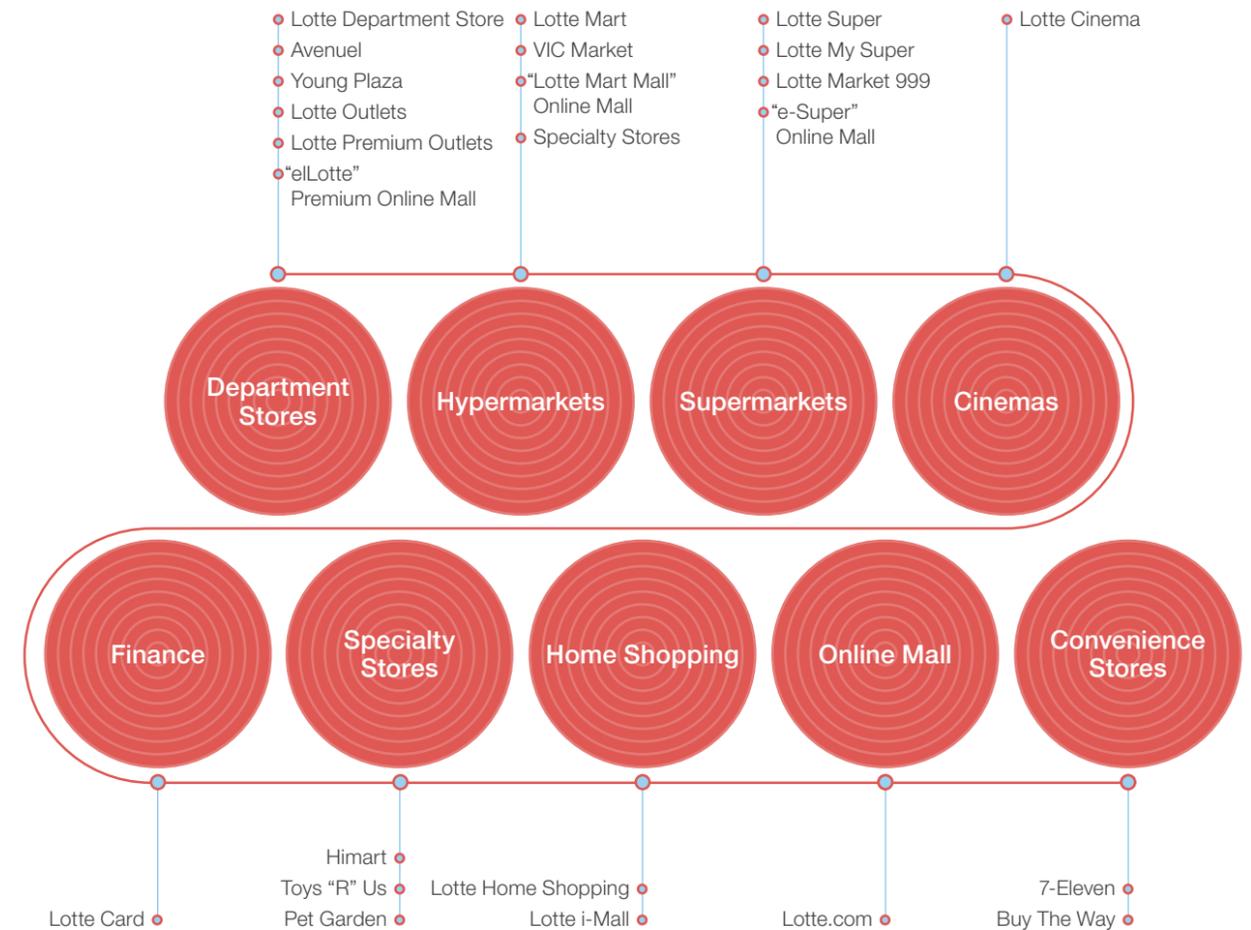
Key Strategies

In order to achieve our vision, we have adopted three key strategies: enhancing our leading position in South Korea, reinforcing overseas capabilities, and increasing the number of new growth engines. Each of these strategies is supported by detailed action plans.



Retail Channels

Lotte shopping operates South Korea's largest and most diversified retail channels, including department stores, premium outlet malls, Internet malls, hypermarkets, grocery supermarkets, specialty and convenience stores, cinemas, consumer finance, and home shopping channels. In addition, we are constantly introducing new channels, including specialty outlet malls, multipurpose shopping malls, and omni-channel services that will offer the best convenience quality between our online and offline retail services.





Financial Highlights

Condensed Consolidated Financial Position Statements

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

	2014	2013	2012
Assets	40,072	38,973	36,857
Current assets	14,975	14,291	13,071
Non-current assets	25,097	24,682	23,786
Liabilities	22,528	22,047	21,139
Current liabilities	12,534	12,332	11,089
Non-current liabilities	9,994	9,715	10,050
Shareholders' equity	17,544	16,925	15,718
Capital stock	157	157	145
Capital surplus	3,911	3,911	3,622
Hybrid securities	269	269	-
Capital adjustments	(78)	(72)	(49)
Retained earnings	12,360	11,895	11,093
Accumulated other comprehensive income	107	63	67
Non-controlling interests	818	702	840

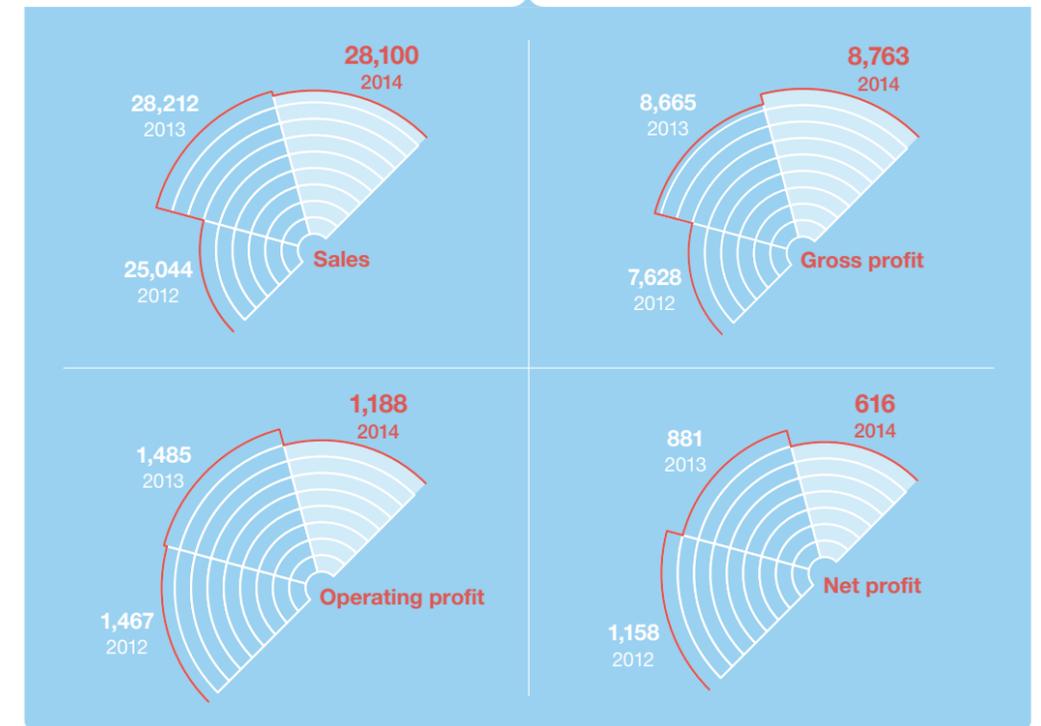
Condensed Consolidated Comprehensive Income Statements

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

	2014	2013	2012
Sales	28,100	28,212	25,044
Sales cost	19,337	19,547	17,415
Gross profit	8,763	8,665	7,628
Selling and administrative expenses	7,575	7,179	6,161
Operating profit	1,188	1,485	1,467
Profit before income tax	1,078	1,318	1,631
Net profit	616	881	1,158

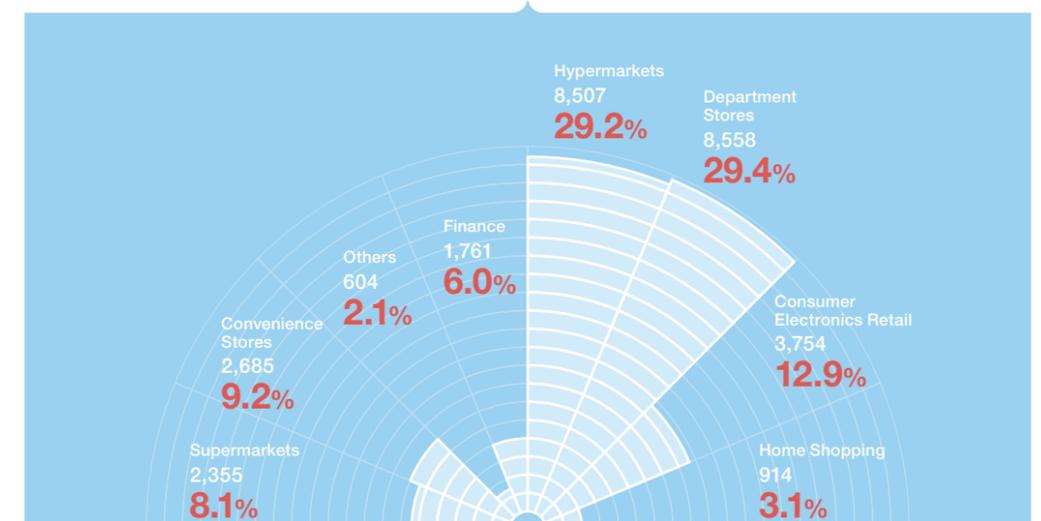
Key Operating Results

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



Sales by Business Division

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



Milestones

Reshaping the retail industry in South Korea and beyond

Lotte Shopping has been leading the retail shopping industry in South Korea for the past thirty-six years. When we decided to expand from our roots as a traditional department store into such areas as hypermarkets, supermarkets, and cinemas, the rest of the country's players followed our lead in seeking new and creative ways to enrich the market's shopping cultures. Our commitment to offering our customers a happy and convenient shopping experience now extends well beyond South Korea to include consumers around the world.



Global Network

Constantly expanding across the globe

Lotte Shopping has been continuously expanding its global footprint, with a special emphasis on Russia, China, Vietnam, and Indonesia. We work in cooperation with the local communities in these countries, providing our customers there with exciting new shopping experiences. One of our greatest ambitions is to become one of the world's leading retail players.

Moscow

-  Department Stores / Outlets / Shopping Malls
-  Hypermarkets

RUSSIA

Department Store	1
------------------	---

CHINA

Department Stores	5
Hypermarkets	103
Cinemas	11
Home Shopping	1

VIETNAM

Department Store	1
Hypermarkets	10
Cinemas	16
Home Shopping	1

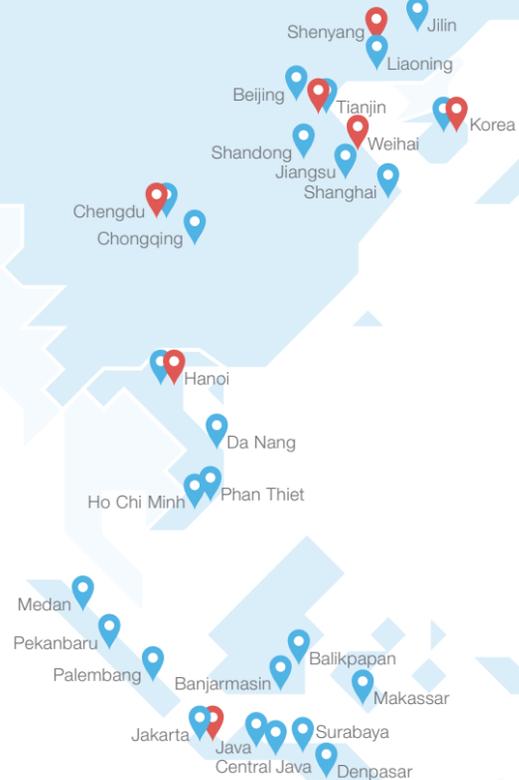
INDONESIA

Department Store	1
Hypermarkets	38

KOREA

Department Stores	35*
Outlets	14
Hypermarkets	114
Supermarkets	507
Cinemas	103
Home Shopping	1

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



08-09

retailing today...

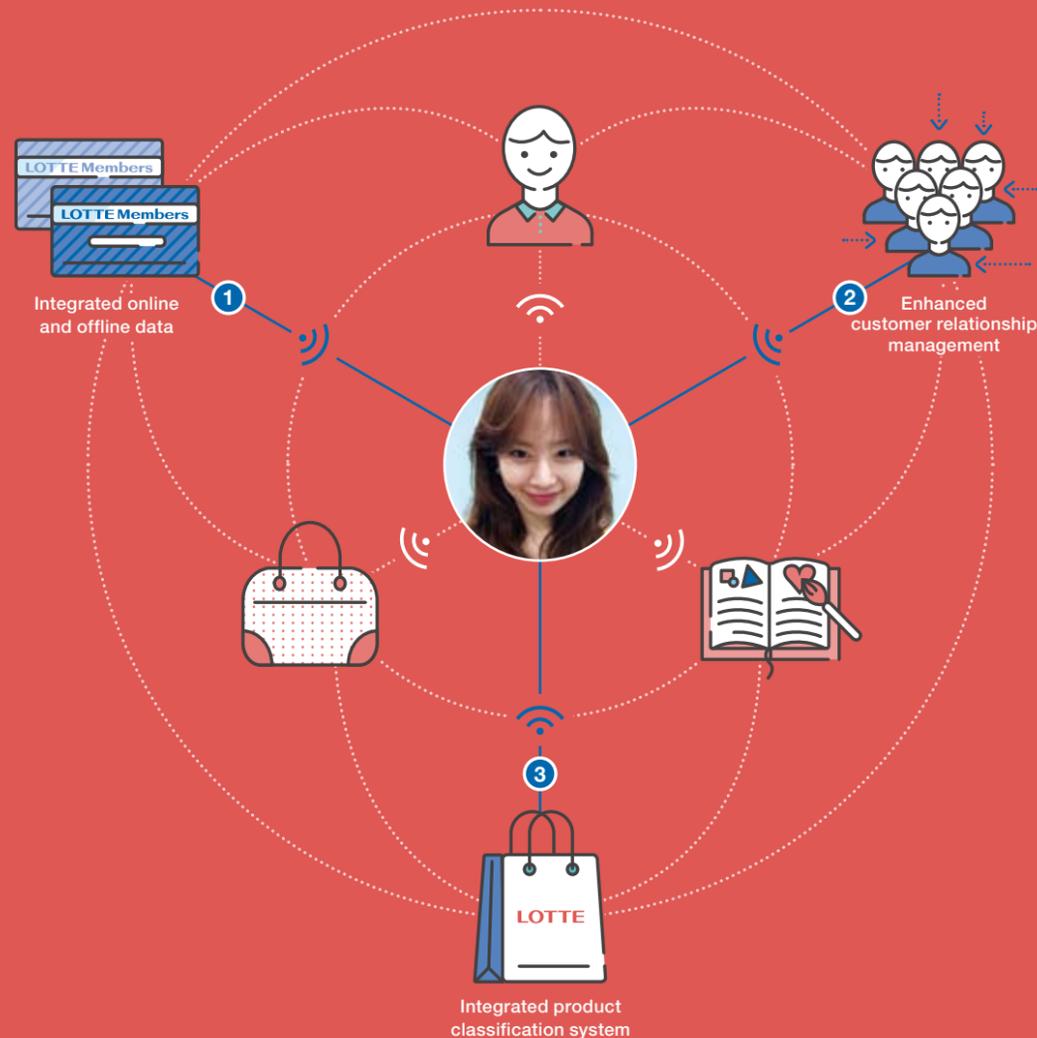


Lotte Shopping believes that today's retail shopping experience should reflect the tastes and lifestyles of every shopper—a concept that is especially evident in our omni-channel strategy. This allows our many satisfied customers to enjoy the widest possible variety of our goods and services, creating happier lives and greater fulfillment.

analyzing customer needs

Customized Marketing Utilizing Big Data

We use big data to suggest shopping options that best suit the needs of all our customers. This is done by analyzing their past shopping behavior in both our online and offline channels.



1

Our online and offline data on our shoppers is now fully integrated, improving customer satisfaction and increasing the efficiency of our interactions with them.

2

Our big data information base has also been integrated to enable our affiliates to partner with us in their marketing efforts, which will be further developed into an open platform.

3

Our product classifications, which used to vary between our affiliates and stores, are now standardized as part of a fully integrated system, resulting in more accurate marketing analyses.

Retailing Today Vol.1

reflecting your tastes

Our use of big data gives us a better idea of what our customers like in terms of products, channels, and services. This helps us to know what works best for them.



LOTTE
DEPARTMENT STORE



Membership Discount

-15%

Buying that "must-have" item

I wanted to buy new shoes for the spring. I got a 15% discount coupon, so I bought them right away! How did Lotte Department Store know what I was thinking?

Truong Thi Diep 2 hours ago
Wow! I'd like a Lotte Department Store coupon too!

Zhang Li 1 hour ago
That's what big data marketing is all about!



Lotte Department Store, Jamsil

Do I look good in these glasses?

I found the exact glasses that I wanted, thanks to Lotte Shopping.

♥ 17 💬 7



Lotte Department Store, Main

Which one should I choose?

I just received a whole bunch of information on new products from my favorite brand. I like them all! Which one should I choose?

♥ 13 💬 4



Jeong Myung 1 hour ago
It's spring, the season for bright colors!



Soo Bin
Writer

How about a party with fruit?

Lotte Mart sent me a discount coupon for fruit, so I bought a lot. Let's have a "vitamin party" at my place!

♥ 29 💬 9



Yeon Kyung 2 hours ago
I need fresh vitamins! I'm on my way!



Jeong Woo 1 hour ago
Me too! I'm coming there now, with some wine!

customizing consumption

Lotte Shopping uses cutting-edge IT processes so that shoppers can make their purchases when, where, and how they choose.



Yeon Kyung
Designer

Shopping my way!

I shopped like crazy on my way home from work. Lotte Shopping lets me buy stuff whenever and wherever I want to!

❤️ 12 💬 3

Truong Thi Diep 2 hours ago
Me, too. I'm doing my shopping sitting in a café!



Yeon Kyung
Designer

Do you know about Lotte Mart's Smart Coupon Book?

It's so easy! All you have to do is download it from the Lotte Mart Mall app. You can use the discount coupons anywhere and everywhere, either online or offline.

❤️ 23 💬 8



It's fantastic!



I'm in a department store, and coupons pop up automatically whenever I pass a product! Lotte Shopping's Smart Beacon Service! I love it!

❤️ 31 💬 11

Ju Seok 3 hours ago
It even tells you how to get to a store!



You can buy movie tickets on mobile too!



Lotte Cinema's mobile ticket service lets you buy tickets to your favorite movies online. So easy! So simple!

❤️ 17 💬 3



I am showrooming!

I am at the store's showroom to check out something before I order it online. They even have an information booth here to ensure that you don't get lost.

❤️ 10 💬 5



Lotte Department Store, Jamsil

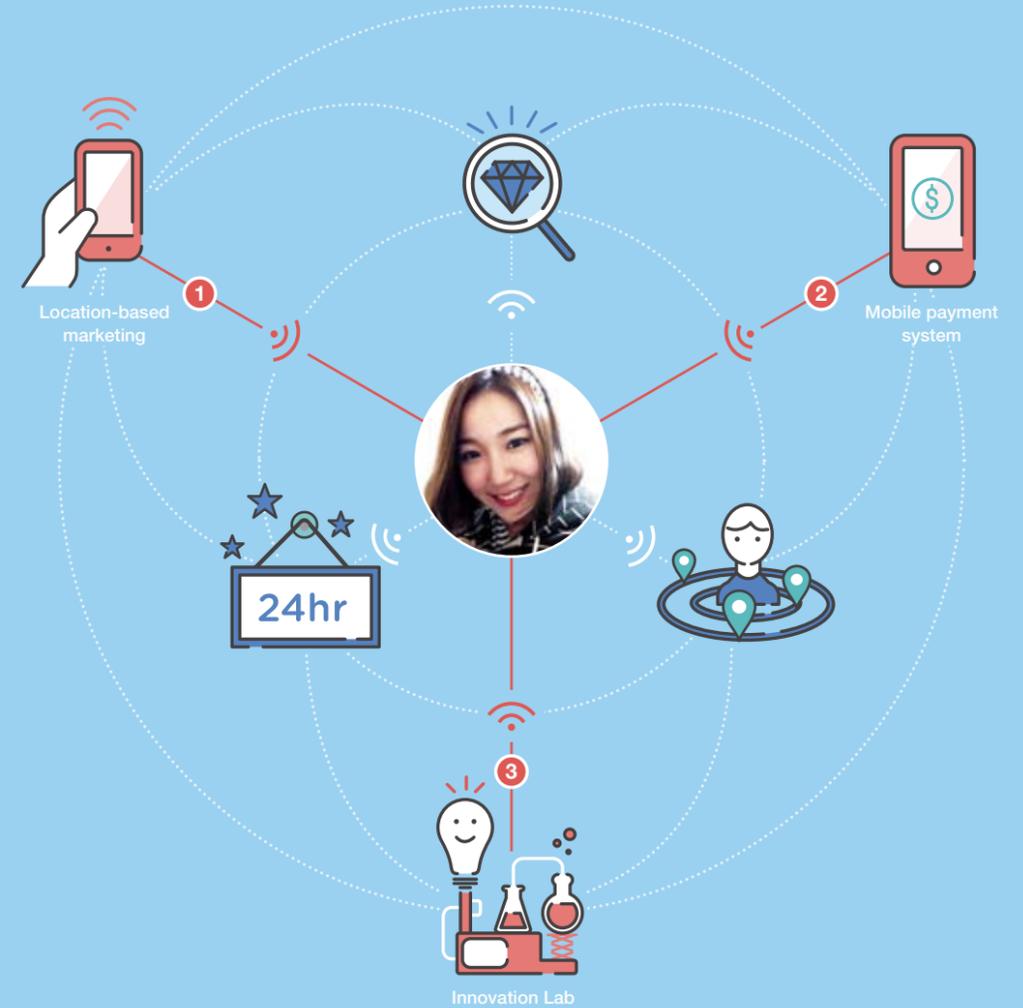
Which one do you think looks better?

I can't make up my mind!

making the most of changing customer behavior

Smart Shopping through Cutting-Edge IT

Our cutting-edge, IT-based marketing processes help our customers shop smarter and more efficiently. They share the best features of our online and offline channels.



1 This enhances our customer service. A prime example is our Smart Beacon Service, which uses Bluetooth technology to provide up-to-the-minute store and shopping information.

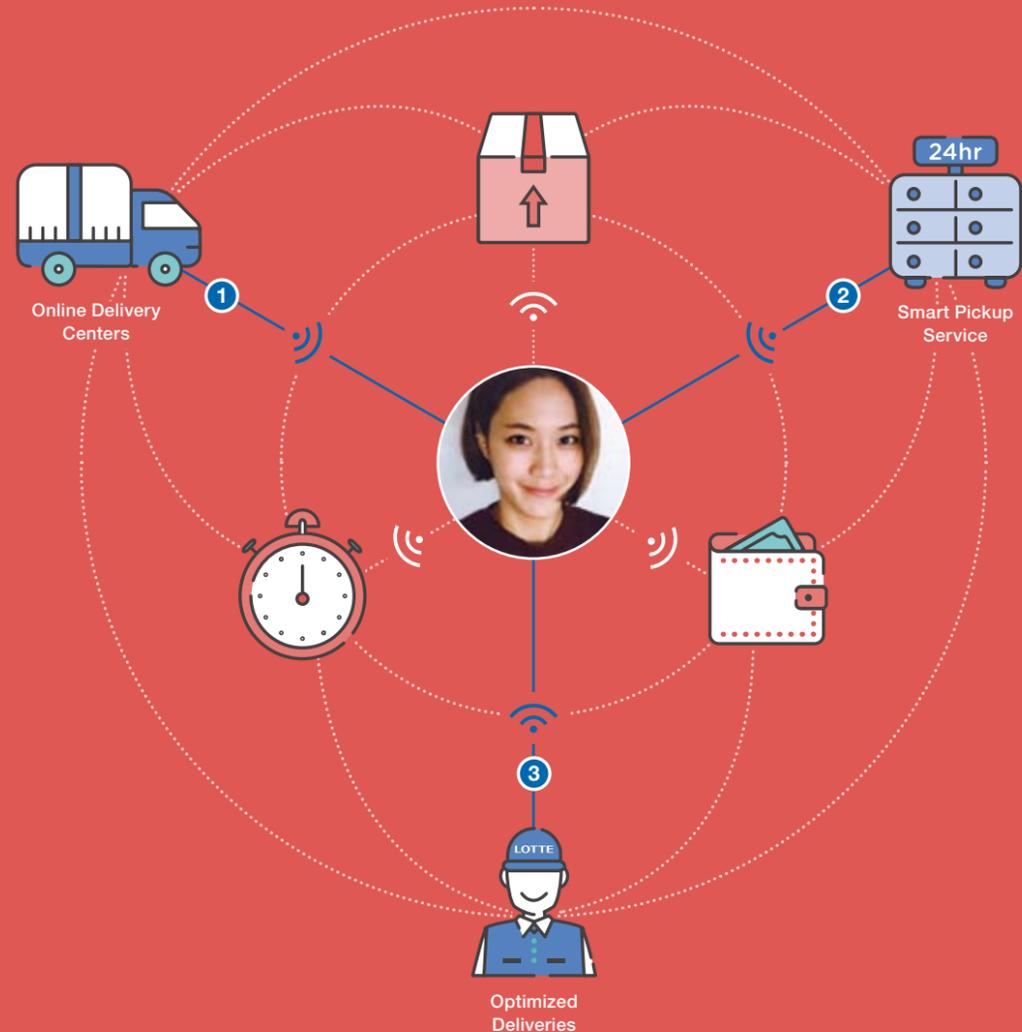
2 Our customers can make payments more easily and efficiently, either online and offline, by enrolling in our mobile payment system. A few clicks save them a lot of time and effort.

