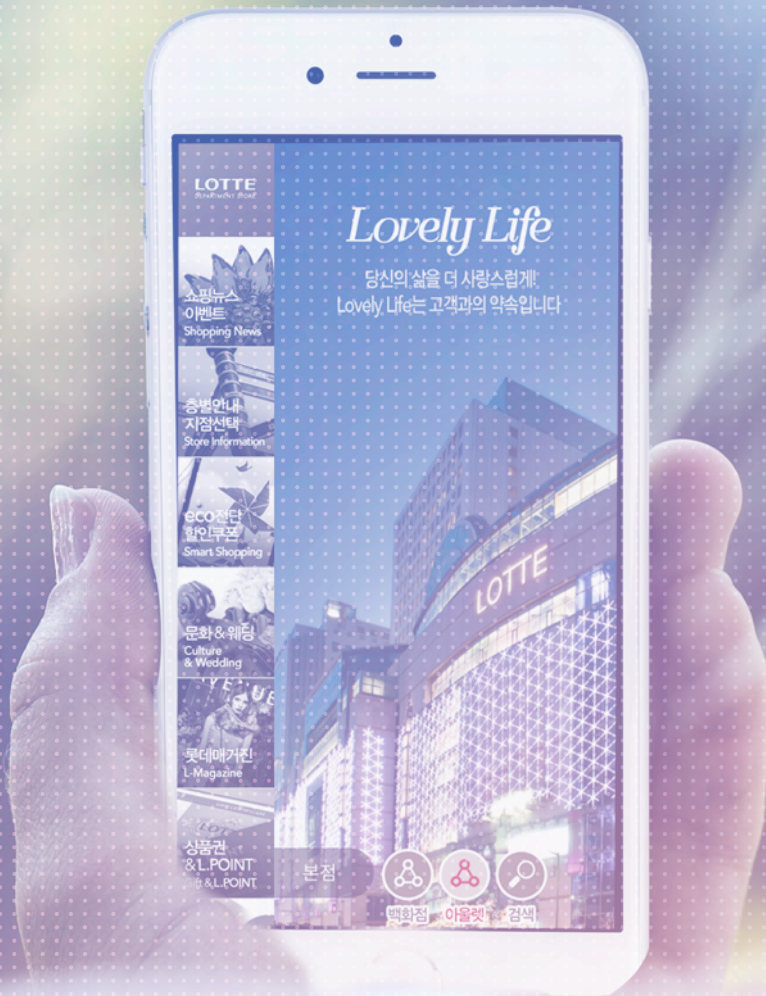


LOVELY LIFE
WITH



LOTTIE
SHOPPING

LOTTE SHOPPING ANNUAL REPORT 2015

This report chronicles the myriad challenges and efforts of Korea's retail industry leader in 2015. It is our hope that the reader gets a sense of our commitment to creating a truly "lovely life" for all stakeholders as we practice responsibility in retail.

ABOUT THE COVER

The cover of this year's report features the Lotte Department Store smartphone app. This kind of integration between our offline and online shopping channels is the focus of our omni-channel strategy to lead the next wave of change and innovation in retail and make the "lovely life" a reality. In terms of design, we used soft, attractive color tones to evoke the mood of a special experience and luminous ink for the typography to evoke the feel of change and innovation.

ABOUT THE SPECIAL FEATURE

In this year's special feature, three of our employees share how we are creatively making retail smart, special, and deliver more value as we practice responsibility in retail. See pages 24~31.

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At Lotte Shopping, the lovely life starts with

YOUR LOVELY LIFE WITH LOTTE SHOPPING

responsibility in retail

At Lotte Shopping, our “Lovely Life” slogan embodies our commitment to creating a life that is full of satisfying and enriching experiences enabled by innovations in retail.

It is a commitment that will reach its fullest potential when we fulfill our responsibility as Korea’s No. 1 global retailer.

It is about creating new shopping experiences that take retail to a higher level through continuous change and innovation. It is also about promoting the value of shared growth where everyone is better off. It is an unwavering philosophy and attitude that will enable us to practice responsibility in retail each and every day, creating a life that is truly lovely in every sense.

ABOUT THE LOTTE GROUP



We are committed to being one of Asia's top-10 global business groups, trusted and respected around the world.

VISION 2020

It all started with the founding of Lotte Confectionary back in 1967. Nearly five decades later, we are one of Korea's best-known business groups with a business portfolio that spans food, retail, tourism, petrochemicals, construction, manufacturing, finance, and services. Our forward-thinking advance into global markets is expanding our operations across Asia and around the globe. Today, each Lotte affiliate is committed to excellence in its industry to achieve our vision of becoming one of Asia's top-10 global groups by 2020.

CORE VALUES

Our five core values—customer focus, originality, partnership, responsibility, and passion—encompass what it means to be a Lotte employee. No matter what business field, job, or country we may come from, we share these values as we work and grow together.

Customer Focus

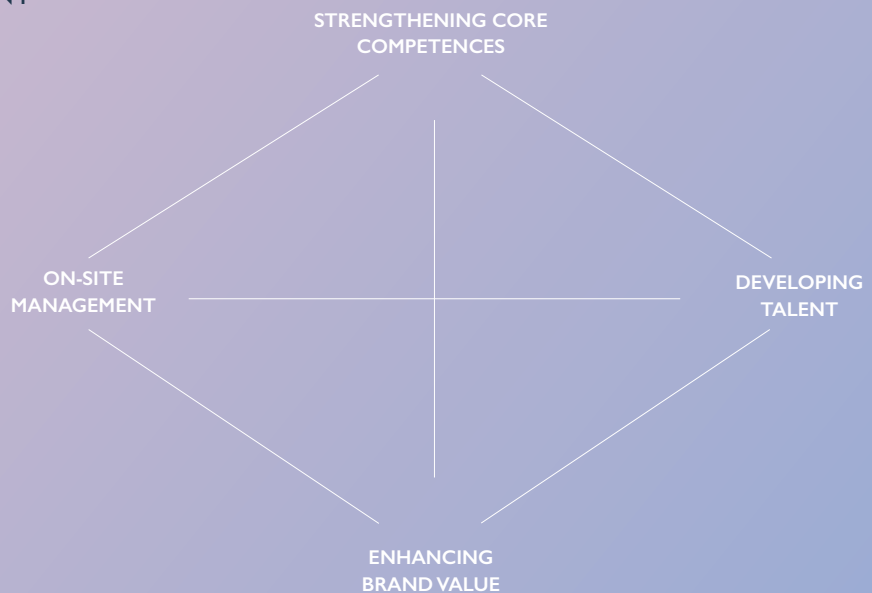
Originality

Partnership

Responsibility

Passion

MANAGEMENT POLICY



BUSINESS AREAS

We operate in a broad range of business sectors spanning the fields of retail, food, pharmaceuticals, tourism, leisure, construction, real estate, finance, insurance, petrochemicals, chemicals, machinery, electronics, advertising, communications, manufacturing, non-financial holdings, logistics, vehicle rental, and other services. Working closely together, each of our affiliates is helping creating the synergy that will make us an even more competitive global business group in the years ahead.

Retail

- 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
- Lotte Shopping Town Daegu
- Lotte Duty Free Jeju

Food / Pharmaceuticals

- 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

- 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

- 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
- Lotte Town Dongtan

Finance / Insurance

- Lotte Insurance
- Lotte Capital
- Lotte Card
- Lotte PS Net
- Mybi
- Busan Hanaro Card
- eB Card
- Gyeonggi Smartcard
- Incheon Smartcard
- Jang Kyo PFV
- Lotte Autolease

Petrochemicals

- Lotte Chemical
- Seetec
- KP Chemtech
- Lotte MRC
- Lotte Mitsui Chemicals
- Lotte Versalis Elastomers

Chemicals

- Korea Fuji Film
- Sambark LFT

Machinery / Electronics

- Lotte Aluminium
- Canon Korea Business Solutions

Advertising

- Daehong Communications
- Mobizap Media
- M.Hub

Communications

- Hyundai Information Technology
- Lotte Data Communication
- Han Paysys

Manufacturing

- DACC Aerospace
- Angel With

Non-Finances Holdings

- IGIS I

Logistics

- Lotte Logistics
- Hyundai Logistics
- Hyundai Cosco Logistics

Vehicle Rental

- Lotte Rental
- Green Car

Repair

- Lotte Auto Care

Service

- Lotte Members

Other Fields

- Lotte R&D Center
- Lotte Academy
- Lotte Scholarship Foundation
- Lotte Welfare Foundation

COMPANY PROFILE

Leading the way in global retail
through change and innovation

Company Overview

Since Lotte Shopping was founding back in 1979, we have played a leading role in the development of Korea's retail industry with advanced infrastructure and systems to deliver new value to consumers. Present in virtually every retail channel from department stores, hypermarkets, supermarkets, health and beauty stores, cinemas, finance, specialty stores, home shopping, and convenience stores, we have grown to become Korea's premiere retailer. We are also an emerging player in global retail, strategically expanding in key markets such as Russia, China, Vietnam, and Indonesia. In the years ahead, we aim to bring more convenient and amazing shopping environments and experiences to consumers everywhere through our organically integrated omni-channel services. Along with pursuing solid growth that balances size and profitability, we are also committed to living up to our social responsibility each and every day as we aim to earn the world's trust and respect as a top-tier global retailer.

Key Strategies

As we pursue our vision of becoming a top-tier global retailer, we are strengthening our leadership in the Korean market, enhancing our overseas competitiveness, and developing new engines for growth. We have also created systems to drive each strategy as well as detailed execution plans which are now in actively underway.

Retail Channels

We have the industry's most competitive portfolio of offline stores and online shopping malls. The variety and convenience of our shopping channels is among the world's most extensive with department stores, hypermarkets, supermarkets, health and beauty stores, cinemas, finance, specialty stores, home shopping, and convenience stores. And we're not standing still. We continue to break ground with new channels such as multi-purpose shopping malls, outlets, and t-commerce as we create an entirely new retail culture through our innovative omni-channel services to integrate our online and offline channels.

1

Strengthen Domestic Leadership

- Create uniquely satisfying shopping experiences
- Expand cultural and entertainment spaces
- Upgrade merchandising at existing stores and add new ones

2

Enhance Overseas Competitiveness

- Conduct comprehensive market surveys
- Localize stores and merchandise
- Localize branding

3

Develop New Engines for Growth

- Create new online shopping malls
- Identify and enter new businesses

VISION

We are committed to becoming a top-tier global retailer,
trusted and respected around the world.



Key Strategies

Strengthen Domestic Leadership	Enhance Overseas Competitiveness	Develop New Engines for Growth
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DISTRIBUTION CHANNELS



RISKS & OPPORTUNITIES

Competitiveness World-class shopping experience, customer satisfaction, customer trust, price competitiveness	New Global Markets Rising wealth in developing markets, slowing growth in developed markets, response to changing customer expectations	Differentiated Merchandise Product quality, sustainable products, price competitiveness, supply chain quality	Efficient Operations Capable employees, motivated employees, efficient operations, safe operations	Environmental Deterioration and Resource Scarcity Climate change, energy shortages, water shortages, materials shortages
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FINANCIAL HIGHLIGHTS

Maintaining a solid position
as Korea's No. 1 retailer

Condensed Consolidated Financial Position Statements

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

	2013	2014	2015
Assets	38,973	40,072	40,693
Current assets	14,291	14,976	15,997
Non-current assets	24,681	25,097	24,696
Liabilities	22,047	22,528	23,606
Current liabilities	12,332	12,534	11,919
Non-current liabilities	9,715	9,995	11,687
Shareholders' equity	16,925	17,544	17,088
Capital stock	16,224	16,726	16,247
Capital surplus	157	157	157
Hybrid securities	3,911	3,911	3,911
Capital adjustments	269	269	269
Retained earnings	(72)	(78)	(79)
Accumulated other comprehensive income	11,895	12,360	11,894
Non-controlling interests	63	107	96
	702	818	840

Condensed Consolidated Comprehensive Income Statements

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

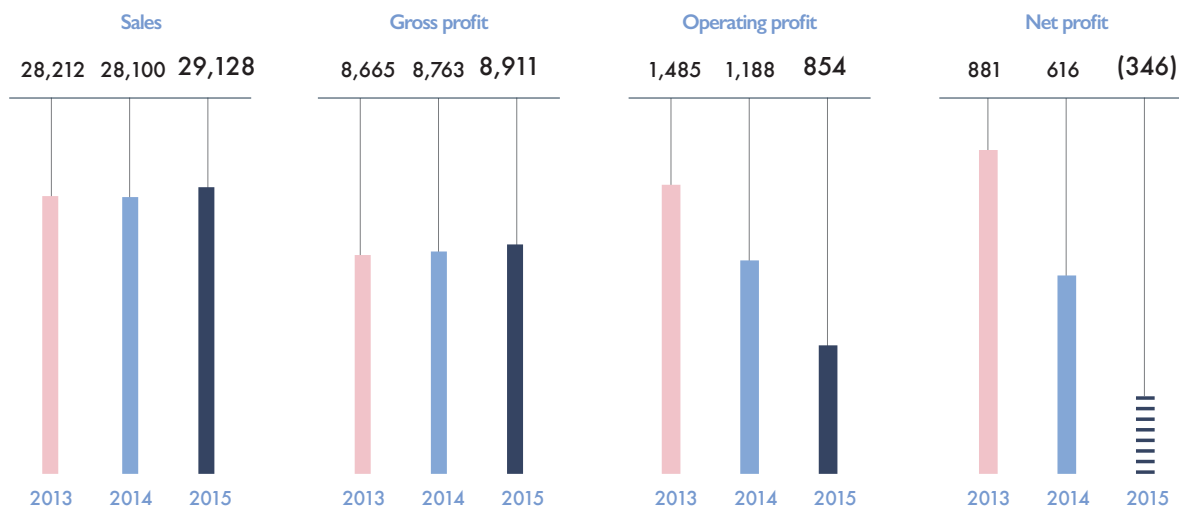
	2013	2014	2015
Sales	28,212	28,100	29,128
Cost of sales	19,547	19,337	20,217
Gross profit	8,665	8,763	8,911
Selling and administrative expenses	7,179	7,575	8,057
Operating profit	1,485	1,188	854
Profit before income tax	1,318	1,078	(80)
Net profit	881	616	(346)

As the Korean retail industry faced an overall slowdown in 2015, we strengthened our financial soundness as we pushed aggressively forward with new store openings at home and abroad, business diversification, and operational optimization to grow sales and secure profitability.

We strengthened our position as Korea's No. 1 retailer with consolidated sales of KRW 29,127.7 billion and operating profit of KRW 853.7 billion for the year.