3 Our Innovation Lab is a state-of-the-art technology service that allows us to research, develop, and commercialize faster, more efficient IT-based omni-channel services.

maximizing customer convenience

Fast and Easy Deliveries

Are you too busy to take your purchases home yourself?
No need to worry! Our fully-integrated logistics system lets you have it delivered
wherever and whenever you want.



1

Our online delivery center is a no-charge, one-stop facility where customers' orders are verified, selected, packaged, and sent out for delivery when, where, and however they're wanted.

2

Our Smart Pickup Service allows customers to pick up things they've ordered online wherever they want them, including pick up points at our offline stores, convenience stores, and subway stations.

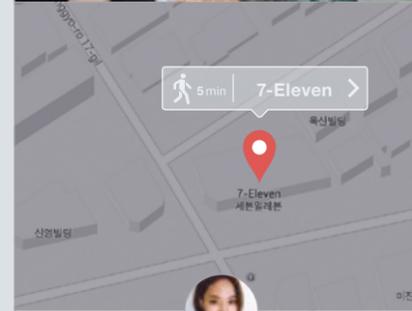
3

Our fully-integrated logistics system takes care of deliveries from all our online channels, guaranteeing our customers fast and friendly service that's always on time.

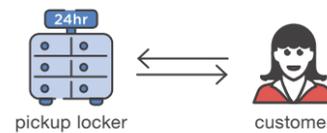
Retailing Today Vol.3

enjoy convenience

We make sure that you receive everything you've ordered when, where, and how you want it delivered, saving you time and trouble.



Jeong Myung
Doctor



Pick up your purchases at your local 7-Eleven!

Today I picked up some perfume that I'd ordered at eLotte yesterday, at the 7-Eleven near my home. Smart Pickup Service is really great!

❤️ 35 💬 7



Lotte Department Store, Main

❤️ 33 💬 5

Using 24/7 locker

I picked up a new product that I'd bought online at a special price from the 24/7 pickup locker at Lotte Department Store. How I love shopping these days!



Ju Seok 1 hour ago
Wow, really? I should try it too!



Ever tried a pickup desk?

You can pick up things you've ordered online, usually the same day.

❤️ 12 💬 3



Soo Bin 3 hours ago
I even bought a purse from a QR Store while I was there.



Jeong Woo 2 hours ago
And I had my jeans mended!



Zhang Li 1 hour ago
Wow, shopping has become so much easier!



Addicted to mobile shopping

Lotte Shopping's mobile shopping mall makes shopping so easy you might get addicted to it!

❤️ 24 💬 11



Lotte Delivery Center

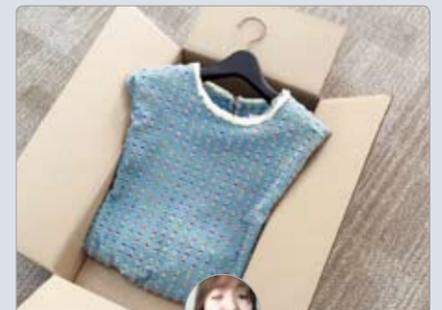
❤️ 19 💬 4

Online delivery center makes everything so easy!

My online purchases are delivered almost immediately by the Lotte Super online delivery center!



Yeon Kyung 1 hour ago
It's free too! Shopping at a Lotte Super is the best!



Seong Yeon
Student

Home delivery!

I already got something that I ordered yesterday from Lotte Home Shopping!

sharing lovely life

Shopping's always fun. It's even better with a friend — or a bunch of them!



Lotte Department Store, Jamsil

Shopping at a Lotte Department Store!

My local Lotte Department Store has so many fashion brands for young people like me!

❤️ 32 💬 4



Ju Seok 2 hours ago
You should have brought me with you! I need to buy a slip-on.



Yeon Kyung 1 hour ago
She brought me!



Posing for a photo with Bitdori!

❤️ 29 💬 10



Myeong Ju 4 hours ago
Where do you do that?



Yeon Kyung 3 hours ago
At Lotte Premium Outlets Gwangmyeong.



Myeong Ju 3 hours ago
People go there a lot these days. I wanna go too.



Myeong Ju
Teacher



Hey! What do you think of this?

I'd like to wear my grey dress when our parents meet, but he says he likes my two-piece suit better. What do you think?



Lotte Outlets, Goyang

Three friends who haven't seen each other for a long time!

Shopping and chatting at Lotte Outlets with friends I haven't seen for such a long time!

❤️ 37 💬 14



Lotte Premium Outlets, Gwangmyeong

A photo of me and my lovely life

Shopping, restaurants, and cultural attractions. Take your pick! There's so much to do at Lotte Shopping!



In front of Lotte World Mall

❤️ 19 💬 7

shop simple, save time, enjoy more.



Lotte Shopping's omni-channel services elevate shopping to a whole new level. We use IT and big data to help you customize your shopping experience and make it more comfortable and convenient. We'd love to have you visit us to see how we've brought the future of retail to everyone today!



CEO's Message



Lee Won-Joon



President & CEO

Using our exciting and innovative
omni-channel services to make
your shopping experience happier
and more convenient



DJSI

**INDUSTRY
GROUP
LEADER**

Lotte Shopping was included
in the Dow Jones Sustainability
Index World Sector for the sixth
consecutive year. It was also
named an "Industry Group Leader"
in the retail category for
the fifth straight year.

DEAR VALUED CUSTOMERS AND SHAREHOLDERS:

Growth in South Korea's retail industry slowed noticeably in 2014 as the result of a continuing weak economy. In response to this challenge, Lotte Shopping adopted a strategy of change and innovation, offering our customers a host of exciting new values. For example, we strengthened our foundations for growth through new store openings and the adoption of our omni-channel strategy, which offers shoppers the very best of our online and offline channels all at the same time. We also continued with our commitment to ethical management and shared growth with our many business partners. Now I want to tell you about some of our achievements in 2014 and our plans for 2015.

ACHIEVEMENTS IN 2014

Enhancing core capabilities and fine-tuning our omni-channel strategy

Retail consumption in South Korea remained stagnant in 2014 due to increasing household debt and falling incomes. As a result, people started buying fewer goods, often shopping within their own neighborhoods or ordering purchases directly from overseas. This meant that growth in the department store, hypermarket, and supermarket sectors slowed, while convenience stores and online shopping sites saw their sales multiply.

Lotte Shopping responded to this situation by opening new stores both at home and abroad, by diversifying our mix of retail channels and formats, and by making dramatic changes to our product lineup. We also fine-tuned our omni-channel service, which combines the best of our online and offline platforms. Our sales edged back by 0.4% over the year to KRW 28,099.6 billion, while our operating profit and net profit decreased to KRW 1,188.4 billion and KRW 615.7 billion, respectively.

No.3

**FORBES GLOBAL
2000 RANKING
DEPARTMENT
STORES CATEGORY**

Forbes Global 2000 confirmed Lotte Shopping's status as the world's third-largest retailer (and Asia's largest) in the department stores category for the second consecutive year.

In the department store business, we opened six new stores in South Korea, including a department store, an Avenuel, a multipurpose shopping mall, and an outlet. We also opened new stores in Shenyang, China and Hanoi, Vietnam. In addition, we launched a number of new omni-channel services, such as a Smart Coupon Book app, a Smart Beacon Service, a Pickup Desk, and a Pickup Locker.

In the hypermarket sector, we took a series of steps to increase the competitiveness of our online malls and our wholesale membership club. We also enhanced our slate of PB products, added more goods from abroad, and built more overseas sites. Our number of hypermarket stores also grew, with seven new ones opening at home and another ten in China, Indonesia, and Vietnam.

In terms of our financial services, we focused on growing trust among our customers and in the market. We also entered into the installment financing business for automobiles and durable goods, began offering general loan products, and launched a series of new mobile services for FinTech. In our consumer electronics business, we added to our product mix, enhanced our price competitiveness, and opened seventy-seven new stores across the country.

The supermarket business once again enjoyed brisk sales in its online shopping operations. We also opened a number of new stores, bringing the total across the country to 507. This means that we still lead the industry in terms of store numbers and sales volume. Our home shopping operations also grew, largely due to healthy online sales, while our operating profits grew sharply YoY. We also focused on sharing growth with our business partners, strengthened our mix of fashion and beauty products, and continued with our omni-channel sales strategies.

The main focuses of our convenience store business remained qualitative growth, product competitiveness, customer convenience, and shared growth with our franchisees. The cinema business also continued to grow, both in terms of sales and revenues. In addition to opening a number of new sites, we profited from the popularity of many of the movies that we showed, some of which we had produced ourselves. We also added more overseas operations.

PLANS FOR 2015

Improving business results and ensuring sustainable management

South Korea's economy is expected to grow moderately in 2015, due to a global economic recovery and falling oil prices. The growth of the retail industry will still remain sluggish due to high household debt and low levels of disposable income. Online shopping will continue to grow, particularly in the mobile sector, although customers will be more discrete in their shopping and altering their buying patterns.

Lotte Shopping will enhance its competitiveness, secure new growth engines, and continue responding to changes in the market. The department store business will focus on profitability and efficiency, while the hypermarket business will add more overseas goods to its product mix. We will also refurbish our online malls and MWC stores. The finance business will continue with its innovative FinTech services, add more supplementary operations, and strengthen its online and mobile presence.

Our consumer electronics, supermarket, convenience store, and home shopping businesses will all bolster their product mixes and enhance their presence online. We will also add to the efficiency and the profitability of their operations, and expand our omni-channel marketing strategies at all our locations.

Lotte Shopping is committed to fulfilling all its corporate social responsibilities. This includes helping to ameliorate pressing social issues and keeping our air and water clean and safe. In addition, we work with our large and small business partners and the communities in which we live and work to ensure that they share in our growth and prosperity. Last, but not least, we do our utmost to ensure that our employees enjoy pleasant and comfortable working conditions and that all our customers feel relaxed and happy while shopping in our facilities.

We are also dedicated to open, honest, and principled management. Our employees work hard to earn the trust of our customers and shareholders by behaving honestly and ethically at all times. In addition, we are committed to full and open communications with all our stakeholders.

Lotte Shopping's principal goal is to grow into one of the world's leading retailers. We will do this by thinking and acting creatively and innovatively, and by always keeping the best interests of our customers at the forefront of all our decision-making. Thank you.

President & CEO **Lee Won-Joon**

464th

**FORTUNE
GLOBAL 500
RANKING**

Lotte Shopping gained a listing in the Fortune Global 500 for the first time ever, ranking 464th out of 500 as measured by its sales revenue in 2013.



Board of Directors

Enhancing corporate value and
gaining shareholder trust through
transparent and responsible management



✓ **Shin Kyuk-Ho** ≡

General Chairman,
Lotte Group



✓ **Shin Dong-Bin** ≡

Chairman,
Lotte Group



✓ **Lee In-Won** ≡

Vice Chairman,
Lotte Group



✓ **Shin Young-Ja** ≡

Chairman,
Lotte Foundation



✓ **Lee Won-Joon** ≡

President & CEO,
Lotte Shopping



✓ **Kim Tae-Hyeon** ≡

Lawyer,
Yulchon LLC



✓ **Park Dong-Yul** ≡

Chairman, Ho Ram
Tax Accounting Corporation



✓ **Kwak Su-Keun** ≡

Professor, Seoul National
University Business School



✓ **Ko Byung-Kee** ≡

Former Executive,
Lotte Aluminium



✓ **Moon Chung-Sook** ≡

Professor,
Sookmyung Women's University



✓ **Kang Hye-Ryun** ≡

Professor, Ewha Womans
University Business School

The Board of Directors of Lotte Shopping consists of eleven people, six of whom are outside directors. Moon Chung-Sook and Kang Hye-Ryun were named new outside directors at the company's general shareholders' meeting held in March 2015. The BOD operates an Audit Committee, an Outside Director Nomination Committee, and an Internal Transaction Committee. This ensures full transparency and a full range of expertise in all the Board's deliberations.



Lotte Group

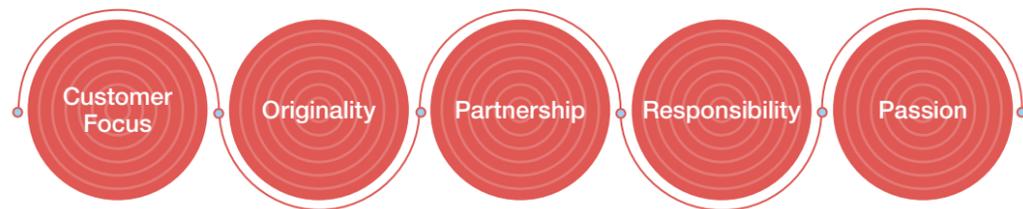
Developing into one of Asia's top ten global corporations

Vision 2018

Lotte Group began with the founding of Lotte Confectionery in 1967. Over the past forty-plus years, it has grown into one of South Korea's largest conglomerates, with interests in food, retail, tourism, chemicals, construction, machinery, finance, information and technology, and services. Its overarching goal is to become one of Asia's top ten global corporations by 2018.

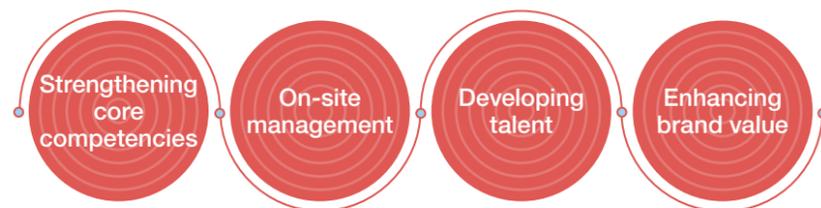
Core Values

Our core values include being customer-centric, creative, cooperative, responsible, and passionate. They are part and parcel of the belief system of every person that is employed in a Lotte business.



Management Policy

Lotte Group's management policies are reflected in all its business activities and operating standards. We enhance our global competitiveness by strengthening our core competencies, focusing on our frontline operations, developing talent and advancing our brand value.



Business Areas

Lotte Group is involved in many business areas, including retail, food and pharmaceutical, tourism and leisure, construction and real estate, finance and insurance, petrochemicals and chemicals, machinery and electronics, advertising, communications, manufacturing, and welfare and R&D.

RETAIL <ul style="list-style-type: none"> · Lotte Shopping · Lotte Himart · Lotte International · Lotte Station Building · Lotte Logistics · Korea Seven · Lotte.com · Lotte Asahi Liquor · FRL Korea · Woori Home Shopping · Buy the Way · Korea STL · Lotte Suwon Station Shopping Town · Lotte DF Global · Lotte DF Retail · S&S International · NCF · Lotte Songdo Shopping Town · CS Mart · Lotte Department Store Masan 	FOOD / PHARMACEUTICAL <ul style="list-style-type: none"> · Lotte Confectionery · Lotte Food · Lotte Chilsung Beverage · Lotteria · CH Beverage · MJA Wine · HUI · Chung-buk Soju · Cinema Food · Baekhak Beverage · Lotte-Nestle Korea 	TOURISM / LEISURE <ul style="list-style-type: none"> · Lotte Hotel · Lotte Giants · Lotte Hotel Busan · Lotte Corporation · Lotte Cinema Trading · D-Cinema of Korea · Lotte JTB · Lotte Gimhae Development · Universal Studios Korea Development 	CONSTRUCTION / REAL ESTATE <ul style="list-style-type: none"> · Lotte Engineering & Construction · Lotte Asset Development · Lotte Incheon Development · Universal Studios Korea Resort Asset Management Corporation · Donggyo Cheonggiwa PFV · Lotte Incheon Town · Magok District PFV · Eunpyeong PFV
FINANCE / INSURANCE <ul style="list-style-type: none"> · Lotte Insurance · Lotte Capital · Lotte Card · Lotte PS Net · Mybi · Busan Hanaro Card · eB Card · Gyeonggi Smartcard · Incheon Smartcard · Chungnam Smartcard · Jang Kyo PFV 	PETROCHEMICAL <ul style="list-style-type: none"> · Lotte Chemical · Seetec · KP Chemtech · Daesan MMA · Lotte Mitsui Chemicals · Lotte Versalis Elastomers 	CHEMICAL <ul style="list-style-type: none"> · Korea Fuji Film · Sambark LFT 	MACHINERY / ELECTRONICS <ul style="list-style-type: none"> · Lotte Aluminium · Canon Korea Business Solutions
ADVERTISING <ul style="list-style-type: none"> · Daehong Communications · Mobizap Media · M.Hub 	COMMUNICATIONS <ul style="list-style-type: none"> · Hyundai Information Technology · Lotte Data Communication · Han Paysys 	MANUFACTURING <ul style="list-style-type: none"> · DACC Aerospace · Angel With 	WELFARE / R&D <ul style="list-style-type: none"> · Lotte R&D Center · Lotte Academy · Lotte Scholarship Foundation · Lotte Welfare Foundation



At a Glance

our lovely
2014
for you



Our commitment to change and innovation continued in 2014. As has always been the case, our goal was to be a leader in the global retail industry and to satisfy our customers around the world by offering them a diverse and constantly growing selection of products, channels, and services.

≡ May

5

Opened Lotte Department Store and Young Plaza in Shenyang, China

Location. Shenyang, Liaoning Province, China
Format. Multipurpose shopping mall
Total Floor Area. 122,000m²
Number of Brands. Over 420

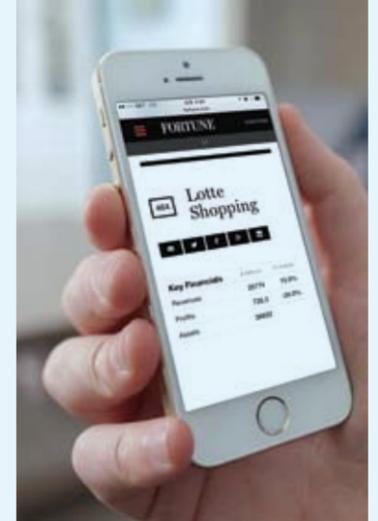


Lotte Department Store Shenyang consists of a department store and a Young Plaza. It is the company's fifth store in China, as well as the largest. Boasting more than over 420 brands, it mainly targets younger-aged shoppers.

≡ July

7

Fortune Global 500 Ranking



464th

Lotte Shopping won a listing in the Fortune Global 500 for the first time. Ranked 464th as measured by its 2013 sales revenues, it was the only South Korean retailer to make the list.

No.3



Ranked third in the department stores category by Forbes Magazine

Lotte Department Store ranked third in the department stores category in 2014 in Forbes Magazine's Global 2000 list of leading global public companies for the second consecutive year. It was particularly cited for its global competitiveness and its status as the largest department store in Asia.

≡ August

8

Opened first supermarket in Indonesia

Location. Jakarta, Indonesia
Format. Supermarket
Floor Area. 1,061m²
Number of Products. Over 10,000



Lotte Mart Kemang, the company's first-ever supermarket in Indonesia, opened in August. Although the company had already opened a number of wholesale and retail stores in Indonesia, the opening marked its first foray into the country's supermarket sector.

≡ September

9

Opened Lotte Department Store and Lotte Mart in Vietnam

Location. Hanoi, Vietnam
Format. Department store and hypermarket
Floor Area. Department Store: 27,000m²
hypermarket: 2,698m²
Number of Brands. Department Store: Over 270



Lotte Department Store Hanoi and Lotte Mart's Lotte Center Hanoi opened simultaneously in the second-tallest building in Vietnam. The Hanoi facility, the first Lotte Department Store in Vietnam, boasts a wide variety of South Korean and overseas brands, including luxury products, fashions, and consumer electronics. Lotte Mart's Lotte Center Hanoi offers shoppers a wide selection of high-quality and imported goods, as well as groceries.

≡ October

Opened Lotte Outlets Goyang Bus Terminal

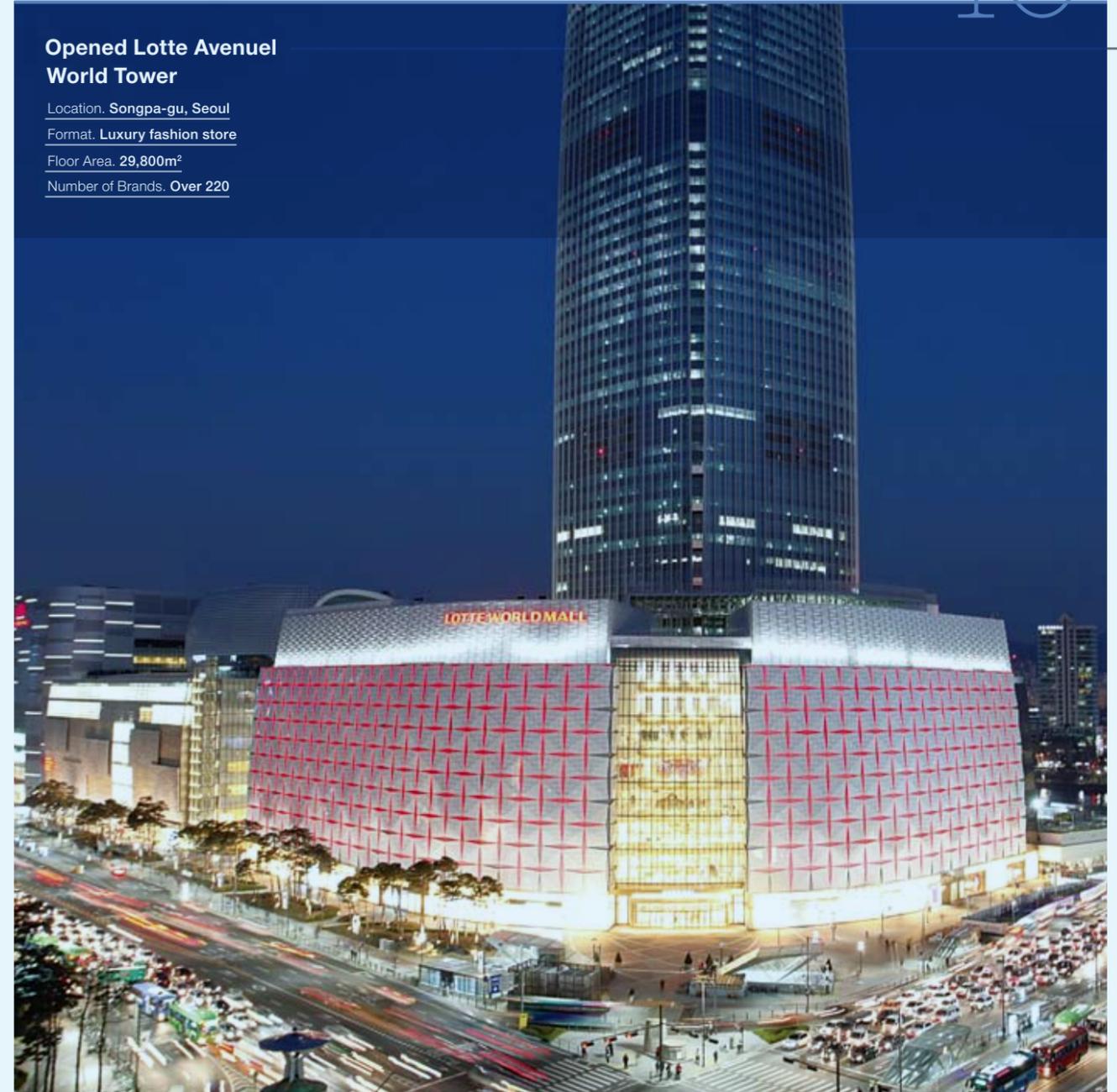
Location. Goyang, Gyeonggi-do
Format. Downtown outlet
Floor Space. 18,600m²
Number of Brands. Over 200



Lotte Outlets Goyang Bus Terminal in Goyang, Gyeonggi-do boasts more than 200 brands, with a special focus on fashion. Located inside the Goyang Bus Terminal, it offers one-stop shopping and a wide range of cultural and leisure facilities.

Opened Lotte Avenuel World Tower

Location. Songpa-gu, Seoul
Format. Luxury fashion store
Floor Area. 29,800m²
Number of Brands. Over 220



Lotte Department Store opened a Lotte Avenuel World Tower at the Lotte World Mall. With six stories above ground and one below, it is the largest luxury fashion store in South Korea. Boasting over 220 domestic and international brands, including Hermes, Chanel, and Louis Vuitton, it will soon become Asia's premier luxury brand store.

DJSI



Named Industry Group Leader in the DJSI World Sector for the fifth straight year

Lotte Shopping was included in the 2014 Dow Jones Sustainability Index World Sector for the sixth consecutive year. It was also named the Industry Group Leader in the retail category for the fifth straight year. Twenty-two South Korean companies were listed, with Lotte Shopping being the only retail player.

10

≡ October

Unveiled
Lovely Life slogan

Lovely Life

Lotte Department Store unveiled its new corporate slogan, "Lovely Life". It was chosen to reflect the company's commitment to offering customers everywhere a warm, welcoming, and convenient shopping experience. The company also offers its employees and business partners a series of awards recognizing their contributions to customer happiness and satisfaction. In addition, it carries out a campaign to help children suffering from rare and incurable diseases.



The Lovely Life slogan was commemorated through a special art contest, which attracted more than two thousand photographs and illustrations from over eight hundred customers. Thirty of the best entries were selected for use in company mailers, bonus gift designs and other marketing efforts, as well as on its billboards.

≡ November

11

Opened Lotte Mall Suwon

Location. Suwon, Gyeonggi-do
Format. Multipurpose shopping mall
Total Floor Area. 233,926m²
Number of Brands. Over 560



Opened in November, Lotte Mall Suwon includes a Lotte Department Store, a shopping mall, a Lotte Mart, and a Lotte Cinema. Comprising three stories below ground and eight above, it is designed to offer the people of Suwon and Gyeonggi-do a rich and diverse shopping experience.

≡ December

Opened Lotte Premium Outlets Gwangmyeong

Location. Gwangmyeong, Gyeonggi-do
Format. Premium outlet
Total Floor Area. 125,600m²
Number of Brands. Over 300



Lotte Premium Outlets Gwangmyeong is South Korea's very first downtown premium outlet. It is especially convenient for shoppers, since it can be reached through either KTX's Gwangmyeong Station or four nearby expressways.