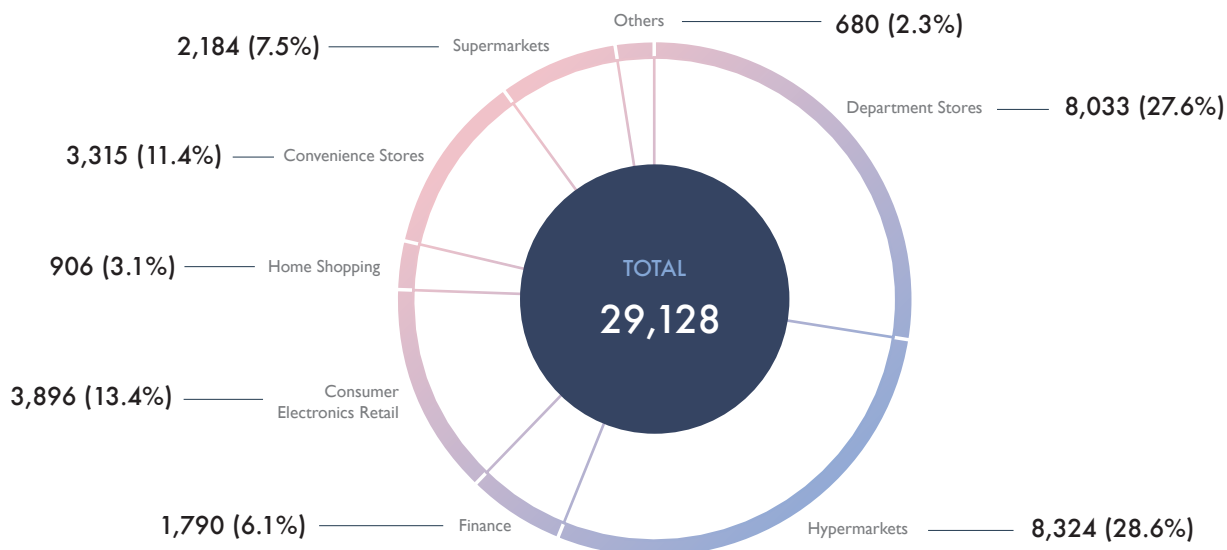
Key Operating Results

K-IFRS consolidated basis, in KRW billions



Consolidated Sales by Segment

K-IFRS consolidated basis, in KRW billions



MILESTONES

Charting a new path for global retail
through change and innovation

2015

- '15 **March** Opened Diamond Plaza department store in Hanoi, Vietnam
- May** Opened Lotte Factory Outlets Incheon
- June** Spun-off LOHB's health and beauty store as a separate company
- Jul** Opened Lotte Department Store Masan
- September** Opened Lotte Outlets Gwanggyo
- November** Opened 40th Lotte Mart in Indonesia
- December** Opened Lotte Mart Yeongdeok featuring showroom-style format

2014

- '14 **May** Opened Lotte Department Store Shenyang, China
- September** Opened first Lotte Department Store in Hanoi, Vietnam
- October** Opened Lotte Outlets Goyang Bus Terminal
- October** Opened Lotte Avenuel World Tower
- November** Opened Lotte Mall Suwon
- December** Opened Lotte Premium Outlets Gwangmyeong
- December** Opened Lotte Outlets Guri
- December** Opened Lotte Mall East Busan

1979-2005

- '79 **November** Founded as Lotte Shopping Co., Ltd.
- December** Opened first Lotte Department Store
- '96 **June** Opened Lotteshopping.com online shopping mall
- '98 **April** Opened first Lotte Mart
- '00 **January** Spun off Lotteshopping.com to create Lotte.com
- '01 **May** Opened first Lotte Super
- '02 **October** Acquired Nowon Department Store from Midopa
- '03 **November** Opened first Lotte Young Plaza
- December** Spun off credit card business to Lotte Card subsidiary
- '04 **March** Acquired twenty-five supermarkets from Hanwha Super
- '05 **March** Opened first Avenuel

2006-2008

- '06 **February** Listed on London and South Korean stock exchanges
- August** Acquired Woori Home Shopping
- '07 **September** Opened first overseas Lotte Department Store, in Moscow
- December** Entered Chinese hypermarket sector with acquisition of Makro
- '08 **August** Opened second overseas Lotte Department Store, in Beijing
- October** Entered Indonesian hypermarket sector with acquisition of Makro
- October** Opened first Lotte Outlets, in Gwangju
- December** Opened first Lotte Premium Outlets, in Gimhae
- December** Opened Lotte Mart Ho Chi Minh in Vietnam (first overseas Lotte Mart store)

At Lotte Shopping, our 37-year history is the history of Korean retail growth and the history of global retail development. Each time we have expanded online and offline to bring together an increasingly diverse range of retail businesses, the industry has grown and the shopping culture has become more enriching. When it comes to breakthroughs in retail, you can be sure that we will be leading the way with change and innovation to create more convenient shopping experiences.

2013

- '13 January Acquired Lotte Midopa
- January Opened Lotte Outlets Seoul Station
- April Opened Lotte Department Store Weihai, China
- June Opened Lotte Shopping Avenue in Indonesia
- August Opened Lotte Department Store in New Century Global Center, Chengdu, China
- September Opened Lotte Outlets Buyeo
- December Opened Lotte Premium Outlets Icheon

2012

- '12 January Acquired CS Mart
- February Launched Lotte DatViet home shopping business in Vietnam
- March Launched "eLotte" premium online mall
- May Acquired two Grand Department Store branches
- June Opened first VIC Market, in Geumcheon
- August Acquired Lotte Square
- September Opened Lotte Department Store Tianjin in Tianjin Cultural Center, China
- September Opened 100th Lotte Mart store in China
- October Acquired Himart

2009-2010

- '09 July Opened first Lotte School in Vietnam
- September Opened Lotte Outlets Suwan in Gwangju
- September Acquired 7-Eleven convenience store chain (Korea Seven)
- October Acquired Times hypermarket chain in China (68 stores)
- '10 January Acquired Buy The Way convenience store chain
- February Acquired GS Square department stores and GS Mart hypermarkets
- August Acquired equity stake in Chinese home shopping network Lucky Pai
- August Opened Lotte Outlets Yulha in Daegu
- August Opened first directly operated Lotte Mart in Indonesia
- November Acquired Nice Claup Fashion

2011

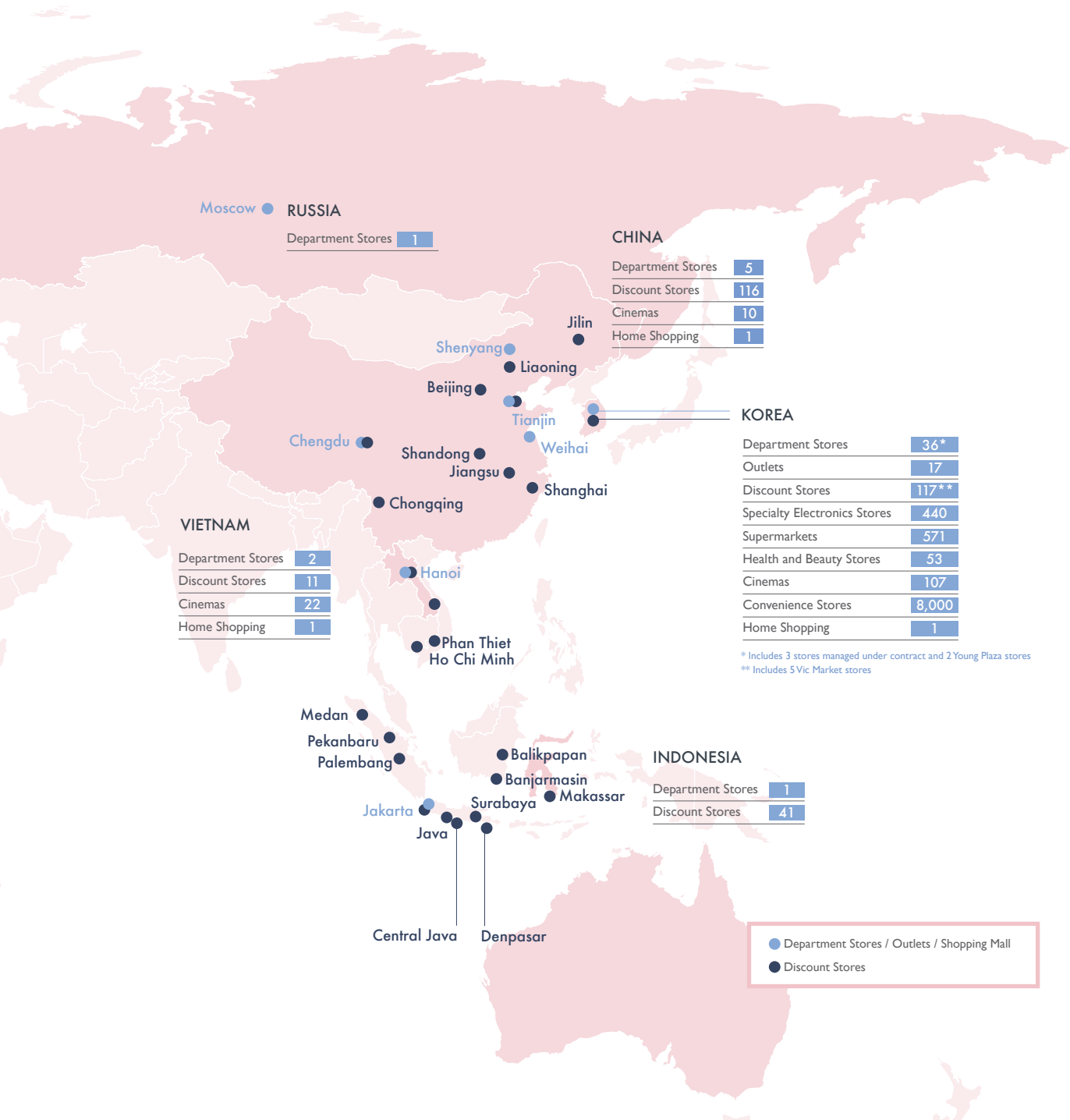
- '11 February Opened second Lotte School in Vietnam
- April Opened Lotte Mall Daegu Esiaopolis
- June Opened Lotte Department Store Tianjin in China
- August Opened 200th Lotte Mart store (83rd in China)
- December Opened Lotte Premium Outlets Paju
- December Opened Lotte Mall Gimpo Airport

GLOBAL NETWORK

Growing together with customers around the world

The Lotte name is becoming increasingly recognized and respected in global markets as we strategically expand overseas with a focus on Russia, China, Vietnam, and Indonesia. Wherever we do business, we “go local” as we strive to deliver newer experiences and greater value to local shoppers.

And as we grow together with customers around the world, our vision of being a global retailer is becoming a reality.



Showing Lotte Shopping's achievements

2015 HIGHLIGHTS

in the business and social fields

At Lotte Shopping, we redoubled our efforts to practice responsibility in retail in 2015. At home and abroad, we launched new channels, merchandise, and services as we continued to lead the way in creating customer value and transforming the face of retail. We also raised the bar for integrity in management and expanded our collaboration with both business partners and local communities. These expanding efforts have driven the growth of today's retail and brought tomorrow's retail a little closer.

B Business Achievements **S** Social Achievements



FEBRUARY: LOTTE SHOPPING JOINS FAIR PLAYER CLUB

On February 18, the Global Compact Network Korea held a launching ceremony for the Fair Player Club, a public-private sector anti-corruption project funded by Siemens. As a member of the club, we joined a number of other major companies and industry associations in pledging to promote compliance and business ethics to create a clean and fair business environment.



MARCH: LOTTE DEPARTMENT STORE ANNOUNCES NEW CSV SLOGAN

On March 5, Lotte Department Store unveiled a new emblem and slogan—"Share the Lovely Life"—for its creating shared value initiative. Focusing on three central themes—hope, health, and environment—the initiative aims to strengthen our social responsibility efforts to share the gift of an enjoyable and rewarding future with stakeholders.



MARCH: LOTTE DEPARTMENT STORE ACQUIRES DIAMOND PLAZA STORE IN VIETNAM

Lotte Department Store expanded its business in Vietnam with the acquisition of a controlling interest in the Diamond Plaza commercial-residential complex in Ho Chi Minh City. Lotte has successfully managed Diamond Department Store under contract since 2008. With the investment, the complex officially becomes home to our second department store in Vietnam.



Ho Chi Minh City, Vietnam





APRIL:



LOTTE MEMBERS RELAUNCHES LOTTE POINT REWARDS PROGRAM AS L.POINT

In April, Lotte Members relaunched its Lotte Point rewards program under the L.Point name, creating an integrated rewards program for the 28 million offline members and 17 million online members of its Lotte Members and Lotte Family loyalty programs. The transition lays the foundation for Lotte affiliates and business partners to provide customers with timely, customized information and offers in any shopping environment—offline, online, or mobile.



APRIL:



LOTTE MART OPENS FIRST BABIES "R" US STORE

On April 22, Lotte Mart opened Korea's first Babies "R" Us store at its new Gwanggyo store. Covering 660 sqm, the store features strollers, car seats, infant care products, high chairs, safety products, baby food, and eco-friendly bedding and clothing as well as health and wellness products for mothers from 33 major brand names.





MAY: LOTTE FACTORY OUTLETS INCHEON OPENS

On May 26, Lotte Department Store opened its first Lotte Factory Outlets in Incheon. The six-floor outlet mall features 177 fashion, household goods, and food and beverage brands with average discounts of 40%~70%, offering significant additional savings over standard outlets.



JUNE: LOHB'S HEALTH AND BEAUTY STORES GO INDEPENDENT

In June, our Supermarket Division spun-off the LOHB's health and beauty store into an independent unit. Since opening its first store near Hongik University in Seoul in 2013, LOHB's has enjoyed rapid growth by pursuing aggressive store expansion and assembling an attractive lineup of local and overseas brands. The spin-off accelerated store expansion in 2015, with the chain closing the year with 53 stores.

53 Stores

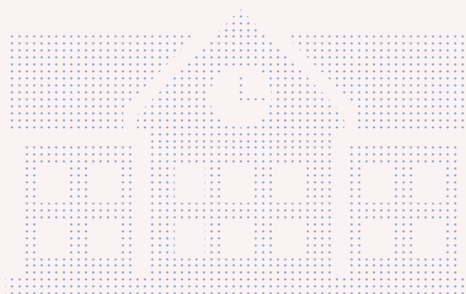




JUNE: THIRD LOTTE SCHOOL COMPLETED IN VIETNAM

Lotte Department Store and Plan Korea have partnered to build a Lotte School in the village of Khou Vieng in the Dinh Hoa region of Vietnam's Thái Nguyên Province. This is the third school built since 2009 to provide a clean and safe place for children from disadvantaged areas to get an education. More than 140 preschool and primary school students are now studying and dreaming bigger at the new school.