Opened Lotte Outlets Guri

Location. Guri, Gyeonggi-do
Format. Downtown outlet
Total Area. 39,606m²
Number of Brands. Over 160



Lotte Outlets Guri shares its space with a number of other Lotte facilities, including a Lotte Mart, a Himart, a Lotte Cinema, and a Toys "R" Us store. It offers busy customers a fast and convenient means of buying almost everything they need in a single shopping environment.

Opened Lotte Mall East Busan

Location. Gijang-gun, Busan
Format. Multipurpose shopping mall
Total Floor Area. 257,500m²
Number of Brands. Over 550

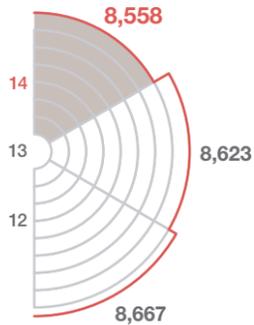


Lotte Mall East Busan opened in December. It is the largest such facility in Asia, consisting of a shopping mall, a Lotte Mart, a Lotte Cinema, and a Lotte Premium Outlets. When they get tired of walking the malls, shoppers can enjoy a wide mix of cultural, entertainment and relaxation facilities and an appetizing selection of food and beverage offerings.

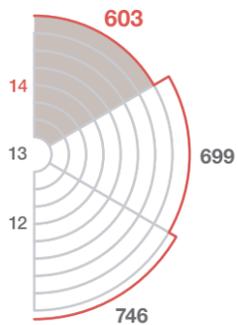


Lotte Department Store

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



Major businesses

- Lotte Department Store
- Avenuel
- Young Plaza
- Lotte Outlets
- Lotte Premium Outlets
- "elLotte" Premium Online Mall

2014 Results

South Korea's department store industry experienced slow growth in terms of both sales and net revenue in 2014 due to increasing household debt, decreasing consumption, and competition from overseas. Outlets, online malls, and multipurpose shopping malls saw steady growth as shoppers tightened their belts. Sales at mobile shopping sites more than doubled over the year.

Lotte Department Store responded to this challenging situation by adopting a number of innovative retail strategies. These included enhancing customer convenience through our omni-channel strategy linking our online and offline channels, and building more outlets and online and multipurpose malls. As a result, gross sales fell by only 0.7% over the year to KRW 8,558.2 billion, while our operating profit declined by 13.8% to KRW 602.6 billion.

We opened a number of new outlets, multipurpose malls, and department stores in 2014 as part of our strategy of increasing our growth through diversification. In October, for example, we opened the Lotte Avenuel World Tower in the newly opened Lotte World Mall. The nation's largest luxury fashion facility, it boasts more than 220 luxury brands from home and abroad. We expect that it will soon grow into Asia's premier luxury brand store.

Some of our other openings included a Lotte Outlets in the Goyang Bus Terminal in October and Lotte Premium Outlets in Gwangmyeong and Lotte Outlets in Guri in December. Lotte Premium Outlets Gwangmyeong,

which carries over 300 brands, is conveniently located near an Ikea store. We also opened the Lotte Mall Suwon and the Lotte Mall East Busan in November and December. The former facility is a multipurpose mall, while the latter one is the nation's largest such facility, featuring a premium outlet, a shopping mall, a hypermarket, a cinema, and more than 550 brands.

Our online shopping business enjoyed continued growth, with mobile shopping accounting for 41.8% of our online sales. We also added to our range of omni-channel services, maximizing customer convenience by offering shoppers the best features of our online and offline channels. These include a Smart Coupon Book app, a Smart Beacon Service, which keeps customers informed based on their locations, Pickup Desk, which allows customers to pick up their online orders at our brick and mortar stores, and Pickup Locker, which allows them to pick up products outside of normal business hours.

We also opened new stores overseas, including the Lotte Department Store Shenyang which opened in May. Consisting of a department store and a Young Plaza, it is the largest Lotte Department Store in China. We also opened a branch in Hanoi, selling a product mix that includes groceries, luxury brands, and furniture.

Sales at our first overseas branch in Moscow exceeded KRW 100 billion, backed by realigned merchandise including the introduction of new brands, leading to expectations for an improved earnings outlook going forward.

Plans for 2015

The South Korean department store industry is expected to grow marginally in 2015. Consumers will continue being conservative in their buying behavior, favoring direct purchases from overseas or at online malls, outlets, and multipurpose malls.

In response to this situation, Lotte Department Store will continue strengthening its foundations for growth. This will involve a continuing emphasis on profit-centered management and customer-oriented merchandizing and marketing activities, global, cultural, and customized marketing, and marketing that targets foreign tourists. Our omni-channel strategy will continue apace, along with the building of more outlets and multipurpose malls. A new store opening is planned for Ho Chi Minh City in Vietnam and we will concentrate our competencies on enhancing our merchandizing competitiveness by store and on securing revenue bases.

**September 2014
Opened Lotte Department Store Hanoi, our first-ever branch in Vietnam**

Lotte Department Store Hanoi, our first-ever branch in Vietnam, boasts nearly three hundred brands, including luxury, fashion, and furniture products. Shoppers can enjoy a high-end shopping experience and then relax at one of many coffee shops and restaurants.

**November 2014
Launched Smart Beacon Service**

This service offers busy shoppers real-time information on their smartphones. It uses location-based technology to determine the type of information they receive.

russia 1
china 5
indonesia 1
vietnam 1

department stores* 35
outlets 14

Number of overseas stores

Number of domestic stores

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





www.lottemart.com
m.lottemart.com

Lotte Mart

2014 Results

South Korea's hypermarket industry faced a very difficult operating environment in 2014. It included tightened governmental regulations, intensifying competition, and falling consumer confidence, leading to dramatic changes in shoppers' buying patterns.

Lotte Mart responded to this situation by increasing its range of globally sourced products, strengthening its overseas operations, and enhancing the competitiveness of its growth channels, such as online malls and wholesale membership clubs. Gross sales were KRW 8,506.5 billion, while operating profit was KRW 83.1 billion. We also continued opening new stores throughout the year. These included the VIC Market Kintex in Ilsan and six hypermarkets such as the Lotte Mart Gwangbok in Busan.

Our specialty stores, including Toys "R" Us and Pet Garden, enjoyed steady growth. We opened four new Toys "R" Us stores, bringing the total to thirty-two. We also opened eight new Pet Garden stores, bringing the total to twenty-six.

In addition to adding more "value innovation" products to our lineup, we continued developing more private brand products, including Tongkeun and Sonkeun. We also launched a line of very popular health foods, such as Tongkeun Probiotics, Tongkeun Vitamin, Tongkeun Red Ginseng Extract, and Tongkeun Omega 3. Some of our other new private brand products included potato chips, instant rice, diapers, and chicken parts. We also launched Prime L Gold, a premium-level

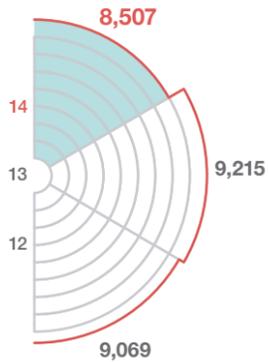
private brand that attracts customers who value exclusiveness, authenticity, and rarity. As a result, our private brand sales made up 25.9% of our total.

We also continued with our omni-channel strategy, which combines the best of our online and offline services for added customer convenience. Lotte Mart Mall online shopping was renewed to provide such new menus as Customized Shopping and Agricultural Products. Some of our other new services included a Smart Beacon Service and Night Pickup Service. These initiatives resulted in increased online shopping on both the Internet and mobile platforms throughout the year.

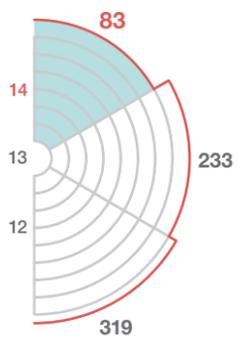
Lotte Mart Mall sales grew by 19.3% over the year, bringing its share of our total sales to 3.7%. Mobile shopping enjoyed particularly impressive growth, with mobile app downloads exceeding one million. Sales in this sector accounted for more than 40% of our online total.

We also continued expanding overseas, opening four new stores in China, two in Indonesia (including our first supermarket), and four in Vietnam. We added to our operational efficiency in China by opening some stores and closing others and by improving our product lines and inventories. Sales in Indonesia and Vietnam increased dramatically, thanks to a favorable market environment and some very effective marketing campaigns.

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



Major businesses

- Lotte Mart
- VIC Market
- "Lotte Mart Mall" Online Mall
- Specialty Stores

Plans for 2015

Hypermarkets will experience continued slow growth in 2015. In response, industry players will focus on strengthening their growth channels and price competitiveness. They will also try to differentiate their products even more in an effort to cope with the growing popularity of small-quantity, locally-based shopping, mobile shopping, and purchases from abroad.

Lotte Mart will strengthen its competitiveness and add more growth engines. We will also sell more fresh foods and introduce premium-level, small-quantity health products to cope with the consumer's constantly changing consumption patterns. Our omni-channel strategy will be enhanced by developing the VIC Market online mall app, opening more delivery centers for products ordered online, and diversifying our product sourcing—especially from overseas. Our international operations will focus on growing sales and earnings and opening new stores.

August 2014 Entered supermarket business in Indonesia

The new Lotte Mart Kemang is our first supermarket in Indonesia. It boasts over 10,000 products, with a particular focus on groceries. We plan to add more premium-level imported products to our mix going forward.

October 2014 Renovated Lotte Mart Mall

We renovated Lotte Mart Mall, our online shopping facility, as part of our omni-channel strategy. Its new features included such functions as "Customized Shopping" and "Check Information on Offline Stores".

china 103
indonesia 38
vietnam 10

lotte mart 109
vic market 5

Number of overseas stores

Number of domestic stores

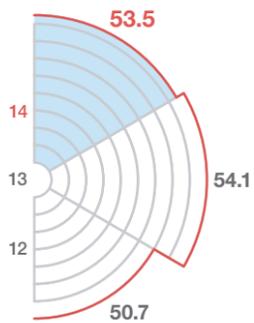




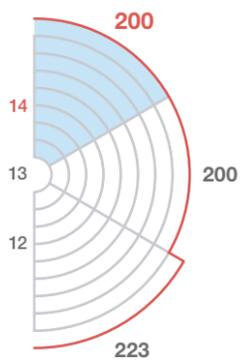
www.lottecard.co.kr
m.lottecard.co.kr

Lotte Card

Credit card use In trillions of KRW



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



2014 Results

South Korea's credit card industry posted KRW 594 trillion in total billings, up about 1.5% year over year. Debit card use also continued to grow. The sector's overall level of profitability fell due to problems with data leakage of personal information, lowered sales commissions, tighter governmental regulations, and intensifying competition.

Lotte Card users charged KRW 53,484.4 billion to their accounts in 2014, resulting in an operating profit of KRW 199.6 billion. The number of cardholders declined to 7,225,000, due to the issue of data leakage of personal information and a decision by the country's financial authorities to reduce the number of dormant accounts. Our market share was 9.0%, the fifth-highest in the industry.

Our main goal in 2014 was to regain the trust of our customers and the market. This included carrying out a "Listen & Change" PR campaign, abolishing the expiration dates on the use of credit card points, and introducing a "Wi-Sumer" monthly expenditure limit alert service and SMS text message notifications of cancelled sales.

We also entered a number of new businesses, including general loan products and installment financing for automobiles and durable goods. Our competitiveness in the mobile sector was enhanced by introducing the industry's first "one click" easy payment service and a "clutch" electronic wallet service. Our omni-channel services were expanded to include the location-based Smart Beacon Service.

Plans for 2015

We are forecasting increased governmental regulations, continuing low growth, and intensifying competition in 2015. Competition for payment platforms will also increase due to the activation of FinTech. In addition to focusing our energies on developing new growth engines, we will emphasize the need for more efficiency in our management operations.

We will also launch a number of new products, including specialized cards by retail channel and "Happy Child" cards. Other steps include expanding our "one click" easy payment service, adding to our omni-channel marketing operations, and increasing our use of big data to enhance our marketing efforts.



Number of cardholders

7,225,000

Market share

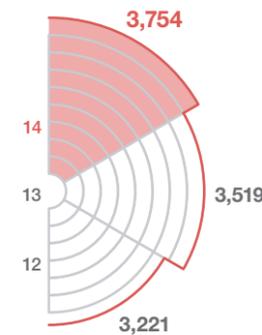
9.0%



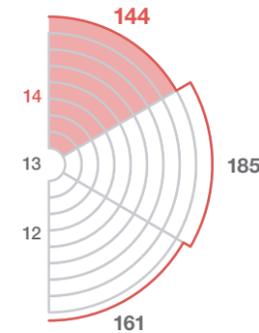
www.himart.co.kr

Himart

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



2014 Results

Sales of consumer electronics slowed in 2014 due to lower demand for seasonal products in a weak economy and the impact of the new Mobile Devices Distribution Improvement Act. Himart responded by enhancing its product and price competitiveness and opening more stores. Sales grew by 6.7% YoY to KRW 3,754.3 billion, while operating profit fell by 21.9% to KRW 144.4 billion due to increased expenses related to new store openings.

We opened seventy-seven new stores. They included locations in new business districts, such as the Himart Lotte World Tower. We also completed placing our products in every Lotte Mart store, using a "shop-in-shop" format. We now operate 436 directly-run stores, eleven logistics and service centers, and one materials terminal.

We also added to our product mix. This included selling Apple products in an "Apple Zone" in one hundred of our stores. We also met the constantly changing needs of our customers by marketing ELEXION PB products, Coway rental goods, mobile devices by Huawei, and installment water purifiers. New additions to our omni-channel services included the Smart Pick Service, which enables customers to order products online and pick them up at our brick and mortar stores.

Plans for 2015

Sales of seasonal appliances and mobile products are expected to increase as the economy starts growing again and the effect of the central government's Mobile Devices Distribution Improvement Act lessens. We will also take steps to enhance our efficiency and profitability, strengthen our product sourcing abilities, add premium-level home appliances and health products to our stock, and continue with our omni-channel marketing strategy by reorganizing our on-line shopping malls.



Number of domestic stores

436

Market share

49%



www.lottesuper.co.kr
m.lottesuper.co.kr

Lotte Super

2014 Results

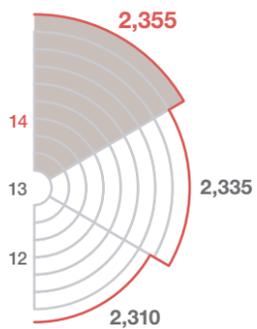
South Korea's supermarket industry grew by about 0.8% in 2014 due to a continuing economic slump and falling consumption. Sales and revenues in the super-supermarket sector also suffered from tighter governmental regulations and constantly intensifying competition.

Lotte Super recorded gross sales of KRW 2,355.1 billion in 2014, up 0.9% YoY, while operating profit fell to KRW 6.2 billion. Despite this, we still led the domestic industry in terms of store numbers and sales. Much of this success can be attributable to our strategy of enhancing our product competitiveness, as well as the introduction of our "Vegetables with Farmers' Faces" line of private brand products.

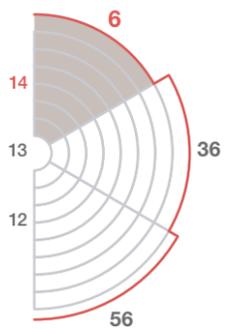
Our online shopping sales surged by 35% over the previous year, primarily due to the streamlining of our mobile app. In addition, we enhanced customer convenience and added to our price competitiveness by introducing "Lady half", a social commerce platform, and a "What Should I eat Today?" menu selection service.

Changes to our omni-channel strategy included the opening of a Lotte Fresh Mall, an online shopping site targeting the Seocho-gu and Gangnam-gu areas of Seoul. We also opened a Lotte Fresh Center logistics center, enabling us to deliver products within a time-span of a mere three hours.

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



Major businesses

- Lotte Super
- Lotte My Super
- Lotte Market 999
- "e-Super" Online Mall

Plans for 2015

South Korea's supermarket sector is anticipating more slow growth in 2015. Buying trends will continue to change due to shifting demographics, leading to an increase in online shopping and more direct purchases of products from overseas. Lotte Super will respond to these challenges by making improvements to its frontline operations, adding to the efficiency of its management, and securing new growth engines. Increased sales of fresh foods and an expansion of our direct sourcing logistics will also add to our profitability.



Market share
No.1



www.7-eleven.co.kr

7-Eleven

2014 Results

South Korea's convenience store sector grew by about 5% in 2014, even though it faced such problems as low consumer confidence, tighter governmental regulations, and a saturated market. Most of this growth was due to the rising numbers of one-person households and a movement toward small-quantity, neighborhood-based shopping. 7-Eleven's gross sales were KRW 2,684.8 billion, up 5.2% YoY. Operating profit decreased to KRW 35.3 billion, led by the closure of poorly performing stores, and increased marketing costs.

We concentrated our efforts on qualitative growth as a means of coping with the many changes in our operating environment. This included closing the most poorly performing stores and introducing a steady stream of new PB products. We also began selling the LTE USIM half-rate schedule for smartphones, and carried out a series of exchanges with 7-Eleven in the US and Japan. This latter strategy aided us immensely in the areas of product renewals and the development of jointly-produced goods.

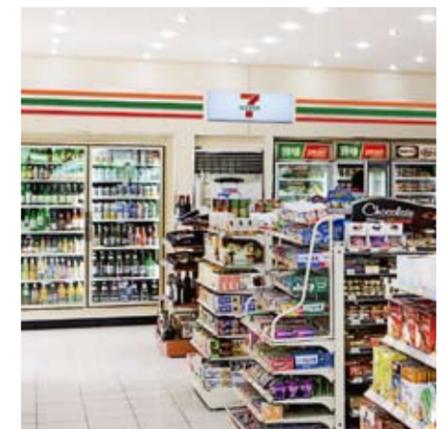
We also developed a number of new store formats that helped to transform our facilities into comprehensive convenience spaces. They included the very popular Lunchbox Café concept, which allows customers to hold business meetings while also having lunch, the Smart Beacon Service, which uses location-based technology to offer customers sales coupons on their smartphones as they come in proximity to the products, and the Pickup Locker Service, which lets customers pick up products that they

bought online at any of our facilities.

We also continued our program of mutually beneficial growth with our franchise holders. This included introducing new franchising models, a more transparent contract system, providing them with insurance in case of accidents, "win-win growth funds", and overseas training opportunities.

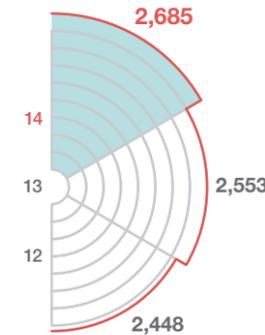
Plans for 2015

Our product competitiveness will be enhanced by developing more PB, small-quantity, and thrift-conscious products. We will also introduce more innovative operating formats. Our omni-channel marketing efforts will also be enhanced.

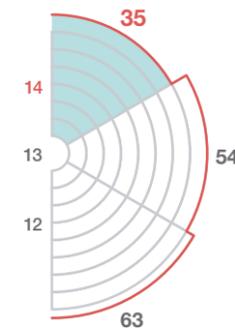


Market share
28.5%

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

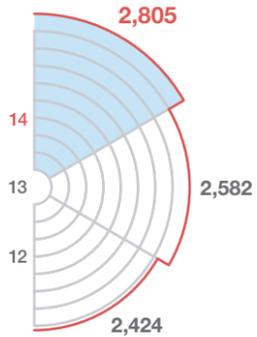




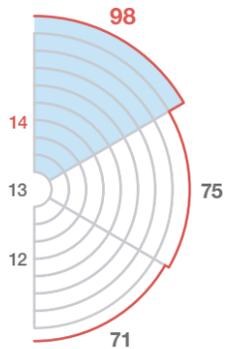
www.lotteimall.com
m.lotteimall.com

Lotte Home Shopping

Total volume of transactions
In billions of KRW



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



Major businesses

- TV/Web TV
- Catalogues
- Mobile
- Internet

2014 Results

Online shopping in South Korea grew at a 10% level in 2014, despite the country's prolonged economic slowdown. Consumption continued to shift to mobile and Internet shopping, with mobile shopping more than doubling its volume from the previous year. The home shopping industry was largely able to avoid the threat of increased competition, allowing it to concentrate on efficient management and enhancing the quality of its goods and services.

Lotte Home Shopping's total transaction volume rose by 8.6% year over year to KRW 2,805.2 billion, while that of our Internet shopping mall surged by 28.8% due to the steadily increasing popularity of mobile shopping. Purchases on our TV home shopping channel edged up by 2.6%. This was lower than the previous year's growth due to the entry of a sixth player into the market and the anticipated emergence of another. Operating profit rose by 30.5% to KRW 98.3 billion.

We also continued with our efforts to lead changes in our customers' lifestyles and shopping trends. This included adding more fashion, beauty, and rental goods to our product mix and launching a large array of PB fashion brands. In addition, we enhanced our customers' shopping convenience by offering them a 24-Hour Return Service at 7-Eleven convenience stores and the BARO TV App, enabling users to watch live TV home shopping broadcasts, order products, and pay for them with their mobile devices.

Plans for 2015

Online shopping, particularly in the mobile sector, is expected to keep growing in 2015, although competition will intensify with the entry of a seventh player into the industry and the introduction of T-Commerce digital home shopping. Lotte Home Shopping will respond to these changes by making dramatic changes to its management environment. This will include developing more PB fashion brands and home shopping products, enhancing our competitiveness in the mobile sector, and opening our own version of T-Commerce. In addition, our overseas operations in Taiwan, China, and Vietnam will see a dramatic expansion in their numbers.



Growth in mobile shopping in 2014

163%



www.lottecinema.co.kr
m.locine.co.kr

Lotte Cinema

2014 Results

South Korea's movie industry enjoyed its largest-ever sales in 2014, although most of this was due to the increased price of tickets. The total number of viewers passed the 200 million mark for the second consecutive year, while average viewing frequency per person also increased. Foreign films were more popular than home-grown productions.

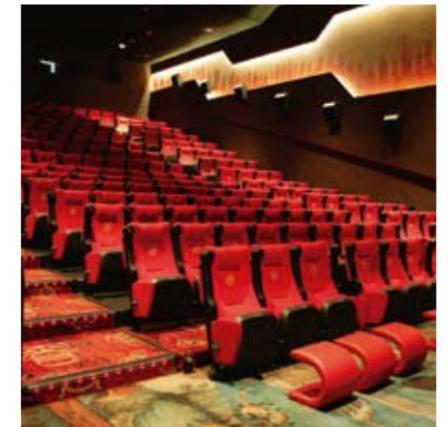
Gross sales surged by 11.7% year over year to KRW 569.3 billion. This resulted from new cinema openings, the enormous popularity of many of the movies that we presented, a rise in sales of movies produced by us, and healthy growth in our overseas operations. Operating profit rose by 9.8% to KRW 57.1 billion.

We opened four new cinemas in South Korea, giving us a grand total of 103 and helping our market share to rise to 30.1%. Our commitment to offering viewers state-of-the-art facilities also continued, including such cutting-edge technologies as Super Plex, Super Sound, Super 4D, and Super Vibe and the opening of Super Plex G, the world's largest screen, at our newly opened Lotte Cinema World Tower.

We also continued to achieve remarkable performances in China and Vietnam where the movie industry is rapidly growing. In China, we secured a total of eleven cinemas by opening two new venues including Lotte Cinema Lotte World Tower in Shenyang. In Vietnam, we added five new cinemas to operate a total of sixteen cinemas. Sales soared by 80.2% in China and by 98.6% in Vietnam.

Plans for 2015

The South Korean movie industry is expected to enjoy steady growth in 2015. Lotte Cinema will continue opening new facilities and strengthening its current operations at home, mainly by increasing its online marketing efforts and maximizing its snack bar business. In addition to producing more movies on our own, we will add to our lineup of overseas films by securing distribution rights from Paramount Pictures in the United States. Overseas, we will focus on improving our profitability through new cinema openings, increasing sales and attracting more repeat customers.



Number of overseas cinemas/screens

china 11/87
vietnam 16/73

Number of domestic cinemas/screens

103/725



Social Responsibility

love more,
share value,
live together.



Social
Contributions



Environmental
Management



Win-Win
Partnerships



Safety
Management

Lotte Shopping's corporate social responsibility activities grow in number every year. They range from helping to resolve social issues and assisting with environmental management, to working with our business partners to enhance their competitiveness and ensuring the safety of our customers and employees.

Social Contributions

We are creating a better world by sharing and caring with the communities in which we work and live.



Promoting a Higher Birthrate

Lotte Department Store has been carrying out a "Giving Birth, Wonderful World" project in tandem with the Ministry of Health & Welfare since 2009 in a bid to increase the nation's low birthrate. Our efforts include a "Room with Mom" bus that offers in-depth information on childbearing and a variety of other services to prospective and working mothers. Last year, we launched a program called "Mothers' Comfortable Healing Time", helping social workers to enjoy a cultural life with their children. We also worked with the Ministry of Gender Equality and Family to establish five childcare centers for members of the armed forces serving near the DMZ. We hope to increase their number to twelve going forward.

Helping Neighbors in Need

Lotte Department Store began a program called "Lovely House", renovating old-age nursing homes, in November 2014. The campaign is funded by a matching grant scheme based on donations from our employees. We plan to complete a total of thirty such renovations by September 2015.

Mobile Health Bus

The Mobile Health Bus provides free medical checkups to needy people across South Korea. We have helped about 2,200 people as of April 2015. People suffering from major diseases will be treated by medical experts at Korea University Anam Hospital.

Caring and Sharing Around the World

We carry out a number of caring and sharing activities in the various countries in which we operate. In 2014, for example, Lotte Department Store installed two 22-ton cisterns in areas near Hanoi, Vietnam, giving the people living there access to safer drinking water. We also started building a third Lotte School in a mountain village in Thái Nguyên province. It is slated for completion in June 2015. In addition, Lotte Mart has been supporting young soccer players and national Taekwondo players in the country since 2010. The company also offers scholarships to three Vietnamese universities.

Environmental Management

We are dedicated to keeping our planet clean and healthy for our future generations through environmental activities.