140 Students



JULY: LOTTE DEPARTMENT STORE MASAN OPENS

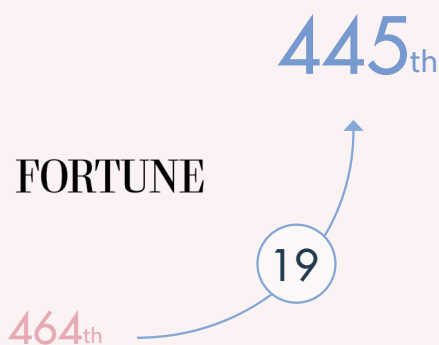
On July 1, Lotte Department Store reopened the former Daewoo Department Store in Changwon's Masan area under the Lotte name. The renovated store includes a number of new brands, a customer service lounge, a most-valued guest lounge, and other customer amenities that are quickly making it the region's premier department store.



JULY: LOTTE DEPARTMENT STORE LAUNCHES ETHICAL MANAGEMENT WEBSITE

On July 1, Lotte Department Store launched an ethical management website at ethics.lotteshopping.com. The new site includes sections covering integrity in management, ethical management, a resource library, and an ethics hotline. The site is expected to help raise ethical awareness and practice among employees as well as strengthening communications with our customers and partners.





JULY:
LOTTE SHOPPING MAKES FORTUNE GLOBAL 500 FOR A SECOND STRAIGHT YEAR

Lotte Shopping was the only Korea-based retailer to make the Fortune Global 500 in 2015. Based on 2014 revenues, our 2015 ranking was 445th, a 19-place jump from our 2014 ranking of 464th.



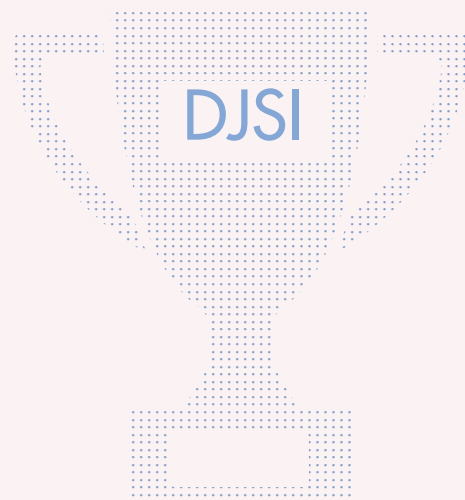
AUGUST:
35TH LOVELY HOUSE PROJECT COMPLETED

In October 2014, Lotte Department Store commemorated its 35th anniversary by launching the Lovely House project. Funded by employee paycheck donations and matching funds from the company, the project reached its goal to renovate a total of 35 welfare centers serving children and seniors with this completion in August 2015.

35th Renovation

SEPTEMBER:
LOTTE SHOPPING NAMED INDUSTRY GROUP LEADER ON DJSI WORLD INDEX FOR 6TH YEAR

Lotte Shopping was once again named a component of the Dow Jones Sustainability Indices World Index for the seventh consecutive year and the Retail Industry Group Leader for the sixth. As the sole Korea-based retailer to make the index, these rankings are recognition of our sustainability efforts as we pursue shared growth with our stakeholders.





B

DECEMBER: LOTTE MART YEONGDEOK OPENING UNVEILS THIRD-GENERATION STORE FORMAT

On June 2, Lotte Mart unveiled its third-generation showroom-style store format with the opening of the Yeongdeok store in the southern port city of Changwon. Building on the “ideas for life” concept, the store features a number of themed zones to give shoppers the opportunity to experience life in a new way with all their senses.

1,000

Locations



B

DECEMBER: SEVEN CAFE COFFEE KIOSKS SURPASS 1,000 LOCATIONS

On December 31, 7-Eleven convenience stores opened the 1,000th Seven Cafe coffee kiosk. Seven Cafe is the Korean convenience store industry's first self-serve fully-automatic drip coffee service. Seven Cafe has won over customers with clean tasting coffee at low prices, enabling it to pass the 1,000th location milestone in just one year.

CEO'S MESSAGE

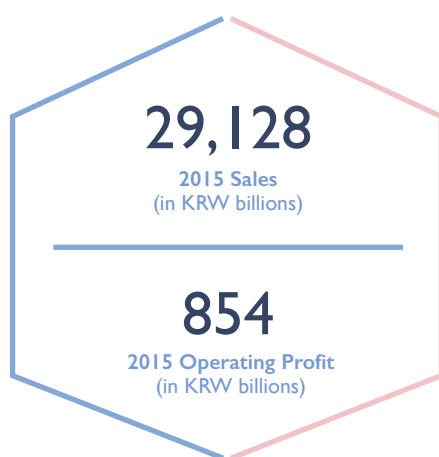


We are committed to creating a “lovely life”
for all our stakeholders by leading change and innovation
in the retail industry and living up to our responsibilities
as a global retailer.



DEAR VALUED CUSTOMERS AND SHAREHOLDERS,

The Korean retail industry saw growth stall in 2015, impacted by the global economic slowdown and waning consumer confidence. Despite these challenges, Lotte Shopping effectively responded to the changing business environment, pursuing a wide range of initiatives to lay the foundation for the future. We opened new stores at home and abroad and expanded our channels. We repositioned certain stores and upgraded our merchandise. We aggressively pushed forward with customer-centric marketing and upgraded our omni-channel services to more closely integrate our online and offline channels. From a corporate perspective, we rededicated ourselves to practicing integrity, safety, and shared growth as we worked to earn the loyalty and trust of our customers and communities. Your encouragement and support during our efforts to overcome these challenges and prepare for the future is deeply appreciated.



2015 REVIEW

Strengthening our core capabilities as we pushed boldly ahead with innovation

With the exception of certain channels such as online shopping and convenience stores, the Korea retail industry struggled to improve growth and profitability in 2015. While rising household debt and declining incomes continued to weaken consumer confidence, retailers faced increasing government regulations and intensifying competition between channels. The Middle East respiratory syndrome outbreak and an unseasonably warm winter both dampened consumption, presenting yet another obstacle. Another notable trend was that the industry stepped up its strategy in response to changing shopping patterns, characterized by increased online domestic and overseas shopping, small-quantity purchases, and local shopping.

At Lotte Shopping, we never stop working and innovating to lay the foundation for the future, always finding opportunities for growth even in the face of challenges. As we aggressively opened new stores at home and abroad, renovated existing stores, and upgraded our merchandise, we also bolstered our online retail channels with a focus on mobile shopping and expanded our omni-channel services to more closely integrate our online and offline channels. While these efforts enabled us to grow sales a modest 3.7% to KRW 29,127.7 billion in 2015, operating profit fell 28.2% to KRW 853.7 billion. The latter decline was due to increased costs related to new store openings and weakened profitability and restructuring costs related to certain overseas operations.

In the department store segment, we opened a total of four stores in Korea in 2015, including one Lotte Department Store and three outlets. The latter figure included one factory outlets location, a new format for us. We opened premium home furnishings departments, renovated our supermarket department, and launched new multi-brand shops as we ran major discount events during the year to draw shoppers and drive sales in the sluggish market. We also boosted our overseas operations with the addition of a department store in Vietnam.

In the hypermarket segment, we opened three new Lotte Mart stores, three new Toys “R” Us stores, and our first Babies “R” Us store. We introduced our third-generation show-room-style hypermarket format, improved our fresh produce

offerings, launched a variety of private brand products, and expanded global sourcing to bring greater satisfaction to increasingly value-conscious shoppers. Overseas, we opened a total of seven stores, including three in China, one in Vietnam, and three in Indonesia.

In the financial services segment, we introduced a wide variety of new products, including debit cards for government-run social programs, a shopping-focused specialty card, and a virtual card for use in overseas purchases. We also broadened our business portfolio by entering the online shopping mall business as we continued to pursue innovations in financial tech to keep us a step ahead of the competition.

In the specialty electronics retail segment, we opened four new Himart stores. We also began to transition the chain to the home and lifestyle store format, dramatically expanding the range of merchandise offered to include daily necessities, automotive accessories, travel products, pet care products, and high-tech niche products.

In the supermarket segment, we added 64 Lotte Super stores, bringing the total in operation to 571, easily maintaining our No. 1 ranking in terms of stores and sales in Korea. We boosted our merchandising competitiveness by developing new fresh produce and private brand products. We also steadily expanded our online delivery center network as our online business and mobile business in particular continued to experience dramatic growth.



In the convenience store segment, we significantly boosted both the sales and profitability of our 7-Eleven stores by responding to changing demographics and shopping patterns, upgrading the competitiveness of our merchandise, developing a number of new store formats, and expanding our range of convenience services. Private brand products such as our new Hyeri Dosirak ready-to-eat meals and Seven Cafe coffee were extremely popular and played a major role in this growth.

In the home shopping segment, our Baro TV app helped drive major growth in mobile shopping sales, boosting overall transaction volume. We also launched Lotte OneTV, the Korean's industry's first t-commerce channel.

In the cinema multiplex segment, we added seven Lotte Cinema multiplexes in Korea and six in Vietnam. Sales also rose, backed by aggressive marketing, a number of box office hits, and growth in overseas markets.

In the health and beauty segment, we spun off our LOBH's operations into an independent business in June and launched an aggressive expansion strategy that added 23 stores during the year, bringing the total to 53 stores. We continue to add major domestic and overseas brands to our merchandise lineup as we lay the foundation for growth in this promising new channel.

2016 OUTLOOK

Upgrading efficiency and corporate soundness is key to improving profitability

While the global economy is projected to continue to limp along in 2016, a gradual recovery in developed markets is expected to help the Korean economy see modest growth. The Korean retail industry is expected to see steady growth in the convenience store and mobile and online shopping segments as 1- and 2-person households continue to increase. Overseas visitors and online shoppers are also expected to provide a boost. As each retail segment responds to these changing trends, competition between them will continue to intensify.

At Lotte Shopping, we will continue to upgrade efficiency and corporate soundness in 2016 as we lay the foundation for greater profitability and long-term growth. Expanding our omni-channel services to more closely integrate the

strengths of all our offline and online retail channels will be a core focus.

In the department store segment, we will expand our outlet channel, store and merchandise innovation, and customer-centric marketing as we work to secure an early foothold in new markets and upgrade our omni-channel services. In the hypermarket segment, we will upgrade merchandise competitiveness, expand our online channel, and continue the rollout of our new showroom-style store format as we steadily improve the profit structure of our overseas operations. In the financial services segment, we will expand our revenue base by upgrading the competitiveness of our mobile services, introducing new products and services, and driving innovation in the financial tech industry. In the specialty electronics retail segment, we will upgrade our online business as we continue to open new stores and renovate existing ones, accelerating the roll-out of our new home and lifestyle store format with a dramatically expanded merchandise range.

In the supermarket segment, we will continue to add new stores and upgrade the competitiveness of our merchandise and online channel. In the fast-growing convenience store segment, we will focus on qualitative growth, upgrading our food offerings, and introducing new store formats. In the home shopping segment, we will upgrade our eTV and mobile shopping channels and expand our omni-channel services as we maximize customer engagement and improve the quality of our broadcasts.

In the cinema multiplex segment, we will drive growth by aggressively expanding our chain at home and abroad and upgrading our omni-channel services. In the health and beauty store segment, we will continue to secure a solid foundation for growth as we rapidly add new stores, upgrade merchandise competitiveness, and enter the online market.

As we continue to grow our retail businesses, we will never neglect our social responsibility as a global retailer. We will look for opportunities for mutual growth with our partners, communities, and small and medium-size merchants as we participate in a variety of initiatives to help resolve today's most-pressing social issues. We will work harder to create more comfortable shopping and safer working environments for our customers and employees as we step-up our efforts to protect the natural environment. We will also redouble our efforts to earn the trust of our customers and commu-



nities by strengthening our ethical standards to ensure that each member of our family faithfully upholds the highest standards of ethical conduct both on the job and off.

Over the past 37 years, Lotte Shopping has weathered countless trials and challenges to become Korea's retail industry leader. I am confident that today's difficult economic environment will only strengthen and transform us for the better. Today as we overcome these challenges and chart a path to the future, we once again commit ourselves to becoming a trusted and respected global retailer. We appreciate your continued trust and support in the coming year as we strive to create more satisfying and enriching retail experiences that will make life truly lovely.

Lee Won-joon
President & CEO

BOARD OF DIRECTORS

We are committed to earning the trust of shareholders by practicing transparency, compliance, and responsibility in all our business activities.



Shin Kyuk-Ho
General Chairman, Lotte Group



Shin Dong-Bin
Chairman, Lotte Group



Lee In-Won
Vice Chairman, Lotte Group



Lee Won-Joon
President & CEO, Lotte Shopping



Shin Young-Ja
Chairman, Lotte Foundation

INSIDE DIRECTORS

Name	Position	Board Responsibilities
Shin Kyuk-Ho	General Chairman, Lotte Group	Representative Director
Shin Dong-Bin	Chairman, Lotte Group	Inside Director
Lee In-Won	Vice Chairman, Lotte Group	Representative Director
Lee Won-Joon	President & CEO, Lotte Shopping	Representative Director, Board Chairman, Outside Director Nomination Committee Chair, Internal Transaction Committee Chair
Shin Young-Ja	Chairman, Lotte Foundation	Inside Director

The Lotte Shopping board is composed of a total of 11 directors elected at the annual general shareholders meeting, 6 of whom are from outside the company. New outside directors appointed at the general shareholders meeting held in March 2016 included Lee Jae-Won, Park Jae-Wan, and Choi Seok-Young.

The board operates three committees to ensure corporate transparency and professionalism. These include the Audit Committee, the Outside Director Nominating Committee, and the Internal Transaction Committee. By keeping the focus on transparency, compliance, and responsibility in management, the board is playing a key role in enhancing corporate value and building shareholder and community trust.



Kwak Su-Keun

Professor, Seoul National University
Business School



Moon Chung-Sook

Professor, Department of Consumer Economics,
Sookmyung Women's University



Kang Hye-Ryun

Professor, Ewha School of Business,
Ewha Womans University



Lee Jae-Won

Lawyer, Yulchon LLC



Park Jae-Wan

President, Hansun Foundation for Peace &
Prosperity of the Korean Peninsula



Choi Seok-Young

Advisory Group Member, UN Central
Emergency Response Fund

OUTSIDE DIRECTORS

Name	Position	Board Responsibilities
Kwak Su-Keun	Professor, Seoul National University Business School	Audit Committee
Moon Chung-Sook	Professor, Department of Consumer Economics, Sookmyung Women's University	Internal Transaction Committee
Kang Hye-Ryun	Professor, Ewha School of Business, Ewha Womans University	Outside Director Nominating Committee
Lee Jae-Won	Lawyer, Yulchon LLC	Internal Transaction Committee
Park Jae-Wan	President, Hansun Foundation for Peace & Prosperity of the Korean Peninsula	Audit Committee Chair, Outside Director Nomination Committee
Choi Seok-Young	Advisory Group Member, UN Central Emergency Response Fund	Audit Committee

GOVERNANCE

We aspire to be a company that is trusted and respected by all stakeholders, building a sound, board-centric corporate governance structure that executes transparent, independent decision-making through the board and its committees.