Green Card Eco-Money Points Program

Green Cards are promoted by the Ministry of Environment and South Korean retail and manufacturing companies to encourage the use of eco-friendly products. When cardholders buy Ministry-certified, eco-friendly products, the manufacturer(s) add "Eco Money" points equivalent to 1% to 5% of the total spend. The points are then exchanged for gift certificates. Lotte Department Store has been participating in this program since April 2014, adding points worth 5% of the purchase as the baseline and 25% during eco-friendly consumption periods in June and December.

Charlotte Green Dreamers

The Charlotte Green Dreamers program began in 2011. Its goal is to turn university students into green leaders by giving them opportunities to carry out a variety of environmental activities. In 2014, forty students participated in a wide range of tasks from June until October. They included workshops with presentations on retail-related subjects, camping at eco-friendly villages, and planting trees in Seoul's Sunset Park.

Environmental Management Activities with Our Customers

Lotte Department Store installed an Environmental Doomsday Clock in front of its main branch in 2013. It represents the level of crisis that the world's people face due to their penchant for destroying the environment, and reminds them of its importance by announcing an ecologically Doomsday time every year. The company distributed 100,000 eco-friendly shopping bags in 2014 in commemoration of June 5, which was Environment Day.

Reforestation Project in Mongolia

Lotte Department Store partnered with the Korea Forest Service, the Korea Green Foundation, NAMUDEUL, and the Korean Open Doctors Society to carry out reforestation and other volunteer activities in Lun Sum and Ulaanbaatar, Mongolia. They planted 800 poplar saplings to aid in preventing desertification, donated solar-powered light bulbs to 350 households, and offered free medical supplies and services to more than 2,100 residents.

Win-Win Partnerships

We are growing together with our partner companies, enhancing their global competitiveness and supporting their management.



Training and Financial Aid

Lotte Department Store operates two growth funds valued at KRW 100 billion and KRW 85 billion that its small- and medium-sized business partners can use to enhance their operations. We also manage a product development fund, a line of credit-based business financing program, a "Win-Win Growth Academy", and long- and short-term service and job training programs that can be accessed by the employees of our business partners.

Helping Our Business Partners Enter New Markets

Lotte Department Store is committed to helping its business partners enhance the value of their brands and their global competitiveness. In addition to operating Dream Plaza, a store for SMEs, at its three stores in South Korea (Main, Jamsil, and Busan), it has also held a Korean products fair at its two Chinese branches in Weihai and Shenyang.

Enhancing Communications with Our Business Partners

We meet with the CEOs of our business partners every year, and operate a number of "win-win growth" websites that let them communicate with us quickly and easily. In 2014, Lotte Department Store carried out a program called "Global Lotte: Exploring Korean History and Culture", targeting seventy collegians and children of SME partners. The exploration team visited seven cities in China.

Mutually Beneficial Development with Traditional Markets

Lotte Department Store has been operating a program aimed at making traditional markets more vibrant and interesting since 2013. After establishing a cooperative relationship with eight of them, the company went on to carry out a wide range of activities to expand their business capabilities. They included training sessions for their employees, and helping them to renovate and maintain their facilities.

Safety Management

We are ensuring the safety of our customers and employees by carefully managing our facility safety and food sanitation and protecting customer information.



Industrial Safety and Accident Prevention

We carry out safety checks at all our sites every quarter. Special attention is paid to our rear entrances, our firefighting and gas facilities, and our escalators. We have also put a comprehensive accident response system in place to help us cope with accidents whenever and wherever they may occur.

Indoor Air Quality

Lotte Department Store and Lotte Mart carry out annual air quality measurement exercises at all their indoor stores and parking lots. The surveys include testing for levels of carbon monoxide and carbon dioxide, particulates, formaldehyde, asbestos, ozone, radon, nitrogen dioxide, and volatile organic compounds. The results have consistently shown that our operations are well within the boundaries established by law and legislation.

Food Safety

Food safety is particularly important to us, since it so obviously affects the well-being of our customers. For example, Lotte Department Store obtained a Hazard Analysis and Critical Control Points (HACCP) certification to ensure the safety of its meat and marine products. During the summer, we ban the sale of products that may be susceptible to food poisoning. We also conduct regular sanitary inspections that meet strict standards set by each store in consultation with the Lotte Safety Center.

Customer Privacy and Security

We keep our customers' personal information safe and secure through a world-standard personal information security system. This includes obtaining an Information Security Management System certificate from the Korea Internet & Security Agency. Information leakages and hacking accidents are also dealt with through our Enterprise Contents Management and network monitoring systems.



Financial Statements

lower risk,
higher value,
steady efforts.



Growth in South Korea's retail industry is greatly influenced by global economic uncertainties and slowdowns in the domestic economy. Lotte Shopping enhances its management performance and strengthens its financial soundness by carrying out business strategies that are designed to cope with such changes in each of its operating divisions.



Based on a report originally issued in Korean

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

We have audited the accompanying consolidated financial statements of Lotte Shopping Co., Ltd. and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at December 31, 2014 and 2013, the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

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

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

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

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

Opinion In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2014 and 2013 and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with Korean International Financial Reporting Standards.

Other Matter The accompanying consolidated statement of financial position of the Group as of December 31, 2013, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, were audited by us in accordance with the previous Auditing Standards Generally Accepted in the Republic of Korea. We did not audit the financial statements of certain subsidiaries, whose financial statements represent 14.81% of consolidated total assets as of December 31, 2013 and 30.92% of consolidated total sales for the year then ended. Other auditors audited those financial statements and our report, insofar as it relates to the subsidiaries, was based solely on the report of other auditors.

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

KPMG Samjong Accounting Corp.

Seoul, Korea

This report is effective as of March 10, 2015, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Korean won (millions)

	Notes	December 31, 2014	December 31, 2013
Assets			
Cash and cash equivalents	8 36 42	₩ 1,928,136	₩ 1,309,484
Trade and other receivables	6 8 41 42	912,952	937,496
Other financial assets	7 8 23 42	8,598,854	8,469,947
Inventories	5 9	3,161,054	3,114,492
Income tax refund receivable		1,037	1,273
Other non-financial assets	10	373,610	436,291
Non-current assets held for sale	11	-	22,109
Total current assets		₩ 14,975,643	₩ 14,291,092
Investments in associates and joint ventures	12 13	₩ 1,163,477	₩ 1,064,346
Other financial assets	7 8 23 42	1,919,623	1,747,193
Property, plant and equipment, net	5 14 41	15,900,974	15,788,548
Investment property, net	15	537,191	477,311
Goodwill	5 16	3,277,238	3,407,535
Other intangible assets, net	5 16	878,845	933,852
Other non-financial assets	10	1,365,900	1,220,270
Deferred tax assets	35	53,435	42,419
Total non-current assets		₩ 25,096,683	₩ 24,681,474
Total assets		₩ 40,072,326	₩ 38,972,566

continued

Consolidated Statements of Financial Position

As of December 31, 2014 and 2013

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Korean won (millions)

	Notes	December 31, 2014	December 31, 2013
Liabilities			
Borrowings and debentures, net of debenture issuance costs	8 18 39 41 42	₩ 4,569,650	₩ 4,773,933
Trade and other payables	8 17 41 42	5,623,106	5,269,926
Other financial liabilities	8 23 42	612,689	589,614
Income tax payables		228,573	334,492
Unearned revenues	19	235,713	233,110
Provisions	20	54,913	46,230
Other non-financial liabilities	21	1,209,270	1,084,578
Total current liabilities		₩ 12,533,914	₩ 12,331,883
Borrowings and debentures, net of debentures issuance costs	8 18 39 41 42	₩ 8,156,914	₩ 7,901,064
Other financial liabilities	8 23 42	257,516	310,478
Employee benefit liabilities	22	82,141	82,310
Deferred tax liabilities	35	1,371,924	1,307,734
Unearned revenues	19	11,150	14,632
Provisions	20	26,803	32,613
Other non-financial liabilities	21	88,087	66,610
Total non-current liabilities		₩ 9,994,535	₩ 9,715,441
Total liabilities		₩ 22,528,449	₩ 22,047,324
Equity			
Common stock of ₩5,000 par value			
Authorized - 60,000,000 shares			
Issued and outstanding - 31,490,892 shares	1 24	₩ 157,454	₩ 157,454
Capital surplus	24	3,910,752	3,910,752
Hybrid securities	25	269,118	269,118
Capital adjustments	26	(78,452)	(72,155)
Retained earnings	27	12,360,095	11,895,378
Accumulated other comprehensive income	28	106,836	63,130
Stockholders' equity attributable to owners of the Company		₩ 16,725,803	₩ 16,223,677
Non-controlling interests		₩ 818,074	₩ 701,565
Total equity		₩ 17,543,877	₩ 16,925,242
Total liabilities and equity		₩ 40,072,326	₩ 38,972,566

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2014 and 2013

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Korean won (millions, except for earnings per share)

	Notes	2014	2013
Sales	30 38 39 41	₩ 28,099,567	₩ 28,211,703
Cost of sales	9 30 33 41	(19,336,671)	(19,547,021)
Gross profit		₩ 8,762,896	₩ 8,664,682
Selling, general and administrative expenses	31 33 41	₩ (7,574,517)	₩ (7,179,421)
Operating profit		₩ 1,188,379	₩ 1,485,261
Other income	32 41	₩ 285,115	₩ 62,116
Other expenses	32 41	(345,189)	(243,403)
Finance income	34	240,932	360,120
Finance costs	34	(343,413)	(350,219)
Equity method income of investments in associates	12 13	52,172	4,537
Profit before income tax		₩ 1,077,996	₩ 1,318,412
Income tax expense	35	₩ (462,272)	₩ (437,778)
Profit for the year		₩ 615,724	₩ 880,634
Other comprehensive income (loss):			
Items that will never be reclassified to profit or loss:			
Remeasurements of net defined benefit liabilities	22	₩ (2,769)	₩ 73,551
Net change in equity of equity method investments		(3,039)	1,224
Income tax on items that will never be reclassified to profit or loss		1,042	(18,360)
Total items that will never be reclassified to profit or loss		₩ (4,766)	₩ 56,415
Items that are or may be reclassified to profit or loss:			
Net change in unrealized fair value of available-for-sale financial assets		₩ 131,463	₩ (8,008)
Exchange rate differences on translating foreign operations		23,615	(36,043)
Effective portion of unrealized changes in fair values of cash flow hedges	23	(20,343)	13,747
Net change in equity of equity method investments		(27,020)	19,812
Income tax on items that are or may be reclassified to profit or loss		(24,390)	(9,424)
Total items that are or may be reclassified to profit or loss		₩ 83,325	₩ (19,916)
Other comprehensive income for the year, net of tax		₩ 78,559	₩ 36,499
Total comprehensive income for the year		₩ 694,283	₩ 917,133
Profit attributable to:			
- Owners of the Company		₩ 526,650	₩ 788,445
- Non-controlling interests		89,074	92,189
		₩ 615,724	₩ 880,634
Total comprehensive income attributable to:			
- Owners of the Company		₩ 565,557	₩ 824,022
- Non-controlling interests		128,726	93,111
		₩ 694,283	₩ 917,133
Earnings per share			
- Basic earnings per share (in won)	29	₩ 17,495	₩ 26,674
- Diluted earnings per share (in won)		₩ 16,138	₩ 23,632

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Equity

For the years ended December 31, 2014 and 2013

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Korean won (millions)

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

continued

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Korean won (millions)

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

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

For the years ended December 31, 2014 and 2013

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES Korean won (millions)

	2014	2013
Cash flows from operating activities		
Profit for the year	₩ 615,724	₩ 880,634
Income tax expense	462,272	437,778
Post-employment benefits	107,810	116,418
Long-term employee benefits	7,701	(5,196)
Depreciation	764,654	713,159
Amortization	134,719	107,731
Impairment loss of intangible assets	158,353	76,248
Loss on disposal of intangible assets	16,590	140
Loss on foreign currency translation	59,674	7,517
Loss on disposal of property, plant and equipment	58,214	23,186
Impairment loss of property, plant and equipment	8,139	17,838
Impairment loss of investment property	-	27,916
Loss on valuation of financial liabilities at fair value through profit or loss	488	11,860
Loss on transaction of derivative instruments	9,708	129
Loss on valuation of derivative instruments	8,793	68,506
Equity method loss of investments in associates and joint ventures	107,751	76,678
Impairment loss of investments in associates and joint ventures	825	7,581
Rental expenses (Amortization of discount on deposit, etc.)	85,297	92,967
Other expenses	21,438	11,169
Gain on foreign currency translation	(44,190)	(148,185)
Gain on disposal of property, plant and equipment	(221,719)	(5,029)
Gain on valuation of financial liability at fair value through profit or loss	(10,228)	(70,678)
Gain on valuation of derivative instruments	(31,671)	-
Gain on transaction of derivative instruments	(8,021)	(4,320)
Equity method gain of investments in associates and joint ventures	(159,923)	(81,215)
Gain on disposal of available-for-sale financial assets	(16,847)	(25,432)
Gain on disposal of investments in subsidiaries and associates	(4,412)	(11,074)
Gain on redemption of debentures	(17,397)	-
Other income	(18,375)	(11,650)
Cost of card business	457,628	453,386
Income of card business	(769,089)	(755,110)
Interest expense	248,700	248,483
Interest income	(94,159)	(93,565)
Dividend income	(4,476)	(5,885)
Trade receivables	54,706	(60,121)
Other receivables	(22,606)	(4,353)
Other financial assets	(373,558)	(669,473)
Inventories	(156,000)	(380,491)
Other non-financial assets	49,476	(34,042)
Trade payables	228,001	234,192
Other payables	6,796	80,782
Other financial liabilities	47,589	45,424
Unearned revenues	(482)	29,301
Provisions	(12,648)	(26,418)
Other non-financial liabilities	(19,608)	21,135
Payment of post-employment benefits	(60,461)	(37,452)
Plan assets	(58,180)	(83,012)
Income tax paid	(536,253)	(451,726)
Interest received	693,964	693,328
Interest paid	(144,992)	(188,503)
Dividends received	140	109
Net cash provided by operating activities	₩ 1,629,855	₩ 1,330,665

continued

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES Korean won (millions)

	2014	2013
Cash flows from investing activities		
Proceeds from sale of financial assets	₩ 1,119,662	₩ 1,042,253
Collection of loans	14,748	11,408
Proceeds from sale of available-for-sale financial assets	89,767	171,715
Proceeds from capital distribution from associates	750	166
Proceeds from disposal of property, plant and equipment	1,297,265	26,790
Proceeds from disposal of investment property	1,150	-
Proceeds from disposal of intangible assets	2,580	2,594
Proceeds from disposal of non-current assets held for sale	21,463	-
Decrease of other non-financial assets	262	26
Purchase of financial assets	(1,122,392)	(1,010,578)
Increase of loans	(5,566)	(13,493)
Purchase of available-for-sale financial assets	(65,916)	(37,839)
Purchase of investments in associates and joint ventures	(53,799)	(71,936)
Acquisition of property, plant and equipment	(1,863,149)	(1,833,675)
Acquisition of investment property	-	(5,904)
Acquisition of intangible assets	(81,662)	(125,596)
Acquisition of other investments	(6,061)	(186)
Business combination, net of cash acquired	(27,463)	-
Cash out flows from disposal of subsidiaries, net of proceeds received	(1,498)	(3,616)
Interest received	48,325	66,269
Dividends received	31,485	45,975
Net cash used in investing activities	₩ (600,049)	₩ (1,735,627)
Cash flows from financing activities		
Proceeds from borrowings	₩ 6,072,009	₩ 9,347,997
Proceeds from issuance of debentures	4,027,377	2,943,758
Capital contribution from non-controlling interests	-	12,182
Proceeds from issuance of hybrid securities	-	269,118
Proceeds related to sale and lease back transactions	25,053	-
Cash inflows from other financing activities	-	25
Repayment of borrowings	(5,358,194)	(9,472,071)
Redemption of debentures	(4,875,148)	(1,970,073)
Acquisition of additional ownership in subsidiaries	(3,823)	(3,531)
Acquisition of treasury stocks	-	(1,806)
Distribution to non-controlling interest	-	(45,738)
Payment of hybrid securities interests	(12,721)	-
Payment of finance lease liabilities	(1,512)	-
Cash outflows from other financing activities	(504)	(383)
Interest paid	(229,766)	(244,356)
Dividends paid	(58,994)	(62,921)
Net cash provided by (used in) financing activities	₩ (416,223)	₩ 772,201
Net increase in cash and cash equivalents	₩ 613,583	₩ 367,239
Cash and cash equivalents at beginning of the year	₩ 1,309,484	₩ 933,997
Impact of foreign currency exchange rates on cash and cash equivalents	₩ 284	₩ 1,226
Exchange differences on translating foreign operations	₩ 4,785	₩ 7,022
Cash and cash equivalents at end of the year	₩ 1,928,136	₩ 1,309,484

See accompanying notes to the consolidated financial statements.

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's stock was listed on the Korea Exchange and the London Stock Exchange through an initial public offering in February 2006.

The stockholders of the Company as of December 31, 2014 are as follows:

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

(b) Description of Subsidiaries

The consolidated financial statements of the Company comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities") and the Group's interest in associates and joint ventures. A summary of the subsidiaries of the Company as of December 31, 2014 and 2013 is as follows:

Subsidiaries	December 31, 2014			
	Location	Products or services	Fiscal year	Percentage of ownership (%)
Lotte Card Co., Ltd.	Korea	Credit card, financing	Dec. 31	93.78
eB Card Co., Ltd.	Korea	Electronic banking business	Dec. 31	95.00
Gyeonggi Smartcard Co., Ltd.	Korea	Electronic banking business	Dec. 31	100.00
Incheon Smartcard Co., Ltd.	Korea	Electronic banking business	Dec. 31	100.00
Chungnam Smartcard Co., Ltd.	Korea	Electronic banking business	Dec. 31	100.00
The 4th Supreme (*1)	Korea	SPC	Dec. 31	0.90
The 5th Supreme (*1)	Korea	SPC	Dec. 31	0.90
The 6th Supreme (*1)	Korea	SPC	Dec. 31	0.90
The 7th Supreme (*1)	Korea	SPC	Dec. 31	0.90
PT. Lotte Members Indonesia	Indonesia	Business support service	Dec. 31	100.00
LOTTE Members China	China	Business support service	Dec. 31	100.00
Woori Home Shopping & Television Co., Ltd.	Korea	TV Home Shopping	Dec. 31	53.03
Lotte DatViet Homeshopping Co., Ltd.	Vietnam	TV Home Shopping	Dec. 31	85.58
Korea Seven Co., Ltd.	Korea	Distribution	Dec. 31	51.14
Buy the way Inc.	Korea	Distribution	Dec. 31	100.00
NCF Co., Ltd.	Korea	Apparel manufacturing	Dec. 31	98.30

continued

Subsidiaries	December 31, 2014			
	Location	Products or services	Fiscal year	Percentage of ownership (%)
Lotte Gimhae Development Co., Ltd.	Korea	Service company	Dec. 31	100.00
Lotte Suwon Station Shopping Town Co., Ltd.	Korea	Real estate development	Dec. 31	95.00
Lotte Songdo Shopping Town Co., Ltd.	Korea	Real estate development	Dec. 31	56.30
CS Mart Co., Ltd.	Korea	Distribution	Dec. 31	99.95
LOTTE Himart Co., Ltd. (*2)	Korea	Consumer electronics	Dec. 31	65.25
Lotte Incheon Town Co., Ltd.	Korea	Real estate lease	Dec. 31	100.00
Lotte Department Store Masan Co., Ltd.	Korea	Distribution	Dec. 31	100.00
LOTTE MART COMPANY LIMITED	China	Distribution	Dec. 31	100.00
Lotte (China) Company Management Co., Ltd.	China	Business management	Dec. 31	70.00
Lotte Shopping Holdings (Hong Kong) Co., Limited	Hong Kong	Holding company	Dec. 31	100.00
Qingdao LOTTE Mart Commercial Co., Ltd.	China	Distribution	Dec. 31	100.00
Liaoning LOTTE Mart Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Mart China Co., Ltd. and its subsidiaries	China	Distribution, real estate development	Dec. 31	100.00
Jilin LOTTE Mart Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Mart (Chongqing) Commercial Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Business Management (Tianjin) Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Department Store (Shenyang) Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte International Department Store (Weihai) Co., Ltd.	China	Distribution	Dec. 31	100.00
LOTTE DEPARTMENT STORE (TIANJIN) CO., LTD.	China	Distribution	Dec. 31	100.00
Lotte Department Store (Chengdu) Co., Ltd.	China	Distribution	Dec. 31	100.00
LOTTE MART (CHENGDU) COMMERCIAL COMPANY LIMITED	China	Distribution	Dec. 31	100.00
Lotte Shopping Business Management (Hong Kong) Limited	Hong Kong	SPC	Dec. 31	100.00
LHSC Limited	Cayman	Holding company	Dec. 31	91.14
Lucky Pai Ltd. and its subsidiaries	China	TV Home Shopping	Dec. 31	100.00
LOTTE PROPERTIES (CHENGDU) HK LIMITED	Hong Kong	Holding company	Dec. 31	73.46
Lotte Properties (Chengdu) Limited	China	Real estate lease	Dec. 31	100.00
LOTTE VIETNAM SHOPPING CO., LTD.	Vietnam	Distribution	Dec. 31	100.00
Lottemart Danang Co., Ltd.	Vietnam	Distribution	Dec. 31	100.00
LOTTE SHOPPING HOLDINGS (SINGAPORE) PTE. LTD.	Singapore	Holding company	Dec. 31	100.00
PT. LOTTE SHOPPING INDONESIA	Indonesia	Distribution	Dec. 31	80.00
PT. LOTTE MART INDONESIA	Indonesia	Distribution	Dec. 31	100.00
PT. LOTTE Shopping Avenue Indonesia	Indonesia	Distribution	Dec. 31	100.00
Lotte Shopping India Private Limited	India	Distribution	Dec. 31	100.00
LOTTEMART C&C INDIA PRIVATE LIMITED	India	Distribution	Dec. 31	100.00
Lotte Shopping Plaza Vietnam Co., Ltd.	Vietnam	Distribution	Dec. 31	100.00
Lotte Shopping Reit Management Singapore PTE. LTD.	Singapore	Real estate lease	Dec. 31	100.00
LOTTE HOTEL & RETAIL VIETNAM PTE. LTD.	Singapore	Holding company	Dec. 31	60.00
Kotobuki Holding (HK) Ltd.	Hong Kong	Holding company	Dec. 31	100.00
Hai Thanh - Kotobuki Joint Venture Company	Vietnam	Hotel	Dec. 31	70.00
LOTTE CINEMA VIETNAM CO., LTD.	Vietnam	Cinema	Dec. 31	90.00

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

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

Subsidiaries	December 31, 2013			
	Location	Products or services	Fiscal year	Percentage of ownership (%)
Lotte Card Co., Ltd.	Korea	Credit card, financing	Dec. 31	93.70
eB Card Co., Ltd.	Korea	Electronic banking business	Dec. 31	95.00
Gyeonggi Smartcard Co., Ltd.	Korea	Electronic banking business	Dec. 31	100.00
Incheon Smartcard Co., Ltd.	Korea	Electronic banking business	Dec. 31	100.00
Chungnam Smartcard Co., Ltd.	Korea	Electronic banking business	Dec. 31	100.00
The 3rd Supreme (*1)	Korea	SPC	Dec. 31	0.90
The 4th Supreme (*1)	Korea	SPC	Dec. 31	0.90
The 5th Supreme (*1)	Korea	SPC	Dec. 31	0.90
The 6th Supreme (*1)	Korea	SPC	Dec. 31	0.90
PT. Lotte Members Indonesia	Indonesia	Business support service	Dec. 31	100.00
Woori Home Shopping & Television Co., Ltd.	Korea	TV Home Shopping	Dec. 31	53.03
Lotte DatViet Homeshopping Co., Ltd.	Vietnam	TV Home Shopping	Dec. 31	85.58
Korea Seven Co., Ltd.	Korea	Distribution	Dec. 31	51.14
Buy the way Inc.	Korea	Distribution	Dec. 31	100.00
Lotte Boulangerie Co., Ltd.	Korea	Bakery	Dec. 31	90.54
NCF Co., Ltd.	Korea	Apparel manufacturing	Dec. 31	98.30
Lotte Gimhae Development Co., Ltd.	Korea	Service company	Dec. 31	100.00
Lotte Suwon Station Shopping Town Co., Ltd.	Korea	Real estate development	Dec. 31	95.00
Lotte Songdo Shopping Town Co., Ltd.	Korea	Real estate development	Dec. 31	56.30
CS Mart Co., Ltd.	Korea	Distribution	Dec. 31	99.95
LOTTE Himart Co., Ltd. (*2)	Korea	Consumer electronics	Dec. 31	65.25
Himart Logitech Co., Ltd.	Korea	Freight transport agency	Dec. 31	100.00
Himart Shopping Mall Co., Ltd.	Korea	Electronic commerce	Dec. 31	100.00
LOTTE MART COMPANY LIMITED	China	Distribution	Dec. 31	100.00
Lotte (China) Company Management Co., Ltd.	China	Business management	Dec. 31	70.00
Lotte Shopping Holdings (Hong Kong) Co., Limited	Hong Kong	Holding company	Dec. 31	100.00
Qingdao LOTTE Mart Commercial Co., Ltd.	China	Distribution	Dec. 31	100.00
Liaoning LOTTE Mart Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Mart China Co., Ltd. and its subsidiaries	China	Distribution, real estate development	Dec. 31	100.00
Jilin LOTTE Mart Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Mart (Chongqing) Commercial Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Business Management (Tianjin) Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Department Store (Shenyang) Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte International Department Store (Weihai) Co., Ltd.	China	Distribution	Dec. 31	100.00
LOTTE DEPARTMENT STORE (TIANJIN) CO., LTD.	China	Distribution	Dec. 31	100.00

continued

Subsidiaries	December 31, 2013			
	Location	Products or services	Fiscal year	Percentage of ownership (%)
Lotte Department Store (Chengdu) Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Shopping Business Management (Hong Kong) Limited	Hong Kong	SPC	Dec. 31	100.00
LHSC Limited	Cayman	Holding company	Dec. 31	91.01
Lucky Pai Ltd. and its subsidiaries	China	TV Home Shopping	Dec. 31	94.65
LOTTE PROPERTIES (CHENGDU) HK LIMITED	Hong Kong	Holding company	Dec. 31	73.46
Lotte Properties (Chengdu) Limited	China	Real estate lease	Dec. 31	100.00
LOTTE VIETNAM SHOPPING CO., LTD.	Vietnam	Distribution	Dec. 31	100.00
Lottemart Danang Co., Ltd.	Vietnam	Distribution	Dec. 31	100.00
LOTTE SHOPPING HOLDINGS (SINGAPORE) PTE. LTD.	Singapore	Holding company	Dec. 31	100.00
PT. LOTTE SHOPPING INDONESIA	Indonesia	Distribution	Dec. 31	80.00
PT. LOTTE MART INDONESIA	Indonesia	Distribution	Dec. 31	100.00
PT. LOTTE Shopping Avenue Indonesia	Indonesia	Distribution	Dec. 31	100.00
Lotte Shopping India Private Limited	India	Distribution	Dec. 31	100.00
LOTTEMART C&C INDIA PRIVATE LIMITED	India	Distribution	Dec. 31	100.00
Lotte Shopping Plaza Vietnam Co., Ltd.	Vietnam	Distribution	Dec. 31	100.00
Lotte Shopping Reit Management Singapore PTE. LTD.	Singapore	Real estate lease	Dec. 31	100.00
LOTTE HOTEL & RETAIL VIETNAM PTE. LTD.	Singapore	Holding company	Dec. 31	60.00
Kotobuki Holding (HK) Ltd.	Hong Kong	Holding company	Dec. 31	100.00
Hai Thanh - Kotobuki Joint Venture Company	Vietnam	Hotel	Dec. 31	70.00
LOTTE CINEMA VIETNAM CO., LTD.	Vietnam	Cinema	Dec. 31	90.00

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

(*2) During 2013, the Company issued exchangeable bonds which are exchangeable to common stocks of LOTTE Himart Co., Ltd. The total number of the exchangeable common stocks for the issued bonds is 3,538,224 shares. If all exchangeable bonds are exchanged to the common stocks of LOTTE Himart Co., Ltd., the Company's percentage of ownership on LOTTE Himart Co., Ltd. will be decreased from 65.25% to 50.26%. In addition, the Company entered into securities lending agreements to lend shares of LOTTE Himart Co., Ltd. owned by the Company up to 50% of the total exchangeable common stocks. As of December 31, 2013, the total number of the common stocks of LOTTE Himart Co., Ltd. under securities lending agreements is 1,769,112 shares. The Company does not have voting right and disposal of the lent shares is restricted.