Board operation and decision-making

The Lotte Shopping board makes major decisions on matters set forth in the relevant laws and articles of incorporation, matters assigned at the general shareholder's meeting, and matters related to the company's basic managerial policy and operations. In 2015, the board met 15 times to deliberate and decide major items on the management agenda.

Board Committee Operation

The board operates three committees—the Audit Committee, the Outside Director Nominating Committee, and the Internal Transaction Committee. The specific composition, scope of authority, and operation of each committee is determined by the relevant laws and the discretion of the board.

Audit Committee

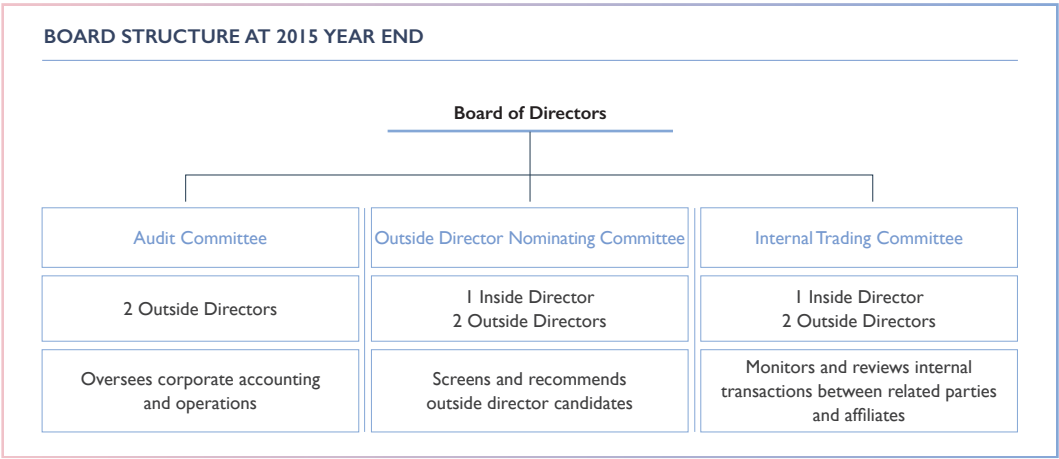
Composed of two outside directors, this committee is responsible for auditing company accounting and operations, providing oversight and support to enable the executive team to transparently and responsibly manage the company. The committee met five times in 2015.

Outside Director Nominating Committee

Composed of one inside and two outside directors, this committee is tasked with recommending outside director candidates to represent shareholder interests. The committee met one time in 2015.

Internal Transaction Committee

Composed of one inside and two outside directors, this committee is tasked with elevating corporate transparency by ensuring that fair trading rules are observed and reviewing and approving all contracts negotiated between Lotte affiliates. The committee met two times in 2015.



Backed by the CEO's unwavering commitment to integrity in management, we are building an ethical management system that focuses on proactive prevention as we foster a culture of integrity through a wide range of initiatives.

Focus on Integrity

Integrity in management is a subject that our CEO feels very strongly about. Ethical management is an area we put significant effort into to ensure that employee actions are fundamentally aligned with ethical values and build on the values of honesty, impartiality, and diligence to elevate corporate transparency. As part of our efforts to make ethical management an integral part of our corporate culture, we established the Lotte 10 Commandments of Ethical Conduct to set the basic standards for workplace conduct. We have also produced and distributed web-toons and a guidebook with detailed guidelines on specific situations. We take a two-track approach of investigation and prevention through the Ethics Improvement Team and the Ethics Planning Team, both of which operate under the auspices of the Ethical Management Division.

System Implementation

We are currently focusing on implementing a system that will provide systematic oversight of ethical management in the workplace. Toward this end, we have set up a special website and mobile hotline to expand channels for reporting ethics violations of employees, partner companies, and colleagues and stimulate conversation on the topic. Each Lotte Department Store has a designated ethical management staffer available to listen to employee feedback and opinions. We also operate a "Clean Center" to allow employees to report and turn in gifts, money, or other valuables received from partner firms for return to the giver or donation.

Proactive Prevention

We have a number of initiatives aimed at proactively preventing unethical behavior. Every employee signs a pledge to practice integrity and carries a business card advertising Lotte's ethical commitment and a "clean card" corporate credit card with safeguards to prevent inappropriate use. In addition to holding regular seminars and training sessions for executives and employees, we share our commitment with our partners through the Clean Lotte campaign. We also run campaigns focusing on issues such as preventing verbal abuse, promoting gender equality, and

improving the dining culture as well as producing and distributing educational content and challenging our partners to join us in promoting integrity in the workplace.

Today, we continue our efforts to expand the practice of ethical management not just internally but externally to our partners and ultimately our communities. We are a member of the Fair Player Club, a public-private sector anti-corruption project hosted by the Global Compact Network Korea. We provide newsletter content to the Anti-Corruption and Civil Rights Commission of Korea. We have also launched the Clean Sharing program to encourage employees to donate honorariums from outside speaking engagements, airline mileage from business trips, and other indirect gains made during the course of business.

THE LOTTE 10 COMMANDMENTS OF ETHICAL CONDUCT

01. I will put customer safety first.
02. I will not disclose company-related information.
03. I will not play golf with partner firms.
04. I will not drink with partner firms.
05. I will pay the bill when dining with partner firms.
06. I will not accept gifts of money, valuables, entertainment, or other favors.
07. I will avoid nepotism, influence peddling, and requests for favors.
08. I will not use company funds for personal use.
09. I will not verbally abuse, physically abuse, or sexually harass others.
10. I will not give gifts to or accept gifts from other employees.



AT LOTTE SHOPPING, THE LOVELY LIFE STARTS WITH

RETAIL HAS TO BE
SMART

RETAIL HAS TO BE
SPECIAL

RETAIL HAS TO DELIVER
VALUE



RESPONSIBILITY IN RETAIL

CREATING
NEW WAYS TO RETAIL

DEVELOPING
MORE WAYS TO RETAIL

SHARING
A BETTER WAY TO RETAIL

THE LOVELY LIFE STARTS WITH

When channels are increasingly complex, products ever diverse, and customer needs constantly changing, retail has to be smart.



Lotte Shopping is innovating to make the shopping experience easier, faster, and more convenient.

RETAIL HAS TO BE SMART





“

Wouldn't shopping be even more enjoyable if you could automatically receive discount coupons on your mobile phone, have something you ordered via that same phone delivered within three hours, and pay for it without pulling out a credit card or cash? That's the kind of convenience made possible by Lotte Shopping's omni-channel services. It's all about empowering customers to easily and effortlessly shop anytime, anywhere. That's the key to smart retail.

”

Cho Joon-Ah
Omni-Channel Team,
Marketing Department

The lovely Life Starts with Responsibility in Retail

WE'RE CREATING NEW WAYS TO RETAIL

SMART PICK SERVICE

Eliminating the wait in online shopping

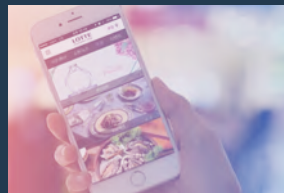
The Smart Pick service^① enables shoppers to order merchandise from our department stores, hypermarkets, supermarkets, and convenience stores online via their computer or smartphone and pick it up at the closest store. The freedom to not have to wait for delivery but to choose the time and place to pick up items is steadily winning over shoppers. Our new Drive & Pick service builds on the same concept to allow shoppers to pick up orders without having to get out of their cars. Looking ahead, we are now working on a new Cross Pick service that will allow merchandise from any channel to be picked up at any store, delivering even more convenience.