(c) Financial information of significant subsidiaries as of and for the years ended December 31, 2014 and 2013 are summarized as follows:

Korean won (millions)

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

Korean won (millions)

Subsidiaries	December 31, 2013					
	Assets	Liabilities	Equity	Sales	Net income (loss)	Total comprehensive Income (loss)
Lotte Card Co., Ltd.	₩ 8,416,824	₩ 6,636,665	₩ 1,780,159	₩ 1,592,438	₩ 146,270	₩ 148,314
eB Card Co., Ltd.	160,072	104,519	55,553	60,609	176	181
Woori Home Shopping & Television Co., Ltd.	783,168	297,967	485,201	773,218	67,117	75,540
Korea Seven Co., Ltd.	875,827	622,218	253,609	2,133,915	22,195	23,752
Buy the way Inc.	228,404	70,421	157,983	420,347	7,201	7,222
Lotte Suwon Station Shopping Town Co., Ltd.	189,605	90,078	99,527	-	286	288
Lotte Songdo Shopping Town Co., Ltd.	259,347	161,230	98,117	70	(7,510)	(7,512)
CS Mart Co., Ltd.	160,403	79,544	80,859	410,411	13,097	13,018
LOTTE Himart Co., Ltd.	2,751,826	1,159,192	1,592,634	3,511,022	124,429	121,942
Lotte Mart Co., Ltd.	179,069	186,927	(7,858)	378,364	(35,644)	(34,499)
Qingdao Lotte Mart Commercial Co., Ltd.	104,734	156,461	(51,727)	71,155	(66,685)	(65,013)
Lotte Shopping Holdings (Hong Kong) Co., Ltd.	1,247,416	265,701	981,715	-	(12,532)	(50,122)
Lotte Mart China Co., Ltd. and its subsidiaries	849,174	687,205	161,969	1,059,846	(64,018)	(59,726)
LOTTE PROPERTIES (CHENGDU) HK LIMITED	360,499	141,263	219,236	-	(2,183)	7,134
Lotte Properties (Chengdu) Limited	356,154	6,477	349,677	-	(1,945)	(2,857)
Lotte Vietnam Shopping Co., Ltd.	277,516	204,362	73,154	91,347	(1,303)	(3,288)
LOTTE SHOPPING HOLDINGS (SINGAPORE) PTE. LTD.	238,404	20	238,384	-	(44)	(3,170)
PT. Lotte Shopping Indonesia	220,521	121,523	98,998	825,641	14,541	(11,222)
PT. Lotte Mart Indonesia	168,207	141,092	27,115	238,928	(14,005)	(22,446)

(d) Entities included in consolidation in 2014 are as follows:

Description	Subsidiaries
Established in 2014	QIDONG LotteMart CO., LTD.
	Lotte Incheon Town Co., Ltd.
	LOTTE Members China
	LOTTE MART (CHENGDU) COMMERCIAL COMPANY LIMITED
	The 7th Supreme
	Lotte Department Store Masan Co., Ltd.

(e) Entities excluded from consolidation in 2014 are as follows:

Description	Subsidiaries
Statutory merger into a Group entity in 2014	Himart Logitech Co., Ltd.
	Himart Shopping Mall Co., Ltd.
Disposal	Lotte Boulangerie Co., Ltd.
Liquidation	The 3th Supreme

(f) Non-controlling interests

Financial information related to significant non-controlling interests for subsidiaries as of and for the years ended December 31, 2014 and 2013 are as follows:

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

Description	December 31, 2013			
	Woori Home Shopping & Television Co., Ltd.	Lotte Card Co., Ltd.	Korea Seven Co., Ltd.	LOTTE Himart Co., Ltd.
Ownership interests held by NCI	46.97%	6.30%	48.86%	34.75%
Current assets	₩ 599,516	₩ 8,060,141	₩ 204,256	₩ 529,085
Non-current assets	184,263	477,217	671,571	755,232
Current liabilities	292,688	3,019,691	281,386	401,630
Non-current liabilities	6,412	3,732,268	340,832	810,113
Net assets	484,679	1,785,399	253,609	72,574
Net assets attributable to non-controlling interests	228,201	113,537	123,918	25,222
Dividends paid to non-controlling interests during the year	8,454	-	8,851	2,051
Revenue	776,825	1,694,060	2,133,915	3,519,060
Profit	67,707	152,153	22,195	125,031
Total comprehensive income	76,154	153,765	23,752	122,461
Profit attributable to non-controlling interests	31,597	10,256	10,845	43,452
Total comprehensive income attributable to non-controlling interests	35,566	10,245	11,606	42,559
Cash flows from operating activities	56,155	(88,307)	110,723	156,729
Cash flows from investing activities	(45,144)	(57,596)	(41,063)	(59,262)
Cash flows from financing activities	(18,000)	181,119	(73,925)	(93,226)
Effect of currency exchange rate	133	(1,044)	-	-
Net increase (decrease) in cash and cash equivalents	(6,856)	34,172	(4,265)	4,241

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

1) Details of the parent's additional investments in subsidiaries for the years ended December 31, 2014 and 2013 are summarized as follows:

Korean won (millions)

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

Korean won (millions)

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

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

Korean won (millions)

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

2 Basis of Accounting

(a) Statement of compliance

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

The consolidated financial statements were authorized for issue by the Board of Directors on February 26, 2015, which will be submitted for approval to the shareholders' meeting to be held on March 20, 2015.

(b) Basis of measurement

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

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

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

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

(i) Information about assumptions and estimation uncertainties

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

- Note 16 – Goodwill and Intangible assets
- Note 20 – Provisions
- Note 22 – Employee benefits
- Note 35 – Income taxes
- Note 39 – Contingent liabilities and financial commitments
- Note 42 – Risk management

(ii) Measurement of fair value

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

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

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

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

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

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

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

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

Note 39 - Fair value of financial instruments

3 Changes in Accounting Policies

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

The Group has adopted the following amendments to standards and new interpretation with a date of initial application of January 1, 2014.

- Offsetting Financial Assets and Financial Liabilities (Amendments to K-IFRS 1032 'Financial Instruments: Presentation')
- Recoverable Amount Disclosures for Non-Financial Assets (Amendments to K-IFRS 1036 'Impairment of Assets')
- K-IFRS 2121 'Levies'

The nature of the changes are explained below.

(i) Offsetting Financial Assets and Financial Liabilities (Amendments to K-IFRS 1032)

The Group has adopted amendments to K-IFRS 1032, 'Offsetting Financial Assets and Financial Liabilities' since January 1, 2014. The amendments clarify the meaning of 'currently has a legally enforceable right of set-off'. According to the amendments, the right to set off should not be contingent on a future event, and legally enforceable in the normal course of business, in the event of default, and in the event of insolvency or bankruptcy of the entity and all of the counterparties. The amendments also state that some gross settlement systems would be considered equivalent to net settlement if they eliminate or result in insignificant credit and liquidity risk and process receivables and payables in a single settlement process or cycle. The impact of the amendments on the Group's consolidated financial statements is not significant.

(ii) Recoverable Amount Disclosures for Non-Financial Assets (Amendments to K-IFRS No.1036)

The Group has adopted amendments to K-IFRS 1036 'Impairment of Assets' since January 1, 2014. The amendments require the disclosure of information about the recoverable amount of impaired assets, if that amount is based on fair value less costs of disposal. They also require the disclosure of additional information about that fair value measurement. In addition, if the recoverable amount of impaired assets based on fair value less costs of disposal was measured using a present value technique, the amendments also require the disclosure of the discount rates that have been used in the current and previous measurements.

The Group retrospectively applied the amendments in accordance with the transitional requirements of K-IFRS 1036.

(iii) K-IFRS No.2121, 'Levies'

The Group has adopted K-IFRS No.2121, 'Levies' since January 1, 2014. K-IFRS No. 2121 is an Interpretation of K-IFRS No. 1037 Provisions, Contingent Liabilities and Contingent Assets, on the accounting for levies imposed by governments. K-IFRS 1037 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (or 'obligating event'). K-IFRS 2121 clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy.

The interpretation does not provide guidance on the accounting for the costs arising from recognizing the liability to pay a levy. Other K-IFRSs should be applied to determine whether the recognition of a liability to pay a levy gives rise to an asset or an expense. The impact of the amendments on the Group's consolidated financial statements is not significant.

4 Significant Accounting Policies

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

(a) Operating segment

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

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

The Group has 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) Business combinations

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

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

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

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

and the extent to which the replacement awards relate to pre-combination service.

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

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

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

(iii) Subsidiaries

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

(iv) Loss of control

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

(v) Interests in equity-accounted Investees

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

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

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

(vi) Transactions eliminated on consolidation

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

(vii) Acquisitions from entities under common control

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

(c) Cash and cash equivalents

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

(d) Inventories

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

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

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

(e) Non-derivative financial assets

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

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

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

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

(ii) Held-to-maturity investments

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

(iii) Loans and receivables

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

(iv) Available-for-sale financial assets

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

(v) Derecognition of financial assets

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

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

(vi) Offsetting between financial assets and financial liabilities

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

(f) Derivative financial instruments, including hedge accounting

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

(i) Hedge accounting

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

and foreign currency risk of highly probable forecasted transactions or firm commitments (a cash flow hedge).

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

Fair value hedge

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

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

Cash flow hedge

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

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

(ii) Other derivative financial instruments

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

(g) Impairment of financial assets

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

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

(i) Financial assets measured at amortized cost

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

(ii) Financial assets carried at cost

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

(iii) Available-for-sale financial assets

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

(h) Property, plant and equipment

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

Subsequent to initial recognition, an item of property, plant and

equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

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

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

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

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

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

	Useful lives (years)
Buildings	5~50
Structures	2~50
Machinery	2~30
Vehicles	4~10
Furniture and fixtures	2~12
Tools and equipment	2~10
Display fixtures	2~12
Other property, plant and equipment ("Other PP&E")	3~40

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

(i) Intangible assets

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

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

	Useful lives (years)
Industrial property rights	5~10
Rights to use facility	4~20
Film copyrights	Actual revenue as a percentage of total estimated revenue
Other intangible assets	2~15

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

(j) Investment property

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

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

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

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

(k) Non-current assets held for sale

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

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

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

(l) Impairment of non-financial assets

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

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"). The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. The value in use is estimated by applying a pre-tax discount rate that reflect current market assessments of the time value of money and the risks specific to the asset or CGU for which estimated future cash flows have not been adjusted, to the estimated future cash flows expected to be generated by the asset or CGU.

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

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

(m) Leases

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

(i) Finance leases

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

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

ance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred.

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

(ii) Operating leases

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

(n) Borrowing costs

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

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

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

(o) Non-derivative financial liabilities

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

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

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

(ii) Other financial liabilities

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

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

(p) Employee benefits

(i) Short-term employee benefits

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

(ii) Other long-term employee benefits

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

(iii) Retirement benefits: defined benefit plans

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

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

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

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

(q) Provisions

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

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

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

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

(r) Foreign currencies

(i) Foreign currency transactions

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

ing cash flow hedges, which are recognized in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(ii) Foreign operations

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

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

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

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

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

(s) Equity capital

(i) Share capital

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

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

(ii) Hybrid securities

Debt and equity instruments issued by the Group are classified as either financial liabilities or as equity in accordance with the substance of the arrangement and the definitions of financial liability

and an equity instrument. When the Group has an unconditional right to avoid delivering cash or another financial asset to settle a contractual obligation, the Group's hybrid securities are classified as equity instruments.

(t) Revenue

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

(i) Goods sold

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

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

(ii) Customer loyalty programmes

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

(iii) Commissions

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

(iv) Rental income

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

(v) Income of card business

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

(u) Finance income and finance costs

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

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

(v) Income taxes

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

(i) Current tax

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

(ii) Deferred tax

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

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

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

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

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

(w) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company

by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise convertible notes.

(x) New standards and interpretations not yet adopted

The following new standards, interpretations and amendments to existing standards have been published and are mandatory for the Group for annual periods beginning after January 1, 2014, and the Group has not early adopted them.

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

K-IFRS 1019 'Employee Benefits' – Employee contributions
Amendments to K-IFRS 1019 introduced a practical expedient to accounting for defined benefit plan, when employees or third parties pay contributions if certain criteria are met. According to the amendments, the entity is permitted to recognize those contributions as a reduction of the service cost in the period in which the related service is rendered, instead of forecast future contributions from employees or third parties and attribute them to periods of service as negative benefits.

5 Business Combination

(a) The Group entered into an agreement to acquire business and exclusive sales rights in Korea of 6 brands including KENZO from WEARFUN INTERNATIONAL INC. on April 30, 2014, and the Group consummated the acquisition on May 15, 2014.

(b) The following summarizes the fair value of assets acquired at the acquisition date.

Korean won (millions)

Account	2014
Property, plant and equipment	₩ 1,571
Intangible assets	8,100
Inventories	12,229
Total identifiable net assets	₩ 21,900

(c) Goodwill recognized as a result of business combination is as follows:

Korean won (millions)

	2014
Total consideration transferred (*)	₩ 27,463
Fair value of identifiable net assets	21,900
Goodwill	₩ 5,563

(*) Total consideration transferred consists of cash.

6 Trade and Other Receivables

Trade and other receivables as of December 31, 2014 and 2013 are summarized as follows:

Korean won (millions)

	December 31, 2014	December 31, 2013
Trade receivables	₩ 675,461	₩ 664,586
Other receivables	253,622	289,997
Allowance for doubtful accounts	(16,131)	(17,087)
Total	₩ 912,952	₩ 937,496

7 Restricted Deposits

Restricted deposits included in short-term and long-term financial instruments as of December 31, 2014 and 2013 are summarized as follows:

Korean won (millions)

Description	Depository	December 31, 2014	December 31, 2013
Current:			
Time deposits	Woori Bank and others	₩ 73,610	₩ 72,852
Special deposits	Industrial Bank of Korea and others	129,500	129,500
Money Market Fund	Citibank and others	64,498	79,368
Non-current:			
Special deposits	Shinhan Bank and others	86	95
Available-for-sale financial assets	Gyeongsangnam-do Metropolitan Government and others	34,916	30,179
Total		₩ 302,610	₩ 311,994

8 Fair Value of Financial Instruments

(a) The carrying amount and the fair value of financial instruments as of December 31, 2014 and 2013 are summarized as follows:

Korean won (millions)

		December 31, 2014		December 31, 2013	
		Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	Cash and cash equivalents	₩ 1,928,136	₩ 1,928,136	₩ 1,309,484	₩ 1,309,484
Financial assets at fair value through profit or loss	Short-term financial instruments	30,002	30,002	-	-
	Derivative assets held for the purpose of trading	1,201	1,201	-	-
	Subtotal	₩ 31,203	₩ 31,203	₩ -	₩ -
Loans and receivables (*1)	Current:				
	Trade and other receivables	₩ 912,952	₩ 912,952	₩ 937,496	₩ 937,496
	Short-term financial instruments	712,503	712,503	708,350	708,350
	Short-term loans	11,015	11,015	12,453	12,453
	Accrued income	38,957	38,957	38,424	38,424
	Current portion of deposits	218,337	218,337	137,467	137,467
	Card financial assets	7,587,287	7,587,287	7,573,244	7,573,244
	Other financial assets	-	-	8	8
	Non-current:				
	Long-term financial instruments	86	86	95	95
	Long-term loans	65,251	65,251	70,246	70,246
	Deposits	1,203,728	1,203,728	1,131,976	1,131,976
	Long-term trade receivable	5,369	5,369	6,080	6,080
Subtotal	₩ 10,755,485	₩ 10,755,485	₩ 10,615,839	₩ 10,615,839	
Available-for-sale financial assets	Marketable available-for-sale financial assets (*2)	₩ 390,009	₩ 390,009	₩ 169,498	₩ 169,498
	Non-marketable available-for-sale financial assets (*3)	233,669	233,669	368,573	368,573
	Subtotal	₩ 623,678	₩ 623,678	₩ 538,071	₩ 538,071
Derivative assets held for the purpose of hedging	Current	₩ 751	₩ 751	₩ -	₩ -
	Non-current	20,312	20,312	726	726
	Subtotal	₩ 21,063	₩ 21,063	₩ 726	₩ 726
Total	₩ 13,359,565	₩ 13,359,565	₩ 12,464,120	₩ 12,464,120	

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

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

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

(b) Other financial assets as of December 31, 2014 and 2013 are summarized as follows:

Korean won (millions)

Account	December 31, 2014	December 31, 2013
Current:		
Short-term financial instruments	₩ 742,505	₩ 708,350
Short-term loans	11,015	12,453
Available-for-sale financial assets	2	1
Accrued income	38,957	38,424
Deposits	218,337	137,467
Card business financial assets	7,587,287	7,573,244
Derivative assets held for the purpose of hedging	751	-
Other	-	8
Subtotal	₩ 8,598,854	₩ 8,469,947
Non-current:		
Long-term financial instruments	₩ 86	₩ 95
Available-for-sale financial assets	623,676	538,070
Long-term loans	65,251	70,246
Deposits	1,203,728	1,131,976
Long-term trade receivables	5,369	6,080
Derivative assets held for the purpose of trading	1,201	-
Derivative assets held for the purpose of hedging	20,312	726
Subtotal	₩ 1,919,623	₩ 1,747,193
Total	₩ 10,518,477	₩ 10,217,140

(c) Available-for-sale financial assets as of December 31, 2014 and 2013 are summarized as follows:

Korean won (millions)

	December 31, 2014				December 31, 2013
	Number of shares	Percentage of ownership	Acquisition cost	Carrying amount	Carrying amount
Marketable available-for-sale financial assets:					
BS Financial Group Inc.	6,561,494	2.80%	₩ 42,042	₩ 95,142	₩ 84,154
Shinhan Financial Group Co., Ltd.	311,118	0.07%	2,247	13,829	14,716
LOTTE CHILSUNG BEVERAGE CO., LTD (Common stock)	-	-	-	-	30,091
LOTTE CHILSUNG BEVERAGE CO., LTD (Preferred stock)	-	-	-	-	177
LOTTE FOOD CO.,LTD.	47,180	3.45%	10,167	27,364	35,196
momo.com Inc. (*1)	21,333,420	15.02%	37,684	248,289	76,731
Others			5,638	5,385	5,164
Subtotal			₩ 97,778	₩ 390,009	₩ 246,229
Non-marketable available-for-sale financial assets:					
Lotte Trading Co., Ltd. (*2)	-	-	₩ -	₩ -	₩ 52,190
Lotte Aluminum Co., Ltd.	125,016	12.05%	55,881	71,374	74,956
LOTTE Logistics Corp.	66,308	4.64%	4,000	10,278	9,269
Cosmo Asset Management Co., Ltd.	149,807	17.70%	50,118	35,179	35,167
Lotte Properties (Shenyang) Limited	29,928,756	17.93%	41,919	41,919	41,919
Investment in government bonds			32,812	32,805	24,684
Others			42,858	42,114	53,657
Subtotal			₩ 227,588	₩ 233,669	₩ 291,842
Total			₩ 325,366	₩ 623,678	₩ 538,071

(*1) The stock of the investee company (formerly, FUBON Multimedia Technology Co., Ltd.) was listed on the Taiwan Stock Exchange during 2014, therefore the investment was reclassified to marketable available-for-sale financial assets.

(*2) During 2014, the investment was reclassified to investments in associates upon acquisition of additional interests.

(d) The carrying amount and the fair value of financial liabilities as of December 31, 2014 and 2013 are summarized as follows:

Korean won (millions)

		December 31, 2014		December 31, 2013	
		Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities at fair value through profit or loss	Overseas convertible bonds	₩ 105,325	₩ 105,325	₩ 849,815	₩ 849,815
	Non-current derivative liabilities held for the purpose of trading	12,329	12,329	10,212	10,212
	Subtotal	₩ 117,654	₩ 117,654	₩ 860,027	₩ 860,027
Financial liabilities based on amortized cost (*)	Current:				
	Trade and other payables	₩ 5,623,106	₩ 5,623,106	₩ 5,269,926	₩ 5,269,926
	Short-term borrowings	1,487,331	1,487,331	1,268,463	1,268,463
	Current portion of long-term borrowings	837,208	837,208	380,312	380,312
	Current portion of long-term debentures	2,245,111	2,245,111	2,275,343	2,275,343
	Accrued expenses	310,835	310,835	245,939	245,939
	Current portion of withholding deposit	280,484	280,484	244,327	244,327
	Other liabilities	1,698	1,698	1,103	1,103
	Non-current:				
	Long-term borrowings	1,369,618	1,369,618	1,312,335	1,312,335
	Long-term debentures	6,681,971	6,681,971	6,588,729	6,588,729
Withholding deposit	153,119	153,119	182,923	182,923	
Other liabilities	30,567	30,567	6,563	6,563	
Subtotal	₩ 19,021,048	₩ 19,021,048	₩ 17,775,963	₩ 17,775,963	
Derivative liabilities held for the purpose of hedging	Current	₩ 19,672	₩ 19,672	₩ 98,245	₩ 98,245
	Non-current	61,501	61,501	110,780	110,780
	Subtotal	₩ 81,173	₩ 81,173	₩ 209,025	₩ 209,025
Total	₩ 19,219,875	₩ 19,219,875	₩ 18,845,015	₩ 18,845,015	

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

(e) Other financial liabilities as of December 31, 2014 and 2013 are summarized as follows:

Korean won (millions)

	December 31, 2014	December 31, 2013
Current:		
Accrued expenses	₩ 310,835	₩ 245,939
Deposit received	280,484	244,327
Derivative liabilities held for the purpose of hedging	19,672	98,245
Others	1,698	1,103
Subtotal	₩ 612,689	₩ 589,614
Non-current:		
Deposit received	₩ 153,119	₩ 182,923
Derivative liabilities held for the purpose of hedging	61,501	110,780
Derivative liabilities held for the purpose of trading	12,329	10,212
Finance lease liabilities	25,484	1,643
Other financial liabilities	5,083	4,920
Subtotal	₩ 257,516	₩ 310,478
Total	₩ 870,205	₩ 900,092

(f) The fair value hierarchy

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

Korean won (millions)

Description	Level I	Level II	Level III	Total
Available-for-sale financial assets	₩ 390,009	₩ 32,805	₩ 124,546	₩ 547,360
Derivative assets	-	22,264	-	22,264
Total financial assets	₩ 390,009	₩ 55,069	₩ 124,546	₩ 569,624
Financial liabilities at fair value through profit or loss	₩ -	₩ 105,325	₩ -	₩ 105,325
Derivative liabilities	-	81,173	12,329	93,502
Total financial liabilities	₩ -	₩ 186,498	₩ 12,329	₩ 198,827

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

Korean won (millions)

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

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

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

(g) Level 3 fair values

Changes in Level 3 fair values for the years ended December 31, 2014 and 2013 are as follows:

Korean won (millions)

Description	December 31, 2014	December 31, 2013
Beginning of the year	₩ 263,442	₩ 258,085
Transfer into Level 3	-	14,328
Transfer out of Level 3	(78,206)	(18,914)
Loss included in finance costs		
- Loss on valuation of derivative instruments	(2,590)	(9,739)
Gain included in OCI		
- Net change in unrealized fair value of available-for-sale financial assets	(4,934)	19,682
Purchases	37,825	-
Disposal	(53,519)	-
Reclassification to investments in associates	(49,801)	-
End of the year	₩ 112,217	₩ 263,442

(h) Sensitivity analysis

For the fair values of available-for-sale financial assets and stock options, reasonably possible changes as of December 31, 2014 to one of the significant unobservable inputs, holding other inputs constant, would have the following effects on fair values.

(i) Equity securities

Korean won (millions)

Description	Discount rate		Terminal growth rate	
	1% Decrease	1% Increase	0.5% Increase	1% Increase
Available-for-sale financial assets	₩ 10,202	₩ (7,710)	₩ 3,618	₩ 7,849

(ii) Stock options (liability-classified)

Korean won (millions)

Description	Discount rate		Stock price volatility	
	1% Decrease	1% Increase	1% Decrease	1% Increase
Stock options	₩ (2,695)	₩ 2,702	₩ 1	₩ (3)

9 Inventories

(a) Inventories as of December 31, 2014 and 2013 are summarized as follows:

Korean won (millions)

	December 31, 2014			December 31, 2013		
	Acquisition cost	Allowance for inventory valuation	Book value	Acquisition cost	Allowance for inventory valuation	Book value
Merchandise	₩ 2,891,266	₩ (13,558)	₩ 2,877,708	₩ 2,718,587	₩ (13,791)	₩ 2,704,796
Finished goods	16,387	(4,160)	12,227	13,318	(4,015)	9,303
Goods in process	943	-	943	1,288	-	1,288
Raw materials	966	(93)	873	1,229	(63)	1,166
Subsidiary materials	9	-	9	712	-	712
Supplies	2,168	-	2,168	3,429	-	3,429
Materials-in-transit	2,206	-	2,206	496	-	496
Unfinished apartment units	248,859	-	248,859	358,172	-	358,172
Lots	16,061	-	16,061	35,130	-	35,130
Total	₩ 3,178,865	₩ (17,811)	₩ 3,161,054	₩ 3,132,361	₩ (17,869)	₩ 3,114,492

(b) For the years ended December 31, 2014 and 2013, the amount of inventories recognized as cost of goods sold and changes of allowance for valuation losses of inventories are summarized as follows:

Korean won (millions)

	2014	2013
Cost of goods sold:		
- Amount of inventories recognized as cost of goods sold	₩ 18,136,874	₩ 18,447,986
- Changes of allowance for valuation losses of inventories	(58)	4,579

10 Other Non-financial Assets

Other non-financial assets as of December 31, 2014 and 2013 are summarized as follows:

Korean won (millions)

Description	December 31, 2014		December 31, 2013	
Current:				
Advance payments	₩ 109,504		₩ 174,392	
Prepaid expenses	184,311		171,984	
Prepaid value added tax	79,724		89,849	
Other	71		66	
Subtotal	₩ 373,610		₩ 436,291	
Non-current:				
Long-term advance payments	₩ 131,157		₩ 114,417	
Long-term prepaid expenses (*)	1,230,298		1,099,945	
Other	4,445		5,908	
Subtotal	₩ 1,365,900		₩ 1,220,270	
Total	₩ 1,739,510		₩ 1,656,561	

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

11 Non-current assets held for sale

Non-current assets held for sale as of December 31, 2014 and 2013 are as follows:

Korean won (millions)

Description	December 31, 2014		December 31, 2013	
Investment property (*1)	₩ -		₩ 22,109	
Joint venture (*2)	-		-	
Total	₩ -		₩ 22,109	

(*1) According to the resolution of board of directors dated March 5, 2013, Qingdao LOTTE Mart Commercial Co., Ltd., which is a subsidiary, classified its investment property located in Cheng yang, China as non-current assets held for sale. During 2013, the Group recognized the difference between book value and fair value less cost to sell of ₩27,916 million as impairment loss, and the assets were sold in 2014.

(*2) The Group decided to dispose of the all its investment in Intime Lotte Department Store Co., Ltd. in 2014, and accordingly the investment was reclassified to non-current assets held for sale. The Group measures non-current assets for held for sale at the lower of its carrying amount and fair value less costs to sell, both of which are zero.

12 Investments in Associates

(a) The details of associates as of December 31, 2014 and 2013 are summarized as follows:

Korean won (millions)

Company	December 31, 2014			
	Location	Principal business	Percentage of Ownership (%)	Balance at December 31, 2014
Lotte Station Building Co., Ltd.	Korea	Distribution	25.00	₩ 123,646
Daehong Communications Co., Ltd.	Korea	Advertisement agency	34.00	122,989
Lotte Capital Co., Ltd.	Korea	Capital	22.36	152,953
Lotteria Co., Ltd.	Korea	Restaurant chain	38.68	241,346
FRL Korea Co., Ltd.	Korea	Retail	49.00	161,831
Lotte Asset Development Co., Ltd.	Korea	Real estate development	39.14	40,871
Lotte Trading Co., Ltd.	Korea	Product brokerage	27.68	134,725
Lotte Europe Holdings B.V.	Netherlands	Holding company	30.97	11,731
Coralis S.A.	Luxembourg	Holding company	45.00	37,616
Others				119,378
Total				₩ 1,147,086

Korean won (millions)

Company	December 31, 2013			
	Location	Principal business	Percentage of Ownership (%)	Balance at December 31, 2013
Lotte Station Building Co., Ltd.	Korea	Distribution	25.00	₩ 122,212
Daehong Communications Co., Ltd.	Korea	Advertisement agency	34.00	127,298
Lotte Capital Co., Ltd.	Korea	Capital	22.36	138,666
Lotteria Co., Ltd.	Korea	Restaurant chain	38.68	244,228
FRL Korea Co., Ltd.	Korea	Retail	49.00	112,631
Lotte Asset Development Co., Ltd.	Korea	Real estate development	39.14	46,398
Lotte Europe Holdings B.V.	Netherlands	Holding company	31.25	94,132
Coralis S.A.	Luxembourg	Holding company	45.00	42,219
Others				123,451
Total				₩ 1,051,235

(b) Changes in investments in associates for the years ended December 31, 2014 and 2013 are as follows:

Korean won (millions)

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

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

Korean won (millions)

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

(c) Financial information of significant associates as of and for the years ended December 31, 2014 and 2013 are summarized as follows:

Korean won (millions)

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

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

Korean won (millions)

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

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

13 Joint Ventures

(a) When the Group has rights to the net assets of the joint venture entity, the Group classifies the investment in entity as a joint venture. The details of joint ventures as of December 31, 2014 and 2013 are summarized as follows:

Korean won (millions)

Company	December 31, 2014			
	Location	Principal business	Percentage of Ownership (%)	Balance at December 31, 2014
Intime Lotte Department Store Co., Ltd. (*1)	China	Distribution	-	₩ -
D-Cinema of Korea Co., Ltd.	Korea	Film equipment	50.00	-
Shenyang SL Cinema Investment Management Co., Ltd.	China	Cinema	49.00	925
STL Co., Limited	Korea	Retail	50.00	1,335
Shandong Luckypai TV Shopping	China	TV Home Shopping	49.00	9,906
Yunnan Maile TV Shopping Media Co., Ltd.	China	TV Home Shopping	49.00	4,225
Chongqing Yujia Co., Ltd.	China	TV Home Shopping	49.00	-
Total				₩ 16,391

(*1) The Group decided to dispose of the all its investment in Intime Lotte Department Store Co., Ltd. in 2014, and accordingly the investment was reclassified to non-current assets held for sale.

Korean won (millions)

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

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

(*2) The entities were reclassified from subsidiaries due to the loss of control in 2013.

(b) Changes in joint ventures for the years ended December 31, 2014 and 2013 are as follows:

Korean won (millions)

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

Korean won (millions)

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

(c) Financial information of joint ventures as of and for the years ended December 31, 2014 and 2013 are summarized as follows:

Korean won (millions)

Company	2014							
	Current asset	Non-current asset	Current liabilities	Non-current liabilities	Sales	Operating income (loss)	Other comprehensive income (loss)	Total comprehensive income (loss)
D-Cinema of Korea Co., Ltd.	₩ 26,862	₩ 21,568	₩ 13,279	₩ 38,630	₩ 22,792	₩ 2,418	₩ -	₩ 454
Shenyang SL Cinema Investment Management Co., Ltd.	614	1,737	469	-	1,303	(134)	114	88
STL Co., Limited	3,629	1,847	2,432	375	9,904	(1,261)	(47)	(1,384)
Shandong Luckypai TV Shopping	43,074	3,716	26,574	-	94,998	3,794	-	2,455
Yunnan Maile TV Shopping Media Co., Ltd.	14,234	2,919	10,426	-	29,309	877	-	623
Chongqing Yujia Co., Ltd.	₩ 9,721	₩ 1,643	₩ 28,564	₩ -	₩ 57,862	₩ (12,266)	₩ -	₩ (12,304)

Korean won (millions)

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

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

Korean won (millions)

Company	December 31, 2014	
	Unrecognized losses for the year	Unrecognized accumulated losses
D-Cinema of Korea Co., Ltd.	₩ -	₩ (1,967)
Chongqing Yujia Co., Ltd.	(6,029)	(6,736)
Total	₩ (6,029)	₩ (8,703)

14 Property, Plant and Equipment

(a) Property, plant and equipment as of December 31, 2014 and 2013 are summarized as follows:

Korean won (millions)

	December 31, 2014				December 31, 2013			
	Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Book value	Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Book value
Land	₩ 7,947,313	₩ -	₩ -	₩ 7,947,313	₩ 8,124,642	₩ -	₩ -	₩ 8,124,642
Buildings	7,174,380	(1,951,781)	-	5,222,599	6,759,022	(1,996,691)	-	4,762,331
Structures	346,086	(87,030)	-	259,056	286,803	(82,338)	-	204,465
Machinery	252,362	(141,755)	(24)	110,583	256,634	(155,381)	(24)	101,229
Vehicles	8,786	(5,486)	-	3,300	8,710	(5,214)	-	3,496
Display fixtures	633,187	(334,310)	(62)	298,815	527,886	(276,357)	(59)	251,470
Furniture and fixtures	3,486,214	(2,356,973)	(15)	1,129,226	3,081,504	(2,005,618)	(13)	1,075,873
Tools and equipment	203,020	(108,874)	(2,195)	91,951	232,930	(110,500)	(2,155)	120,275
Other PP&E	247,458	(87,921)	(22,151)	137,386	234,997	(79,359)	(15,185)	140,453
Construction-in-progress	676,973	-	-	676,973	1,002,861	-	-	1,002,861
Finance lease assets	36,049	(10,539)	(1,738)	23,772	1,728	(275)	-	1,453
Total	₩ 21,011,828	₩ (5,084,669)	₩ (26,185)	₩ 15,900,974	₩ 20,517,717	₩ (4,711,733)	₩ (17,436)	₩ 15,788,548

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

Korean won (millions)

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

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

(c) Changes in property, plant and equipment for the year ended December 31, 2013 are as follows:

Korean won (millions)

	2013						Book value as of December 31, 2013
	Book value as of January 1, 2013	Acquisitions	Depreciation	Impairment	Disposals	Others (*)	
Land	₩ 7,571,891	₩ 20,771	₩ -	₩ -	₩ (6,551)	₩ 538,531	₩ 8,124,642
Buildings	4,476,799	40,264	(198,477)	-	(3,689)	447,434	4,762,331
Structures	219,767	494	(12,869)	-	-	(2,927)	204,465
Machinery	121,543	11,135	(27,338)	(24)	(71)	(4,016)	101,229
Vehicles	3,379	1,706	(1,046)	-	(144)	(399)	3,496
Display fixtures	195,396	42,304	(64,110)	(61)	(6,266)	84,207	251,470
Furniture and fixtures	1,005,831	223,304	(365,922)	(13)	(6,837)	219,510	1,075,873
Tools and equipment	110,183	34,688	(22,344)	(2,205)	(6,112)	6,065	120,275
Other PP&E	145,122	25,397	(14,438)	(15,535)	(13,077)	12,984	140,453
Construction-in-progress	975,241	1,462,484	-	-	(3,173)	(1,431,691)	1,002,861
Finance lease assets	768	1,152	(104)	-	-	(363)	1,453
Total	₩ 14,825,920	₩ 1,863,699	₩ (706,648)	₩ (17,838)	₩ (45,920)	₩ (130,665)	₩ 15,788,548

(*) Others include reclassifications of buildings to investment property, effects of loss of control of subsidiaries and foreign exchange effects.

(d) Pledged property, plant and equipment provided by the Group as of December 31, 2014 are as follows:

Korean won (millions)

	Book value	Guaranteed amount	Type of borrowings	Amount of borrowings	Guarantee recipient
Land and buildings etc.	₩ 269,871	₩ 282,975	Secured Loan and others	₩ 111,000	Kookmin Bank and others

(e) During 2014 and 2013, capitalized borrowing costs and capitalization interest rates are as follows:

Korean won (millions)

	2014	2013
Capitalized borrowing costs	₩ 12,094	₩ 6,429
Capitalization interest rates (%)	2.55%~4.80%	3.01%~8.50%

15 Investment Property

(a) Investment property as of December 31, 2014 and 2013 are summarized as follows:

Korean won (millions)

	December 31, 2014			December 31, 2013		
	Acquisition cost	Accumulated depreciation	Book value	Acquisition cost	Accumulated depreciation	Book value
Land	₩ 233,762	₩ -	₩ 233,762	₩ 271,232	₩ -	₩ 271,232
Buildings	392,706	(89,277)	303,429	286,748	(80,669)	206,079
Total	₩ 626,468	₩ (89,277)	₩ 537,191	₩ 557,980	₩ (80,669)	₩ 477,311

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

Korean won (millions)

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

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

(c) Changes in investment property for the year ended December 31, 2013 are as follows:

Korean won (millions)

	2013					
	Book value as of January 1, 2013	Acquisitions	Depreciation	Impairment	Others (*)	Book value as of December 31, 2013
Land	₩ 287,935	₩ -	₩ -	₩ -	₩ (16,703)	₩ 271,232
Buildings	220,322	5,904	(6,511)	(27,916)	14,280	206,079
Total	₩ 508,257	₩ 5,904	₩ (6,511)	₩ (27,916)	₩ (2,423)	₩ 477,311

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

(d) Income and expense from investment property

The details of income and expense from investment property during 2014 and 2013 are as follows:

Korean won (millions)

Description	2014	2013
Rent income	₩ 66,634	₩ 43,944
Direct operating expense (including maintenance and repair expenses)	25,098	15,173

(e) Fair value of investment property as of December 31, 2014 was as follows:

Korean won (millions)

Description	Book value	Fair value
Land and buildings	₩ 537,191	₩ 595,507

16 Goodwill and Intangible Assets

(a) Intangible assets as of December 31, 2014 and 2013 are summarized as follows:

Korean won (millions)

	December 31, 2014				December 31, 2013			
	Acquisition cost	Accumulated amortization	Accumulated impairment losses	Book value	Acquisition cost	Accumulated amortization	Accumulated impairment losses	Book value
Goodwill	₩ 3,516,315	₩ -	₩ (239,077)	₩ 3,277,238	₩ 3,488,978	₩ -	₩ (81,443)	₩ 3,407,535
Industrial property rights	143,302	(4,698)	-	138,604	143,084	(3,718)	-	139,366
Rights to use facility	524,444	(117,903)	-	406,541	549,932	(97,802)	-	452,130
Membership	37,921	-	(4,445)	33,476	37,105	-	(3,965)	33,140
Other intangible assets	524,201	(219,864)	(4,113)	300,224	438,672	(125,343)	(4,113)	309,216
Total	₩ 4,746,183	₩ (342,465)	₩ (247,635)	₩ 4,156,083	₩ 4,657,771	₩ (226,863)	₩ (89,521)	₩ 4,341,387

(b) Changes in intangible assets for the years ended December 31, 2014 and 2013 are as follows:

Korean won (millions)

	2014							
	Book value as of January 1, 2014	Acquisition	Business combination	Amortization	Impairment	Disposals	Others (*)	Book value as of December 31, 2014
Goodwill	₩ 3,407,535	₩ -	₩ 5,563	₩ -	₩ (157,710)	₩ (759)	₩ 22,609	₩ 3,277,238
Industrial property rights	139,366	325	-	(1,135)	-	-	48	138,604
Rights to use facility	452,130	-	-	(27,766)	-	(18,339)	516	406,541
Membership	33,140	1,112	-	-	(480)	(9)	(287)	33,476
Other intangible assets	309,216	81,291	8,100	(105,818)	(111)	(36)	7,582	300,224
Total	₩ 4,341,387	₩ 82,728	₩ 13,663	₩ (134,719)	₩ (158,301)	₩ (19,143)	₩ 30,468	₩ 4,156,083

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

Korean won (millions)

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

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

(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 8.

Details of the goodwill allocated to the groups of cash-generating units as of December 31, 2014 and 2013 are as follows:

Korean won (millions)

	December 31, 2014	December 31, 2013
Department stores	₩ 237,074	₩ 237,074
Discount stores	806,478	946,371
Finance business	118,733	118,733
Consumer electronics retail	1,282,696	1,282,696
Others	832,257	822,661
Total	₩ 3,277,238	₩ 3,407,535

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, 2014 was consistent with those used in 2013. The calculation of value in use was based on the following key assumptions:

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

	2014	2013
Department stores	7.94%	9.32%
Discount stores	7.33%~10.30%	8.49%~9.32%
Finance business	5.41%	5.44%
Consumer electronics retail	7.40%	8.00%
Others	6.49%~12.67%	8.38%~12.93%

Value in use is based on the above assumptions representing management's estimation of future cash flows, and is calculated using external and internal sources of the Group. As a result of impairment testing as of December 31, 2014 and 2013, recoverable amounts of the cash-generating units in discount stores and others were less than its book value, including goodwill, therefore impairment losses were recognized. As a result of impairment testing, value in use of the other cash-generating units is higher than their respective carrying amount as of December 31, 2014 and 2013. For the years ended December 31, 2014 and 2013, the impairment losses and recoverable amounts of the impaired cash-generating units are as follows:

Korean won (millions)

	2014		2013	
	Impairment losses	Recoverable amounts	Impairment losses	Recoverable amounts
Discount stores	₩ 156,904	₩ 311,758	₩ 74,799	₩ 643,249
Others	806	2,571	254	5,039
Total	₩ 157,710	₩ 314,329	₩ 75,053	₩ 648,288

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

The details of intangible assets with indefinite estimated useful lives as of December 31, 2014 and 2013 are as follows:

Korean won (millions)

	December 31, 2014	December 31, 2013
Department stores	₩ 11,059	₩ 10,709
Discount stores	1,976	1,976
Finance business	3,425	3,588
Consumer electronics retail	138,621	138,524
Others	14,491	14,439
Total	₩ 169,572	₩ 169,236

As a result of the Group's impairment test on indefinite intangible assets, the Group recognized an impairment loss of ₩532 million and a reversal of impairment of ₩52 million in 2014.

17 Trade and Other Payables

Trade and other payables as of December 31, 2014 and 2013 are summarized as follows:

Korean won (millions)

	December 31, 2014	December 31, 2013
Trade payables	₩ 3,761,489	₩ 3,533,849
Other payables	1,861,617	1,736,077
Total	₩ 5,623,106	₩ 5,269,926

18 Borrowings and Debentures

(a) Borrowings and debentures as of December 31, 2014 and 2013 are summarized as follows:

Korean won (millions)

	December 31, 2014	December 31, 2013
Current:		
Short-term borrowings	₩ 1,487,331	₩ 1,268,463
Current portion of long-term borrowings	837,208	380,312
Current portion of long-term debentures	2,250,212	3,126,694
Discount on debentures	(5,101)	(1,536)
Subtotal	₩ 4,569,650	₩ 4,773,933
Non-current:		
Long-term borrowings	₩ 1,371,781	₩ 1,313,465
Discount on long-term borrowings	(2,163)	(1,130)
Long-term debentures	6,863,085	6,697,083
Discount on debentures	(47,385)	(71,274)
Exchange rights adjustment	(28,404)	(37,080)
Subtotal	₩ 8,156,914	₩ 7,901,064
Total	₩ 12,726,564	₩ 12,674,997

(b) Short-term borrowings as of December 31, 2014 and 2013 are summarized as follows:

Korean won (millions)

Lender	Details	Annual interest rate (%)	December 31, 2014	December 31, 2013
Kookmin Bank and others	General	1.46~8.10	₩ 792,331	₩ 959,247
SK Securities and others	Financial notes	2.19~2.25	695,000	254,100
Others	Other		-	55,116
Total			₩ 1,487,331	₩ 1,268,463

(c) Long-term borrowings as of December 31, 2014 and 2013 are summarized as follows:

Korean won (millions)

Lender	Details	Annual interest rate (%)	December 31, 2014	December 31, 2013
Korea Development Bank and others	Local currency	2.32~4.03	₩ 1,129,751	₩ 1,118,621
Lotte Co., Ltd. (Japan) and others	Foreign currency	2.10~8.20	1,079,238	575,156
Subtotal			₩ 2,208,989	₩ 1,693,777
Less: Discount on borrowings			₩ (2,163)	₩ (1,130)
Subtotal			₩ 2,206,826	₩ 1,692,647
Less: Current portion			₩ (837,208)	₩ (380,312)
Total			₩ 1,369,618	₩ 1,312,335

(d) Debentures as of December 31, 2014 and 2013 are summarized as follows:

Korean won (millions)

Description	Maturity	Interest rate (%)	December 31, 2014	December 31, 2013
53rd placed	Dec. 03, 2014	5.30	₩ -	₩ 250,000
54-2nd placed	Mar. 12, 2015	4.82	400,000	400,000
57th placed (foreign currency)	Mar. 17, 2014	-	-	211,060
1st placed (Global bond)	April 07, 2016	3.88	439,680	422,120
2nd placed (Global bond)	May 09, 2017	3.38	439,680	422,120
58-1st placed (foreign currency)	Dec. 05, 2014	3M JPY Libor+0.60	-	150,699
58-2nd placed (foreign currency)	Nov. 28, 2014	3M USD Libor+1.50	-	105,530
59-1st placed	Aug. 07, 2015	2.98	350,000	350,000
59-2nd placed	Aug. 07, 2017	3.20	230,000	230,000
59-3rd placed	Aug. 07, 2019	3.33	200,000	200,000
60th placed (foreign currency)	Dec. 13, 2015	3M USD Libor+0.68	109,920	105,530
61st placed	Mar. 21, 2018	3.05	100,000	100,000
62nd placed	Jun. 21, 2018	2.80	110,000	110,000
63-1st placed	Jul. 02, 2017	2.79	200,000	-
63-2nd placed	Jul. 02, 2019	3.08	200,000	-
64-1st placed (foreign currency)	May 25, 2018	3M USD Libor+0.50	164,880	-
64-2nd placed (foreign currency)	May 25, 2018	3M USD Libor	109,920	-
64-3rd placed (foreign currency)	May 25, 2018	3M USD Libor+0.02	109,920	-
USD convertible bonds (*1)	Jul. 05, 2016	-	20,744	527,504
JPY convertible bonds (*1)	Jul. 05, 2016	-	84,581	322,311
Exchangeable bonds (*2)	Jan. 24, 2018	-	321,200	321,200
Korea Seven Co., Ltd.	Jan. 30, 2015	4.02	40,000	40,000
Korea Seven Co., Ltd. (foreign currency)	Jan. 30, 2015	3M Euro Yen Libor+0.70	20,243	22,103
Korea Seven Co., Ltd. (foreign currency)	April 18, 2016	3M USD Libor+0.50	32,976	31,659
Korea Seven Co., Ltd. (convertible bonds)	May 08, 2018	-	7,920	7,920
Lotte Card Co., Ltd.	Multiple	2.34~4.50	4,641,932	4,716,725
CS Mart Co., Ltd.	Oct. 29, 2015	3M JPY Libor+0.50	13,802	15,070
LOTTE Himart Co., Ltd.	Multiple	2.90~3.22	600,000	600,000
LOTTE Himart Co., Ltd.(Foreign currency)	Mar. 29, 2016	3M USD Libor+0.50	32,976	31,659
LSBM	Feb. 09, 2015	4.00	132,923	130,567
Subtotal			₩ 9,113,297	₩ 9,823,777
Less: Discount on debentures			₩ (52,486)	₩ (72,810)
Less: Exchange rights adjustment			(28,404)	(37,080)
Total book value			₩ 9,032,407	₩ 9,713,887
Less: Current portion of debentures, net of discount			₩ (2,245,111)	₩ (3,125,158)
Total			₩ 6,787,296	₩ 6,588,729

(*1) In 2011, the Group issued USD convertible bonds of USD 500 million and JPY convertible bonds of JPY 32.5 billion, among which USD convertible bonds of USD 480,800,000 and JPY convertible bonds of JPY 22,940,000,000 were redeemed during 2014. USD convertible bonds and JPY convertible bonds have been designated as financial liabilities at fair value through profit or loss as of December 31, 2014 and December 31, 2013. The terms and conditions for convertible bonds held as of December 31, 2014 are summarized as follows:

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

(b) Total face value of bonds:

USD Bonds: 19,200,000

JPY Bonds: 9,560,000,000

Total (in won): 149,412,924,000

(c) Exchange Rate:

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

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

(d) Bond interest rate:

Coupon rate (%): -
Yield to maturity (%):
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 delisted from the stock exchange or their transaction is suspended for 30 consecutive transaction days or longer.

(h) Call option by the company:

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

(i) Matters relating to conversion:

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

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

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

(b) Total face value of bonds(KRW): 321,200,000,000

(c) Bond interest rate

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

(d) Date of bond maturity: January 24, 2018

(e) Principal redemption method:

i. Redemption on maturity date: Redemption in lump sum on the maturity date for the principal amount of bonds for which a condition for early redemption has not occurred and the exchange right has not been exercised. Early redemption: The Company has a call option, whereas bond holders have a put option.
ii. Early redemption: Lotte Shopping Co., Ltd. ("Lotte Shopping") has a call option, whereas bond holders have a put option.

(f) Put option by bondholders:

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

(g) Call option by the Company:

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

(h) Matters relating to exchange:

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

(e) Maturities of long-term borrowings and debentures as of December 31, 2014 are scheduled as follows:

Korean won (millions)

	Borrowings	Debentures	Total
Within 1 year	₩ 837,207	₩ 2,250,212	₩ 3,087,419
1~2 years	459,151	1,985,037	2,444,188
2~3 years	832,631	2,413,328	3,245,959
3~4 years	50,000	1,364,720	1,414,720
More than 4 years	30,000	1,100,000	1,130,000
Total	₩ 2,208,989	₩ 9,113,297	₩ 11,322,286

18 Unearned Revenues

The details of unearned revenues as of December 31, 2014 and 2013 are as follows:

Korean won (millions)

	December 31, 2014	December 31, 2013
Current:		
Membership point	₩ 95,703	₩ 77,756
Other points	99,233	109,208
Unearned rental income	4,967	11,624
Others	35,810	34,522
Subtotal	₩ 235,713	₩ 233,110
Non-current:		
Other points	₩ 912	₩ 3,362
Unearned rental income	10,238	11,270
Subtotal	₩ 11,150	₩ 14,632
Total	₩ 246,863	₩ 247,742

20 Provisions

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

Korean won (millions)

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

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

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

Korean won (millions)

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

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

21 Other Non-financial Liabilities

Other non-financial liabilities as of December 31, 2014 and 2013 are summarized as follows:

Korean won (millions)

	December 31, 2014	December 31, 2013
Current:		
Withholdings	₩ 53,938	₩ 68,515
Withholdings of value added tax	68,330	74,959
Advances received	1,085,458	939,845
Other liabilities	1,544	1,259
Subtotal	₩ 1,209,270	₩ 1,084,578
Non-current:		
Other liabilities	₩ 88,087	₩ 66,610
Total	₩ 1,297,357	₩ 1,151,188

22 Employee Benefits

(a) Details of defined benefit liabilities as of December 31, 2014 and 2013 are summarized as follows:

Korean won (millions)

	December 31, 2014	December 31, 2013
Present value of defined benefit obligations	₩ 525,909	₩ 457,032
Fair value of plan assets	(486,054)	(412,811)
Total	₩ 39,855	₩ 44,221

(b) Details of present value of other long-term employee benefits as of December 31, 2014 and 2013 are summarized as follows:

Korean won (millions)

	December 31, 2014	December 31, 2013
Present value of other long-term employee benefits	₩ 42,286	₩ 38,089

(c) Changes in employee benefits for the years ended December 31, 2014 and 2013 are as follows:

Korean won (millions)

	2014	2013
Beginning of the year	₩ 457,032	₩ 437,436
Current service costs	102,421	106,928
Past service costs	178	1,354
Interest costs	22,992	20,405
Remeasurements:		
- Loss (gain) from change in demographic assumptions	3,558	(98)
- Loss (gain) from change in financial assumptions	(8,951)	(45,344)
- Loss (gain) experience adjustments	2,339	(30,585)
Payments	(56,853)	(34,702)
Others	3,193	1,638
End of the year	₩ 525,909	₩ 457,032

(d) During 2014 and 2013, changes on plan assets of an employee benefit plan are as follows:

Korean won (millions)

	2014	2013
Beginning of the year	₩ 412,811	₩ 319,320
Return on plan assets	17,781	12,268
Actuarial loss	(5,823)	(2,476)
Employer contribution	101,153	109,182
Payments	(42,973)	(26,169)
Others	3,105	686
End of the year	₩ 486,054	₩ 412,811

The estimated contributions to the plan for the next annual reporting period are ₩108,826 million.

(e) The components of plan assets as of December 31, 2014 and 2013 are summarized as follows:

Korean won (millions)

	December 31, 2014	December 31, 2013
Principal guaranteed insurance policies	₩ 485,852	₩ 412,595
Others	202	216
Total	₩ 486,054	₩ 412,811

(f) Expenses recognized for the years ended December 31, 2014 and 2013 are as follows:

Korean won (millions)

	2014	2013
Current service costs	₩ 102,421	₩ 106,928
Past service costs	178	1,354
Interest costs	22,992	20,405
Return on plan assets	(17,781)	(12,268)
Long-term employee benefits	7,701	(5,196)
Total	₩ 115,511	₩ 111,223

(g) The principal actuarial assumptions used as of December 31, 2014 and 2013 are summarized as follows:

	December 31, 2014	December 31, 2013
Discount rate	2.35~8.00%	3.25~9.00%
Expected rate of promotion	1.48~2.32%	1.46~3.26%
Expected rate of increase in salaries	3.00~7.00%	2.00~7.00%

(h) Sensitivity analysis

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

Korean won (millions)

	Increase	Decrease
Discount rate (1% movement)	(46,417)	56,058
Expected rate of promotion (1% movement)	51,273	(43,349)
Expected rate of increase in salaries (1% movement)	56,221	(47,370)

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

(i) Information about the maturity profile of the defined benefit obligation as of December 31, 2014 is as follows:

Korean won (millions)

1 year or less	1~2 years	2~5 years	5~10 years
62,615	14,357	61,750	194,437

23 Derivative Instruments and Hedge Accounting

(a) Details of derivatives outstanding as of December 31, 2014 are as follows:

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

(b) Fair value of derivatives outstanding as of December 31, 2014 and 2013 are summarized as follows:

Korean won (millions)

Description	Type	December 31, 2014		December 31, 2013	
		Assets	Liabilities	Assets	Liabilities
Trade	Stock option	₩ -	₩ 12,329	₩ -	₩ 9,739
	Currency swap	1,201	-	-	473
Cash flow hedge	Currency swap	8,487	75,427	-	207,812
	Interest swap	-	5,746	726	1,213
	Currency forward	12,576	-	-	-
Total		₩ 22,264	₩ 93,502	₩ 726	₩ 219,237

(c) Changes in the fair value of derivative instruments for the years ended December 31, 2014 are as follows:

Description	Type	Related accounts	Korean won (millions)
Trade	Stock option	Loss on valuation of derivative instruments	₩ (2,589)
	Currency swap	Gain on valuation of derivative instruments	1,536
Cash flow hedge	Currency swap	Gain on valuation of derivative instruments	8,283
		Gain on valuation of derivatives instruments (card business)	26,703
		Unrealized loss on valuation of derivative instruments	(12,208)
	Interest swap	Unrealized loss on valuation of derivative instruments	(5,063)
	Currency forward	Gain on valuation of derivative instruments	15,648
Unrealized loss on valuation of derivative instruments		₩ (3,072)	

24 Capital Stock and Capital Surplus

(a) Pursuant to its amended Articles of Incorporation, the Company's authorized capital stock is 60,000,000 shares, which consist of common shares and preferred shares each with a par value of ₩5,000 per share. The Company is authorized to issue non-voting preferred shares of up to one-fourth of the Company's total issued and outstanding capital stock. Holders of preferred shares may, upon a resolution of the board of directors at the time of the issuance of the preferred shares, be entitled to receive dividends prior to the holders of common shares. The preferred shares will be automatically converted to common shares within ten years of issuance as determined by the Company's board of directors. However, if the holders of preferred shares do not receive the minimum dividends as prescribed, the prescribed conversion date will be extended to the time when all such minimum dividend amount is paid to the holders of preferred shares. As of December 31, 2014, the Company has not issued any preferred stock and 31,490,892 shares of common stock were issued and outstanding as of December 31, 2014.

(b) Capital surplus as of December 31, 2014 and 2013 consists of the following:

	Korean won (millions)	
	December 31, 2014	December 31, 2013
Additional paid-in capital	₩ 3,786,431	₩ 3,786,431
Others	124,321	124,321
Total	₩ 3,910,752	₩ 3,910,752

25 Hybrid securities classified as equity

Hybrid securities classified as equity as of December 31, 2014 and 2013 are as follows:

	Korean won (millions)				
	Date of issue	Date of maturity	Interest rate (%)	December 31, 2014	December 31, 2013
Hybrid security 1-1 (*)	2013-11-15	2043-11-15	4.723	₩ 240,000	₩ 240,000
Hybrid security 1-2 (*)	2013-11-15	2043-11-15	4.723	30,000	30,000
Issuance cost				(882)	(882)
Total				₩ 269,118	₩ 269,118

(*) Details of hybrid securities are as follows:

	Korean won (millions)	
	Hybrid security 1-1	Hybrid security 1-2
Issue price	₩ 240,000	₩ 30,000
Maturity date	30 years (The Company has the unconditional right to extend the maturity date)	
Interest rate	Issue date~2018-11-15: 4.723%, reset every 5 years as follows: After 5 years: treasury rate (5 years) + 1.5% After 10 years: additionally + 1% according to Step-up clauses	
Interest payments condition	February 15, May 15, August 15 and November 15 of each calendar year (Conditional deferral of interest payments is available to the Company)	March 30, June 30, September 30, December 30 of each calendar year (Conditional deferral of interest payments is available to the Company)
Others	The Group can call the hybrid security at year 5 and interest payment date afterwards. The hybrid security holder's preference in the event of liquidation is same as the preference stock holders, higher than the common stock holders but lower than other creditors.	

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

26 Capital Adjustments

As of January 1, 2013, the Company merged with Lotte Midopa Co., Ltd. In connection with the merger, the Company issued 1,933,873 shares of common stocks in exchange for 51,475,843 shares of Lotte Midopa Co., Ltd. which the Company had held and 228 shares of treasury stocks of Lotte Midopa Co., Ltd. The Company recognized the acquisition cost of the treasury stocks as zero ("0"). In addition, the Company acquired 4,815 shares of fractional shares for ₩1,806 million in 2013 and, as a result, the Company holds 1,938,688 shares of treasury stocks as of December 31, 2014.

27 Retained Earnings

Details of retained earnings as of December 31, 2014 and 2013 are as follows:

	Korean won (millions)	
	December 31, 2014	December 31, 2013
Legal reserve	₩ 184,097	₩ 179,663
Voluntary reserve	10,730,052	10,100,052
Unappropriated retained earnings	1,445,946	1,615,663
Total	₩ 12,360,095	₩ 11,895,378

28 Accumulated Other Comprehensive Income

Changes in accumulated other comprehensive income (loss) for the years ended December 31, 2014 and 2013 are as follows:

	Korean won (millions)			
	2014			
	Beginning balance	Changes for the year	Tax effects for the year	Balance as of December 31, 2014
Net change in unrealized fair value of available for-sale financial assets	₩ 94,694	₩ 78,526	₩ (27,542)	₩ 145,678
Exchange rate differences on translating foreign operations	(94,118)	23,569	(239)	(70,788)
Effective portion of unrealized changes in fair values of cash flow hedges	299	(19,583)	8,334	(10,950)
Change in equity of equity method investments	62,255	(27,021)	7,662	42,896
Total	₩ 63,130	₩ 55,491	₩ (11,785)	₩ 106,836

Korean won (millions)

	2013			
	Beginning balance	Changes for the year	Tax effects for the year	Balance as of December 31, 2013
Net change in unrealized fair value of available for-sale financial assets	₩ 87,857	₩ 9,694	₩ (2,857)	₩ 94,694
Exchange rate differences on translating foreign operations	(60,458)	(32,779)	(881)	(94,118)
Effective portion of unrealized changes in fair values of cash flow hedges	(9,119)	13,618	(4,200)	299
Change in equity of equity method investments	49,297	18,657	(5,699)	62,255
Total	₩ 67,577	₩ 9,190	₩ (13,637)	₩ 63,130

28 Earnings per Share

(a) Basic earnings per share

(i) Basic earnings per share for the years ended December 31, 2014 and 2013 are as follows:

Korean won (millions, except per share amount)

	2014	2013
Profit for the year attributable to the owners of the Company	₩ 526,650	₩ 788,445
Interests of hybrid securities, net of tax	(9,643)	(174)
Weighted average number of common shares outstanding	29,552,204	29,552,204
Basic earnings per share	₩ 17,495	₩ 26,674

(ii) Weighted average number of ordinary shares

Number of shares

	2014	2013
Issued ordinary shares at January 1	31,490,892	31,490,892
Effect of treasury shares	(1,938,688)	(1,938,688)
Weighted average number of ordinary shares	29,552,204	29,552,204

(b) Diluted earnings per share

(i) Diluted earnings per share for the years ended December 31, 2014 and 2013 are as follows:

Korean won (millions, except per share amount)

	2014	2013
Profit for the year attributable to the owners of the Company (basic)	₩ 526,650	₩ 788,445
Interests of hybrid securities, net of tax	(9,643)	(175)
Effect of convertible bonds, net of tax (*)	(20,622)	(44,821)
Effect of exchange of exchangeable bond, net of tax (*)	(5,324)	(9,474)
Diluted profit attributable to ordinary shareholders	491,061	733,975
Diluted weighted average number of ordinary shares	30,428,932	31,058,311
Diluted earnings per share	₩ 16,138	₩ 23,632

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

(ii) Diluted weighted average number of ordinary shares

Number of shares

	2014	2013
Basic weighted average number of ordinary shares	29,552,204	29,552,204
Effect of conversion of convertible bonds	876,728	1,506,107
Diluted weighted average number of ordinary shares	30,428,932	31,058,311

(iii) Potential ordinary shares from conversion of convertible bonds as of December 31, 2014 are as follows:

Korean won (millions, except for conversion price)

	USD Bonds	JPY Bonds
Principal amount (*)	₩ 20,803	₩ 128,610
Conversion price (in won)	650,000	650,000
Number of potential ordinary shares	32,005	197,861

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

30 Sales and Cost of Sales

(a) Details of sales for the years ended December 31, 2014 and 2013 are as follows:

Korean won (millions)

	2014	2013
Sales of merchandise	₩ 23,432,763	₩ 23,899,520
Sales of products	89,082	136,632
Other operating revenue	3,108,178	2,770,799
Revenue of card business	1,469,544	1,404,752
Total	₩ 28,099,567	₩ 28,211,703

(b) Details of cost of sales for the years ended December 31, 2014 and 2013 are as follows:

Korean won (millions)

	2014	2013
Cost of merchandise sold	₩ 18,084,441	₩ 18,381,744
Cost of products sold	53,517	87,012
Cost of other operating revenue	376,367	270,189
Cost of card business	822,346	808,076
Total	₩ 19,336,671	₩ 19,547,021

31 Selling, general and administrative expenses

Details of selling, general and administrative expenses for the years ended December 31, 2014 and 2013 are as follows:

Korean won (millions)

	2014	2013
Salaries	₩ 1,387,123	₩ 1,290,956
Retirement and termination benefits	109,269	117,349
Other employee benefits	7,701	(5,195)
Employee welfare	295,511	281,329
Education and training	22,065	20,269
Travel	40,392	41,634
Maintenance fee for car	4,317	7,024
Insurance premium	16,861	13,665
Taxes and dues	179,650	148,014
Entertainment expenses	11,383	10,444
Supplies and stationery	89,227	89,083
Communications	41,460	47,807
Utilities	363,678	346,239
Maintenance	89,758	77,752
Rent	945,378	841,104
Depreciation	747,503	696,673
Amortization of intangible assets	75,166	54,384
Commissions and fees	1,155,702	1,073,983
Service commission expenses	821,292	789,117
Advertising	343,502	349,708
Sales promotion expenses	585,755	641,818
Decoration	20,406	20,945
Bad debt expenses	1,681	831
Transportation	206,580	205,292
Provisions	12	5,516
Others	13,145	13,680
Total	₩ 7,574,517	₩ 7,179,421

32 Other income and expenses

Details of other income and expenses for the years ended December 31, 2014 and 2013 are as follows:

Korean won (millions)

	2014	2013
Other income:		
Gain on foreign currency transactions	₩ 1,038	₩ 1,490
Gain on foreign currency translation	512	1,047
Gain on disposal of investment property	-	13
Gain on disposal of property, plant and equipment	221,719	5,029
Gain on disposal of intangible assets	18	48
Reversal of impairment losses on other non-current assets	-	4
Reversal of impairment losses on intangible assets	52	78
Others (*1)	61,776	54,407
Total	₩ 285,115	₩ 62,116

continued

Korean won (millions)

	2014	2013
Other expenses:		
Loss on foreign currency transactions	₩ 1,726	₩ 4,656
Loss on foreign currency translation	2	1,420
Impairment loss of investment property	-	27,916
Loss on disposal of investment property	423	-
Loss on disposal of property, plant and equipment	58,214	23,186
Impairment loss of property, plant and equipment	8,139	17,838
Loss on disposal of intangible assets	16,590	140
Impairment loss of intangible assets	158,353	76,248
Loss on disposal of trade receivables	28	109
Loss on disposal of other non-current assets	709	37
Donation	25,214	18,926
Other bad debt expenses	4,633	1,573
Taxes and dues	608	4,724
Others (*2)	70,550	66,630
Total	₩ 345,189	₩ 243,403

(*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.

33 Nature of Expenses

Details of nature of expenses for the years ended December 31, 2014 and 2013 are as follows:

Korean won (millions)

	2014	2013
Purchase of inventories	₩ 18,278,062	₩ 18,745,684
Changes in inventories	(123,043)	(362,850)
Employee benefits expense	1,812,054	1,703,906
Rent	956,701	850,004
Depreciation and amortization	899,373	820,890
Sales commissions	765,276	739,433
Sales promotion expenses	585,757	642,374
Commissions	782,463	721,417
Service commission expenses	843,645	817,711
Advertising	343,510	349,708
Utilities	365,113	348,077
Taxes and dues	179,786	148,207
Others	1,222,491	1,201,881
Total	₩ 26,911,188	₩ 26,726,442

34 Finance Income and Finance Costs

(a) Details of finance income and finance costs for the years ended December 31, 2014 and 2013 are as follows:

Korean won (millions)

	2014	2013
Finance income:		
Interest income	₩ 94,159	₩ 93,565
Dividend income	4,476	5,885
Gain on foreign currency transactions	10,043	2,028
Gain on foreign currency translation	43,678	147,138
Gain on valuation of financial assets and liabilities at fair value through profit or loss	10,228	70,678
Gain on disposal of available-for-sale financial assets	16,847	25,432
Gain on valuation of derivative instruments held for the purpose of hedging	30,135	-
Gain on valuation of derivative instruments held for the purpose of trading	1,536	-
Gain on transaction of derivative instruments held for the purpose of hedging	8,021	4,320
Gain on redemption of debentures	17,397	-
Gain on disposal of investments in subsidiaries and associates	4,412	11,074
Total	₩ 240,932	₩ 360,120
Finance costs:		
Interest expense	₩ 248,700	₩ 248,483
Loss on foreign currency transactions	9,584	8,962
Loss on foreign currency translation	59,672	6,097
Loss on valuation of financial assets and liabilities at fair value through profit or loss	488	11,860
Loss on disposal of available-for-sale financial assets	3,983	6,045
Impairment loss of available-for-sale financial assets	1,529	-
Loss on valuation of derivative instruments held for the purpose of hedging	6,204	58,366
Loss on valuation of derivative instruments held for the purpose of trading	2,589	10,140
Loss on transaction of derivative instruments held for the purpose of hedging	9,708	129
Loss on redemption of debentures	131	-
Other bad debt losses (Reversal of other bad debt losses)	-	(7,840)
Loss on disposal of investments in associates, joint ventures and subsidiaries	-	396
Impairment loss of investments in subsidiaries and associates	825	7,581
Total	₩ 343,413	₩ 350,219

(b) Details of finance income and finance costs by financial instruments category for the years ended December 31, 2014 and 2013 are as follows:

Korean won (millions)

	2014						Total
	Cash and cash equivalents	Loans and receivables	Available-for-sale financial assets	Financial assets and liabilities at fair value through profit or loss	Derivative assets and liabilities held for the purpose of hedging	Financial liabilities based on amortized cost	
Recognized in profit or loss:							
Interest income	₩ 51,308	₩ 760,466	₩ 692	₩ 93	₩ -	₩ -	₩ 812,559
Interest expense	-	-	-	-	-	(432,121)	(432,121)
Dividend income	-	-	4,616	-	-	-	4,616
Valuation / Disposal	-	28,025	31,490	8,687	50,634	-	118,836
Impairment	(68)	(206,478)	(1,529)	-	-	-	(208,075)
Gain (loss) on foreign currency translation/transactions	846	(1,218)	-	-	-	(15,310)	(15,682)
Commission revenue	-	744,393	-	-	-	-	744,393
Others	-	(692,074)	-	17,267	21,228	(41,199)	(694,778)
Subtotal	₩ 52,086	₩ 633,114	₩ 35,269	₩ 26,047	₩ 71,862	₩ (488,630)	₩ 329,748
Recognized in other comprehensive income (loss) (*):							
Gain (loss) on valuation of available-for-sale financial assets	₩ -	₩ -	₩ 131,463	₩ -	₩ -	₩ -	₩ 131,463
Loss on valuation of derivative instruments	-	-	-	-	(20,343)	-	(20,343)
Subtotal	₩ -	₩ -	₩ 131,463	₩ -	₩ (20,343)	₩ -	₩ 111,120
Total	₩ 52,086	₩ 633,114	₩ 166,732	₩ 26,047	₩ 51,519	₩ (488,630)	₩ 440,868

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

Korean won (millions)

	2013						Total
	Cash and cash equivalents	Loans and receivables	Available-for-sale financial assets	Financial assets and liabilities at fair value through profit or loss	Derivative assets and liabilities held for the purpose of hedging	Financial liabilities based on amortized cost	
Recognized in profit or loss:							
Interest income	₩ 36,383	₩ 781,686	₩ 288	₩ 128	₩ -	₩ -	₩ 818,485
Interest expense	-	-	-	-	-	(449,284)	(449,284)
Dividend income	-	-	5,995	-	-	-	5,995
Valuation / Disposal	-	(109)	22,554	48,678	(86,111)	-	(14,988)
Impairment	-	(162,418)	-	-	-	-	(162,418)
Gain (loss) on foreign currency translation/transactions	(1,970)	(918)	-	-	-	133,448	130,560
Commission revenue	-	742,634	-	-	-	-	742,634
Others	-	(722,131)	-	-	17,145	19,186	(685,800)
Subtotal	₩ 34,413	₩ 638,744	₩ 28,837	₩ 48,806	₩ (68,966)	₩ (296,650)	₩ 385,184
Recognized in other comprehensive income (loss) (*):							
Loss on valuation of available-for-sale financial assets	₩ -	₩ -	₩ (8,008)	₩ -	₩ -	₩ -	₩ (8,008)
Loss on valuation of derivative instruments	-	-	-	-	13,747	-	13,747
Subtotal	₩ -	₩ -	₩ (8,008)	₩ -	₩ 13,747	₩ -	₩ 5,739
Total	₩ 34,413	₩ 638,744	₩ 20,829	₩ 48,806	₩ (55,219)	₩ (296,650)	₩ 390,923

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

Income Taxes

(a) The components of income tax expense for the years ended December 31, 2014 and 2013 are as follows:

Korean won (millions)

	2014	2013
Current tax	₩ 432,338	₩ 532,572
Deferred tax	53,175	(144,625)
Income taxes directly (charged) credited to equity	(23,241)	49,831
Income tax expense	₩ 462,272	₩ 437,778

(b) During 2014 and 2013, the details of income tax expense recognized directly to equity are as follows:

Korean won (millions)

	2014	2013
Change in fair value of available-for-sale financial assets	₩ (40,331)	₩ 1,388
Exchange differences on translating foreign operations	(239)	(882)
Effective portion of changes in fair value of cash flow hedges	8,517	(4,231)
Defined benefit plan actuarial (gain) loss	504	(18,264)
Change in equity of equity method investments	8,200	(5,794)
Others	108	77,614
Income tax directly (charged) credited to equity	₩ (23,241)	₩ 49,831

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

(c) During 2014 and 2013, statutory to actual effective tax rates are reconciled as follows:

Korean won (millions)

	2014	2013
Profit before income tax	₩ 1,077,996	₩ 1,318,412
Tax rates (%)	24.11%	24.31%
Income tax using statutory tax rates	259,899	320,517
Adjustment:		
Tax effects on non-taxable income	(13,657)	(8,267)
Tax effects on non-deductible expense	12,911	11,694
Tax credit	(957)	(2,799)
Adjustments for prior periods	8,857	39,724
Tax effects on share of net income of subsidiaries, associates and joint ventures	56,005	58,898
Merger with a subsidiary	-	(78,770)
Unused tax losses for which no deferred tax asset is recognized	134,110	100,377
Others	5,104	(3,596)
Income tax expenses	₩ 462,272	₩ 437,778
Effective tax rate (%)	42.88%	33.20%

(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) Changes in deferred tax assets (liabilities) for the years ended December 31, 2014 and 2013 are as follows:

Korean won (millions)

	2014			
	Beginning balance	Profit or loss	Other comprehensive income	Balance as of December 31, 2014
Impairment loss on available-for-sale financial assets	₩ 1,348	₩ 621	₩ -	₩ 1,969
Buildings	(14,367)	909	-	(13,458)
Depreciation expense	38,391	4,233	-	42,624
Allowance for doubtful accounts	1,890	696	-	2,586
Accrued revenues	(1,534)	130	-	(1,404)
Unearned revenues	8,357	22,196	-	30,553
Non-current prepaid expenses	(33,541)	(6,904)	-	(40,445)
Losses on valuation of inventories	3,724	(1,161)	-	2,563
Provision for sales return	1,788	508	-	2,296
Property, plant and equipment (capitalization of borrowing costs)	(12,595)	2,302	-	(10,293)
Land	32,840	(292)	-	32,548
Land (asset revaluation)	(1,063,563)	41,058	-	(1,022,505)
Deferred revenue	23,227	(23,227)	-	-
Provision for mileage program	14,492	4,160	-	18,652
Accrued expense	21,362	2,720	-	24,082
Gain (loss) on foreign currency translation	4,364	837	-	5,201
Gain (loss) on valuation of convertible bonds	(1,032)	141	-	(891)
Construction-in-progress	1,727	(20)	-	1,707
Other intangible assets	(55,714)	3,642	-	(52,072)
Rental guarantee deposits	11,501	1,243	-	12,744
Goodwill	(63,117)	(9,457)	-	(72,574)
Exchangeable debenture	(8,973)	2,099	-	(6,874)
Other capital surplus	62,270	-	-	62,270
Investments in subsidiaries and associates	(237,784)	(61,231)	8,307	(290,708)
Loss (gain) on valuation of available-for-sale financial assets	(61,845)	-	(40,330)	(102,175)
Loss (gain) on valuation of derivatives	15,624	(8,694)	8,516	15,446
Salaries and retirement benefits	18,212	40	504	18,756
Translation difference of foreign subsidiaries	2,723	-	(238)	2,485
Others	24,910	(6,482)	-	18,428
Total	₩ (1,265,315)	₩ (29,933)	₩ (23,241)	₩ (1,318,489)

Korean won (millions)

	2013			Balance as of December 31, 2013
	Beginning balance	Profit or loss	Other comprehensive income	
Impairment loss on available-for-sale financial assets	₩ 1,726	₩ (378)	₩ -	₩ 1,348
Buildings	(20,287)	5,920	-	(14,367)
Depreciation expense	48,533	(10,142)	-	38,391
Allowance for doubtful accounts	3,488	(1,598)	-	1,890
Accrued revenues	(2,378)	844	-	(1,534)
Unearned revenues	6,424	1,933	-	8,357
Non-current prepaid expenses	(31,909)	(1,632)	-	(33,541)
Losses on valuation of inventories	3,028	696	-	3,724
Provision for sales return	1,569	219	-	1,788
Property, plant and equipment (capitalization of borrowing costs)	(12,881)	286	-	(12,595)
Land	-	32,840	-	32,840
Land (asset revaluation)	(1,063,526)	(37)	-	(1,063,563)
Deferred revenue	20,823	2,404	-	23,227
Provision for mileage program	13,277	1,215	-	14,492
Accrued expense	15,315	6,047	-	21,362
Gain (loss) on foreign currency translation	5,779	(1,415)	-	4,364
Loss on valuation of convertible bonds	(7,830)	6,798	-	(1,032)
Construction-in-progress	419	1,308	-	1,727
Other intangible assets	(65,333)	9,619	-	(55,714)
Rental guarantee deposits	15,291	(3,790)	-	11,501
Goodwill	(35,739)	(27,378)	-	(63,117)
Exchangeable debenture	-	(8,973)	-	(8,973)
Other capital surplus	-	-	62,270	62,270
Investments in subsidiaries and associates	(285,393)	38,059	9,550	(237,784)
Loss (gain) on valuation of available-for-sale financial assets	(63,233)	-	1,388	(61,845)
Loss (gain) on valuation of derivatives	3,560	16,295	(4,231)	15,624
Salaries and retirement benefits	24,907	11,569	(18,264)	18,212
Translation difference of foreign subsidiaries	3,605	-	(882)	2,723
Others	10,825	14,085	-	24,910
Total	₩ (1,409,940)	₩ 94,794	₩ 49,831	₩ (1,265,315)

(f) As of December 31, 2014 and 2013, the amounts of total deductible temporary differences related to investments in associates, joint ventures and subsidiaries for which deferred tax assets were not recognized are as follows:

Korean won (millions)

	December 31, 2014	December 31, 2013
Investments in associates and joint ventures	₩ 220,444	₩ 130,727
Investments in subsidiaries	1,300,007	830,070
Total	₩ 1,520,451	₩ 960,797

36 Consolidated statements of cash flows

As of December 31, 2014 and 2013, the details of cash and cash equivalents are as follows:

Korean won (millions)

	December 31, 2014	December 31, 2013
Cash	₩ 42,852	₩ 44,089
Deposits	558,107	375,756
Other cash equivalents	1,327,177	889,639
Total	₩ 1,928,136	₩ 1,309,484

37 Operating Leases

(a) Lessee

The Group has entered into the operating leases for buildings, furniture and fixtures and vehicles. Future lease payments under operation leases as of December 31, 2014 and 2013 are as follows:

Korean won (millions)

	2014	2013
Within 1 year	₩ 665,322	₩ 731,866
1~5 years	2,325,157	2,525,945
Thereafter	5,371,598	5,090,387
Total	₩ 8,362,077	₩ 8,348,198

In lieu of rent, certain agreements require the Group to advance a non-interest bearing refundable security deposit to the landlord for the Group's use during the lease term. The amount of the advance is determined by the prevailing market rate. The Group has recorded rent expense and interest income related to these leases of ₩41,046 million and ₩45,121 million during 2014 and ₩41,448 million and ₩45,106 million during 2013, respectively. The related deposit balances amount to ₩1,765,251 million and ₩1,628,195 million as of December 31, 2014 and 2013 respectively. Such amounts were measured using the fixed interest rate for time deposits with similar maturities.

(b) Lessor

The Group has entered into operating leases of certain of its properties and equipment. Future minimum lease payments receivable under operating leases as of December 31, 2014 and 2013 are as follows:

Korean won (millions)

	2014	2013
Within 1 year	₩ 177,393	₩ 126,855
1~5 years	162,932	151,354
Thereafter	190,591	49,297
Total	₩ 530,916	₩ 327,506

38 Operating Segments and Geographic Information

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

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

(b) Information about reportable segments as of and for the years ended December 31, 2014 and 2013 are as follows:

Korean won (millions)

	December 31, 2014					Total
	Department stores	Discount stores	Card business	Consumer electronics retail	Others	
External sales	₩ 8,027,870	₩ 8,166,891	₩ 1,553,512	₩ 3,753,457	₩ 6,597,837	₩ 28,099,567
Inter-segment sales	15,875	42,066	207,299	838	115,178	381,256
Total sales	8,043,745	8,208,957	1,760,811	3,754,295	6,713,015	28,480,823
Interest income	106,064	10,192	687	5,363	49,178	171,484
Interest expenses	5,628	231,551	2,030	25,172	62,122	326,503
Depreciation and amortization	321,599	225,861	44,367	20,094	273,075	884,996
Equity method income (loss) of investments in associates	58,032	(871)	(275)	-	(4,714)	52,172
Income tax expense	256,365	23,443	53,872	28,009	44,812	406,501
Segment profit	686,698	(215,721)	147,390	96,438	(358,274)	356,531
Segment assets	16,794,731	10,412,802	8,575,013	2,774,637	6,126,821	44,684,004
Segment liabilities	10,029,922	2,569,120	6,631,412	1,089,503	2,496,789	22,816,746

Korean won (millions)

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

(c) Reconciliations of total segment sales and profit to their respective consolidated financial statements line items for the years ended December 31, 2014 and 2013 are summarized as follows:

Korean won (millions)

	2014	
	Sales	Profit for the year
Department stores	₩ 8,043,745	₩ 686,698
Discount stores	8,208,957	(215,721)
Card business	1,760,811	147,390
Consumer electronics retail	3,754,295	96,438
Others	6,713,015	(358,274)
Segment totals	₩ 28,480,823	₩ 356,531
Elimination of inter-segment amounts	₩ (381,256)	₩ 259,193
After consolidated adjustments	₩ 28,099,567	₩ 615,724

Korean won (millions)

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

(d) Reconciliation of segment assets and liabilities to their respective consolidated financial statement line items as of December 31, 2014 and 2013 are summarized as follows:

Korean won (millions)

	December 31, 2014	
	Assets	Liabilities
Department stores	₩ 16,794,731	₩ 10,029,922
Discount stores	10,412,802	2,569,120
Card business	8,575,013	6,631,412
Consumer electronics retail	2,774,637	1,089,503
Others	6,126,821	2,496,789
Segment totals	₩ 44,684,004	₩ 22,816,746
Elimination of inter-segment assets and liabilities	₩ (503,951)	₩ (503,951)
Adjustments of business combinations	784,617	215,654
Investments in subsidiaries and associates	(4,892,344)	-
Subtotal	₩ (4,611,678)	₩ (288,297)
After consolidated adjustments	₩ 40,072,326	₩ 22,528,449

Korean won (millions)

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

(e) Sales by geographical areas for the years ended December 31, 2014 and 2013 are summarized as follows:

Korean won (millions)

Region	2014	2013
Domestic	₩ 25,732,612	₩ 25,663,020
China	1,506,624	1,733,362
Vietnam	204,407	137,718
Indonesia	1,037,180	1,076,167
Total	₩ 28,480,823	₩ 28,610,267

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

(f) Non-current assets by geographical areas as of December 31, 2014 and 2013 are summarized as follows:

Korean won (millions)

Region	December 31, 2014	December 31, 2013
Domestic	₩ 18,431,098	₩ 18,410,446
China	905,143	1,020,543
Vietnam	345,396	254,728
Indonesia	216,924	212,358
Total	₩ 19,898,561	₩ 19,898,075

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

(g) Sales by types of products and services for each operating segment for the years ended December 31, 2014 and 2013 are summarized as follows:

Korean won (millions)

	2014					Total
	Department stores	Discount stores	Card business	Consumer electronics retail	Others (*)	
Sales of merchandise	₩ 7,123,132	₩ 7,640,011	₩ 4,708	₩ 3,738,940	₩ 4,967,572	₩ 23,474,363
Sales of products	-	-	-	-	89,082	89,082
Financial income	-	-	1,675,891	-	-	1,675,891
Commissions	-	-	-	-	976,721	976,721
Rental income	855,533	204,306	-	2,098	14,906	1,076,843
Others	65,080	364,640	80,212	13,257	664,734	1,187,923
Total segment sales	₩ 8,043,745	₩ 8,208,957	₩ 1,760,811	₩ 3,754,295	₩ 6,713,015	₩ 28,480,823

Korean won (millions)

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

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

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

38 Contingent Liabilities and Financial Commitments

(a) As of December 31, 2014, 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	1,953,500	KRW	926,100
	CNY	1,690,000	CNY	1,411,252
	USD	293,100	USD	293,001
	IDR	2,120,000,000	IDR	1,710,000,000
	HKD	189,000	HKD	152,000
Discount of bill	KRW	965,000	KRW	350,000
Buyer's credit	KRW	538,762	KRW	68,045
Bank overdraft	KRW	348,000	KRW	-
	CNY	300,000	CNY	244,688
Letter of credit	USD	15,200	USD	9,240
Guarantee	KRW	5,600	KRW	3,828
Others	KRW	57,000	KRW	40

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

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

(c) As of December 31, 2014, the Group is the plaintiff in various lawsuits claiming damages totaling ₩51,548 million and the Group is the defendant in various lawsuits with damage claims totaling ₩113,388 million, among which ₩34,608 million is related to a claim against Lotte Card Co., Ltd., a subsidiary of the Company, related to personal data leaks. Since the Group cannot reliably estimate the impacts from lawsuit results related to personal data leaks, no provisions were recognized. The management believes that the ultimate resolutions of other legal action will not have a material effect of the financial position or results of operations of the Group.

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

(e) As of December 31, 2014, the Company, Hotel Lotte Co., Ltd. and Lotte Engineering & Construction Co., Ltd. granted put options for the preferred stocks of Lotte Incheon Development Co., Ltd. (₩60,000 million of the total issue price) to the current preferred stockholders. Meanwhile, the Company, Hotel Lotte Co., Ltd. and Lotte Engineering & Construction Co., Ltd. have call options for the preferred stocks of Lotte Incheon Development Co., Ltd.

(f) The company has the right to purchase 5.1% of the Hyundai Logistics Co., Ltd. shares held by IGIS I Corporation and in the event the company does not exercise the call option, IGIS I Corporation has the right to require the Company to purchase 5.1% of Hyundai Logistics Co., Ltd. shares held by IGIS I Corporation. In connection with IGIS I Corporation's borrowings, all IGIS I Corporation shares (₩5,992 million of book value) held by the Company have been in pledge in Mizuho Corporate Bank.

(g) Lotte Shopping Co., Ltd. disposed of land and buildings of 3 stores including Lotte mart Jeju store to KTB Confidence Private Real Estate Investment Trust for ₩220 billion in 2008 and the Company has been leasing the assets. The Company disposed of land and buildings of 6 stores including Lotte department store Bundang store to Lotte Retail Real Estate Investment Trust for ₩595 billion in 2010 and 2011, and the Company has been leasing the assets. The Company has the options to purchase the assets at a fair value at the end of the lease. In 2014, the Company disposed of land and buildings of 2 Lotte department stores including Ilsan store and 5 Lotte mart stores including Bupyeong store to KB Lotte Master Lease Private Real Estate Investment Trust for ₩602 billion and the Company has been leasing the assets. The Company disposed of land and buildings of 2 Lotte department stores including Dongnae store and 3 Lotte mart stores including Sungjung store to Capstone Private Real Estate Investment Trust for ₩500 billion and the Company has been leasing the assets. The Company has the preferential right of negotiation to purchase the assets at the end of the lease, and the Group does not consolidate these structured entities.

40 Inter-company Transactions and Balances with Consolidated Companies

The Group has provided guarantees for consolidated companies as of December 31, 2014 as follows:

Consolidated company	Provided by	Guarantee recipient	2014	
			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 PROPERTIES (CHENGDU) HK LIMITED	Lotte Shopping Co., Ltd.	Korea Exchange Bank	Working capital	USD 140,000
		Shinhan Bank		USD 50,000
Lotte Shopping Holdings (Hong Kong) Co., Limited	Lotte Shopping Co., Ltd.	Standard Chartered Bank Korea Limited	Working capital	USD 38,136
		BNP Paribas		USD 38,135
		Citibank N.A., Hong Kong Branch		USD 38,135
		SMBC		USD 38,135
		PT. LOTTE Shopping Avenue Indonesia	Lotte Shopping Co., Ltd.	DBS
Lucky Pai (Shanghai) Trading Co., Ltd.	Woori Home Shopping & Television Co., Ltd.	Shinhan Bank	Working capital	RMB 46,000
				RMB 14,000
LOTTE SHOPPING HOLDINGS (SINGAPORE) PTE. LTD.	Lotte Shopping Co., Ltd.	POSCO Engineering & Construction Co., Ltd	Balance of acquisition price	KRW 52,948,798

41 Transactions and Balances with Related Companies

(a) Details of control and subsidiary relationships with the Company as of December 31, 2014 are as follows:

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

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

(b) Significant transactions which occurred in the normal course of business with related companies for the years ended December 31, 2014 and 2013 are summarized as follows:

Related company	2014				
	Sales	Purchase of inventories	Purchase of fixed asset	Other revenue	Other expenses
Hotel Lotte Co., Ltd.	₩ 50,202	₩ 144	₩ 5,282	₩ 711	₩ 125,669
Lotte Confectionery Co., Ltd.	16,746	130,795	-	21	18,341
Lotte Chilsung Beverage Co., Ltd.	12,753	109,991	-	39	563
Lotte Engineering & Construction Co., Ltd.	4,442	-	986,478	15	682
Hotel Lotte Pusan Co., Ltd.	7,903	-	80	10	19,733
LOTTE DATA COMMUNICATION COMPANY	40,436	1,993	99,335	561	159,793
Lotte Station Building Co., Ltd.	23,469	-	-	-	6,384
Lotteria Co., Ltd.	22,073	7,540	-	1,482	1,997
Lotte Trading Co., Ltd.	9,195	267,559	-	17	221
LOTTE FOOD CO.,LTD.	20,543	177,624	93	53	6,972
Lotte Aluminium Co., Ltd.	2,658	17,840	14,526	5	31,868
Lotte Logistics Co., Ltd.	26,001	1,563,742	1,252	21	202,400
Others	157,175	82,044	9,474	3,089	302,135
Total	₩ 393,596	₩ 2,359,272	₩ 1,116,520	₩ 6,024	₩ 876,758

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

Korean won (millions)

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

During 2013, the Group disposed of shares of Lotte Chilsung Beverage Co., Ltd. to Lotte Confectionery Co., Ltd. and others for ₩106,899 million. In addition, the Group disposed of shares of Lotte Confectionery Co., Ltd. to Daehong Communications Co., Ltd. and others for ₩64,860 million.

(c) Significant financial transactions with related companies for the years ended December 31, 2014 and 2013 are summarized as follows:

Korean won (millions)

Related company	2014				
	Collection	Borrowings	Repayment	Capital increase	Capital decrease
Shandong Longzhile Cinema Co., Ltd.	₩ 1,710	₩ -	₩ -	₩ 4,123	₩ -
Eunpyeong PFV corporation	-	-	-	3,500	-
STL Co., Limited	-	-	-	1,500	-
Yunnan Maile TV Shopping Media Co., Ltd.	-	-	-	838	-
Lotte Capital Lease & Finance(China) Co.,Ltd.	-	30,086	-	-	-
Others	-	4,534	2,943	858	(750)
Total	₩ 1,710	₩ 34,620	₩ 2,943	₩ 10,819	₩ (750)

Lotte Non-Life Insurance Co., Ltd. purchased and held ₩20 billion of the hybrid securities issued by the Company as of December 31, 2014.

Korean won (millions)

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

(d) Account balances with related companies as of December 31, 2014 and 2013 are summarized as follows:

Korean won (millions)

Related company	2014				
	Receivables		Payables		
	Trade receivables	Other receivables	Trade payables	Borrowings	Other payables
Hotel Lotte Co., Ltd.	₩ 101	₩ 67,207	₩ -	₩ -	₩ 59,121
Lotte Confectionery Co., Ltd.	472	11,352	18,102	-	2,502
Lotte Chilsung Beverage Co., Ltd.	118	54,126	5,102	-	4,497
Lotte Engineering & Construction Co., Ltd.	44	49,383	-	-	197,912
Hotel Lotte Pusan Co., Ltd.	-	10,618	-	-	2,929
LOTTE DATA COMMUNICATION COMPANY	147	12,482	327	-	44,016
Lotte Station Building Co., Ltd.	10,759	14,921	-	-	7,329
Lotteria Co., Ltd.	25	1,531	568	-	10,933
Lotte Trading Co., Ltd.	6	1,163	7,507	-	61
LOTTE FOOD CO.,LTD.	240	1,622	13,717	-	7,800
Lotte Aluminium Co., Ltd.	39	18,377	1,307	-	7,524
Lotte Logistics Co., Ltd.	-	1,138	181,676	-	20,205
Others	83,897	153,364	18,411	9,925	122,908
Total	₩ 95,848	₩ 397,284	₩ 246,717	₩ 9,925	₩ 487,737

Korean won (millions)

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

(e) The Group has provided guarantees for related companies as of December 31, 2014 as follows:

Related company	Guarantee recipient	Type of borrowings	Guaranteed amount (thousand)
Lotte Shopping Rus Ltd.	Korea Exchange Bank	Working capital	USD 5,000
Shandong Longzhile Cinema Co., Ltd.	Shinhan Bank	Working capital	RMB 24,000

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

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

(h) In 2013, the Company, Hotel Lotte Co., Ltd. and Lotte Engineering & Construction Co., Ltd. entered into an agreement to jointly provide financial support for HND able 2nd limited ("HND able") in default of the principal and interest on the Asset Backed Commercial Paper ("ABCP", ₩700,000 million of par value in maturing in 57 months) issued by HND able on May 27, 2013, which is collateralized with the assets of Lotte Incheon Development Co., Ltd.

Risk Management

(a) Management of financial risks

Objectives and Policies of the Group

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

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

Credit Risk

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

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

1) Exposure to credit risk

The book value of a financial asset represents the maximum exposure to credit risk. The maximum exposures to credit risk as of December 31, 2014 and 2013 are as follows:

Account	Korean won (millions)	
	December 31, 2014	December 31, 2013
Cash equivalent (*1)	₩ 1,885,284	₩ 1,265,395
Trade and other receivables	912,952	937,496
Other financial assets (current)	8,598,854	8,469,947
Other financial assets (non-current) (*2)	1,328,751	1,233,806
Total	₩ 12,725,841	₩ 11,906,644

(*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, 2014 and 2013 are summarized as follows:

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

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

Description	December 31, 2013			
	Receivables that are neither past due nor impaired	Receivables that are past due as at the end of the reporting period but not impaired	Receivables impaired(*)	Total
Trade and other receivables	₩ 910,508	₩ 26,988	₩ 17,087	₩ 954,583
Other financial assets (current)	8,351,947	97,818	240,909	8,690,674
Other financial assets (non-current)	1,227,726	6,080	2,000	1,235,806
Total	₩ 10,490,181	₩ 130,886	₩ 259,996	₩ 10,881,063

(*) 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, 2014 and 2013 are summarized as follow:

	Korean won (millions)	
	2014	2013
Balance at beginning of the year	₩ 17,087	₩ 14,971
Impairment loss	5,206	3,998
Reversal of Impairment loss	(220)	(188)
Write-offs	(5,253)	(1,451)
Recoveries	27	50
Others	(716)	(293)
Balance at end of the year	₩ 16,131	₩ 17,087

The movement in the allowance for doubtful other financial assets (current) for the years ended December 31, 2014 and 2013 are summarized as follow:

Korean won (millions)

	2014	2013
Balance at beginning of the year	₩ 220,727	₩ 254,652
Impairment loss	197,360	169,461
Reversal of Impairment loss	-	(9,047)
Write-offs	(250,811)	(235,853)
Recoveries	11,830	41,514
Balance at end of the year	₩ 179,106	₩ 220,727

The movement in the allowance for doubtful other financial assets (non-current) for the years ended December 31, 2014 and 2013 are summarized as follow:

Korean won (millions)

	2014	2013
Balance at beginning of the year	₩ 2,000	₩ 2,376
Impairment loss	2,000	-
Write-offs	-	(376)
Balance at end of the year	₩ 4,000	₩ 2,000

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, 2014				
	Carrying amount	3 months or less	3~6 months	6~12 months	More than 1 year
Trade and other receivables	₩ 17,227	₩ 6,847	₩ 3,539	₩ 5,111	₩ 1,730
Other financial assets (current)	420,415	419,906	509	-	-
Other financial assets (non-current)	5,369	-	-	-	5,369
Total	₩ 443,011	₩ 426,753	₩ 4,048	₩ 5,111	₩ 7,099

Korean won (millions)

Description	December 31, 2013				
	Carrying amount	3 months or less	3~6 months	6~12 months	More than 1 year
Trade and other receivables	₩ 26,988	₩ 18,844	₩ 3,954	₩ 2,748	₩ 1,442
Other financial assets (current)	97,818	97,685	133	-	-
Other financial assets (non-current)	6,080	-	-	-	6,080
Total	₩ 130,886	₩ 116,529	₩ 4,087	₩ 2,748	₩ 7,522

5) Guarantees

As of December 31, 2014, the Group has provided financial guarantees to associates and joint ventures. Should the Group be liable for payment upon defaults of the associates and joint ventures, the expected amounts which the Group is liable to pay within 1 year are ₩9,750 million.

Liquidity Risks

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

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

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

Aggregate maturities of financial liabilities, including estimated interest, as of December 31, 2014 are as follows:

Korean won (millions)

Description	December 31, 2014					
	Carrying amount	Contractual cash flows	3 months or less	3~6 months	6~12 months	More than 1 year
Current portion of borrowings and debentures	₩ 4,569,650	₩ 4,652,485	₩ 1,627,401	₩ 783,257	₩ 2,241,827	₩ -
Trade and other payables	5,623,106	5,623,106	5,614,218	8,835	53	-
Other financial liabilities (current)	612,689	613,515	524,104	7,344	82,067	-
Borrowings and debentures	8,156,914	8,925,185	96,913	56,758	113,640	8,657,874
Other financial liabilities (non-current)	257,516	289,795	15,297	26,505	8,511	239,482
Total	₩ 19,219,875	₩ 20,104,086	₩ 7,877,933	₩ 882,699	₩ 2,446,098	₩ 8,897,356

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, 2014 and 2013 are as follows:

Korean won (millions)

	December 31, 2014		December 31, 2013	
	Assets	Liabilities	Assets	Liabilities
USD	₩ 827,758	₩ 2,274,432	₩ 825,485	₩ 2,671,063
EUR	32	1,832	9	561
JPY	28,521	423,187	31,128	842,654
RMB	80	-	-	-
Total	₩ 856,391	₩ 2,699,451	₩ 856,622	₩ 3,514,278

The closing rates as of December 31, 2014 and 2013 and the average rates for the years ended December 31, 2014 and 2013 are as follows:

	Average rate		Closing rate	
	2014	2013	December 31, 2014	December 31, 2013
USD	₩ 1,053.22	₩ 1,095.04	₩ 1,099.20	₩ 1,055.30
EUR	1,398.82	1,453.56	1,336.52	1,456.26
JPY	9.9619	11.2341	9.2014	10.0466
RMB	171.00	178.10	177.23	174.09

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, 2014 and 2013 are summarized as follows:

Korean won (millions)

	December 31, 2014		December 31, 2013	
	10% increase	10% decrease	10% increase	10% decrease
USD	₩ (42,575)	₩ 42,575	₩ (62,174)	₩ 62,174
EUR	(180)	180	(55)	55
JPY	(27,604)	27,604	(30,140)	30,140
RMB	8	(8)	-	-
Total	₩ (70,351)	₩ 70,351	₩ (92,369)	₩ 92,369

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, 2014 and 2013 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, 2014	December 31, 2013
Variable rate instruments:		
Financial assets	₩ 587,834	₩ 403,683
Financial liabilities	3,245,438	2,422,093

Sensitivity analysis of interest income and expenses from changes in interest rates as of December 31, 2014 and 2013 are summarized as follows:

Korean won (millions)

	December 31, 2014		December 31, 2013	
	100bps up	100bps down	100bps up	100bps down
Interest income	₩ 5,878	₩ (5,878)	₩ 4,037	₩ (4,037)
Interest expense	6,460	(6,460)	5,137	(5,137)

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

3) Price risk

The Group is exposed to fluctuations of price in available-for-sale financial assets. The book values of the marketable available-for-sale financial assets as of December 31, 2014 and 2013 are ₩390,009 million and ₩169,498 million, respectively.

The Group assumes that prices of the marketable available-for-sale financial assets fluctuate 10% at the end of reporting period, and others variables are not changed. Sensitivity analysis of other comprehensive income from changes of price as of December 31, 2014 and 2013 are as summarized as follows:

Korean won (millions)

	December 31, 2014		December 31, 2013	
	10% increase	10% decrease	10% increase	10% decrease
Other comprehensive income	₩ 39,001	₩ (39,001)	₩ 16,950	₩ (16,950)

(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, 2014 and 2013 are as follows:

Korean won (millions)

	December 31, 2014	December 31, 2013
Liabilities (a)	₩ 22,528,449	₩ 22,047,324
Equity (b)	17,543,877	16,925,242
Financial instruments (*) (c)	2,597,788	1,973,745
Borrowings (d)	12,726,565	12,674,997
Liabilities to equity ratio (a/b)	128.41%	130.26%
Net borrowings to equity ratio ((d-c)/b)	57.73%	63.23%

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

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