SMART COUPON SERVICE

Making coupons available anytime, anywhere

The Smart Coupon service allows shoppers to easily manage and use coupons anytime, anywhere. Utilizing the Korean retail industry's first Smart Beacon service^②, we are able to deliver timely shopping information and discount coupons to shoppers based on their current location in the store. We have also replaced paper coupons with the Smart Coupon Book app^③ to conveniently offer shoppers a variety of discounts and benefits whether they are shopping online or offline.

① ② ③



L.PAY SERVICE

Leading the financial tech evolution in mobile payment services



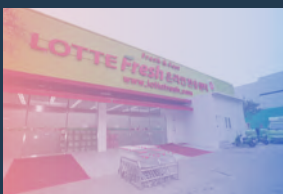
Accepted at all Lotte locations, the L.pay service^④ combines the ease of mobile payments with the benefits of our Lotte Members loyalty program to create a convenient, seamless way to pay. Once the app has been installed on a smartphone and the payment information entered, purchases can be completed by simply entering a passcode. For added convenience, L.Points are automatically earned on each purchase and easily redeemed. L.pay is just the beginning as we aim to lead the next wave of innovation in the financial tech industry.

ONLINE DELIVERY CENTERS

Setting the standard for fast, convenient delivery

As online shopping goes mainstream, we are building dedicated delivery centers^⑤ to handle same-day online order processing, packing, and delivery. Lotte Super delivery centers in Seoul (Seocho, Jangam, Sanggye) and Yongin offer grocery delivery within 3 hours of ordering. In addition to Lotte Mart delivery centers currently under construction in Gimpo and Gwangmyeong, we will continue to expand our online logistics networks as we innovate to lead the industry in delivery services.

⑤



R

When customers are looking for an experience rather than just something to buy, retail has to be special.



Lotte Shopping is constantly innovating to bring new excitement and wonder to the shopping experience.

RETAIL HAS TO BE SPECIAL





“

Only offline shopping affords shoppers the unique satisfaction that comes from being able to experience and select merchandise first-hand. At Lotte Shopping, we're introducing a number of new offline retail formats and channels that will make shopping even more convenient and enjoyable. From multi-purpose shopping malls and factory outlets to showroom-style hypermarkets and home and lifestyle stores, we are offering consumers a whole new choice of shopping experiences. Visit our amazing new stores for an experience you've never had at Lotte Shopping before.

”

Kim Joon-Ho
Business Development Team I,
New Business Development Department

WE'RE DEVELOPING MORE WAYS TO RETAIL

MULTI-PURPOSE SHOPPING MALLS

Offering an enriching and relaxing mall culture

Our multi-purpose shopping malls¹ enable consumers to enjoy shopping (department store, outlets, hypermarket), dining, entertainment (cinemas), and leisure all under one roof. In addition to Korea, we have opened multi-purpose malls in Shenyang, China and Hanoi, Vietnam, sharing an enriching and relaxing mall culture.

FACTORY OUTLETS

Creating new destinations for value-conscious shoppers

In 2015, Lotte Departments Store opened its first Lotte Factory Outlets², offering significantly higher discounts than its Lotte Premium Outlets channel. The new factory outlets channel offers average discounts of 40% to 70% on high-quality, major-brand overstock fashion and household goods as well as plenty of food and beverage options, making it a popular destination for value-conscious consumers to shop and relax.

1 2



SHOWROOM-STYLE HYPERMARKETS

Introducing products in a fresh, new way

Lotte Mart has begun the transition to its new third-generation showroom-style retail format. The new Yeongdeok store^{3,4} in the southern port city of Changwon is the first to adopt the new format, which features a number of themed zones for eco-friendly food and health products, interior decor and handicrafts, and gardening and books where shoppers can experience merchandise and relax, boosting both satisfaction and sales.

3 4



HOME & LIFESTYLE STORES

Offering a fresh change for today's lifestyles

The home and lifestyle store⁵ retail format is Himart's new strategy to become a bigger part of consumer lifestyles. Rather than simply selling home appliances and electronics, Himart aims to offer one-stop shopping with a merchandise selection that fits today's lifestyles including daily necessities, automotive accessories, travel products, pet care products, and high-tech niche products. We expect this transformation to make shopping at Himart even more satisfying as the format matures.

5



THE LOVELY LIFE STARTS WITH

When the goal is
to make a difference
that touches every stakeholder,
retail has to
deliver value.



Lotte Shopping is
partnering with stakeholders to
create and share value
that will delight
and benefit all.

RETAIL HAS TO DELIVER VALUE





“

At Lotte Shopping, we believe the first and foremost responsibility of retailers is to create and deliver value to all stakeholders— from customers and partners to communities and the environment. We are putting this philosophy into practice by creating our “value innovation” product lineup, collaborating with small and medium-sized companies and local communities, and participating in a variety of environmental initiatives. For instance, we offer high-quality, reasonably-priced private brand merchandise designed to delight today’s value-conscious shoppers. Above all, we are committed to working even harder to create and deliver lasting value that makes the world a better place for all.

”

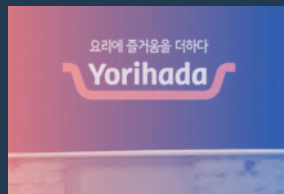
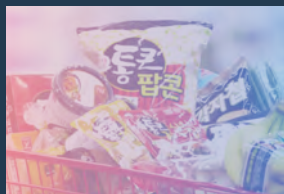
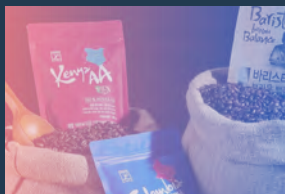
Baek Seong-Eun
Win-Win Growth Team, Office of External
Collaboration, Marketing Department



The Lovely Life Starts with Responsibility in Retail

WE'RE SHARING A BETTER WAY TO RETAIL

1 2 3



MORE PRIVATE BRAND MERCHANDISE

Delivering innovations in customer value with Lotte-only products

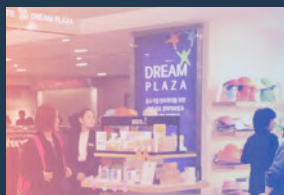
Designed with changing demographics and consumption patterns in mind, our growing lineup of high-quality, reasonably-priced private brand merchandise is becoming increasingly popular with shoppers. Lotte Mart's value-focused brand lineup includes the Choice L¹ and Tongkeun² brand lines as well as more upscale Yorihada premium ready-to-cook meal solutions³. Lotte Super offers a variety of private brand products, including Hanggi Yachae single-serving pre-washed and cut vegetable packages. 7-Eleven offers Hyeri Dosirak ready-to-eat meals and Seven Cafe coffee. In short, our private brands are enhancing value for our customers while providing a significant boost to sales.

MORE WIN-WIN GROWTH

Growing with our partners and local communities

Growing together with our partners and communities has long been one of our core values. As a retailer, we have a number of policies and programs designed to help our small and medium-size partners and local producers open up new sales channels. Notable examples of this successful collaboration include Dream Plaza shops⁴ and overseas Korean product fairs operated by Lotte Department Store to showcase partner products, the Sonkeun private brand at Lotte Mart hypermarkets, and the Organic Zone at Lotte Super supermarkets.

4



MORE ENVIRONMENTAL CARE

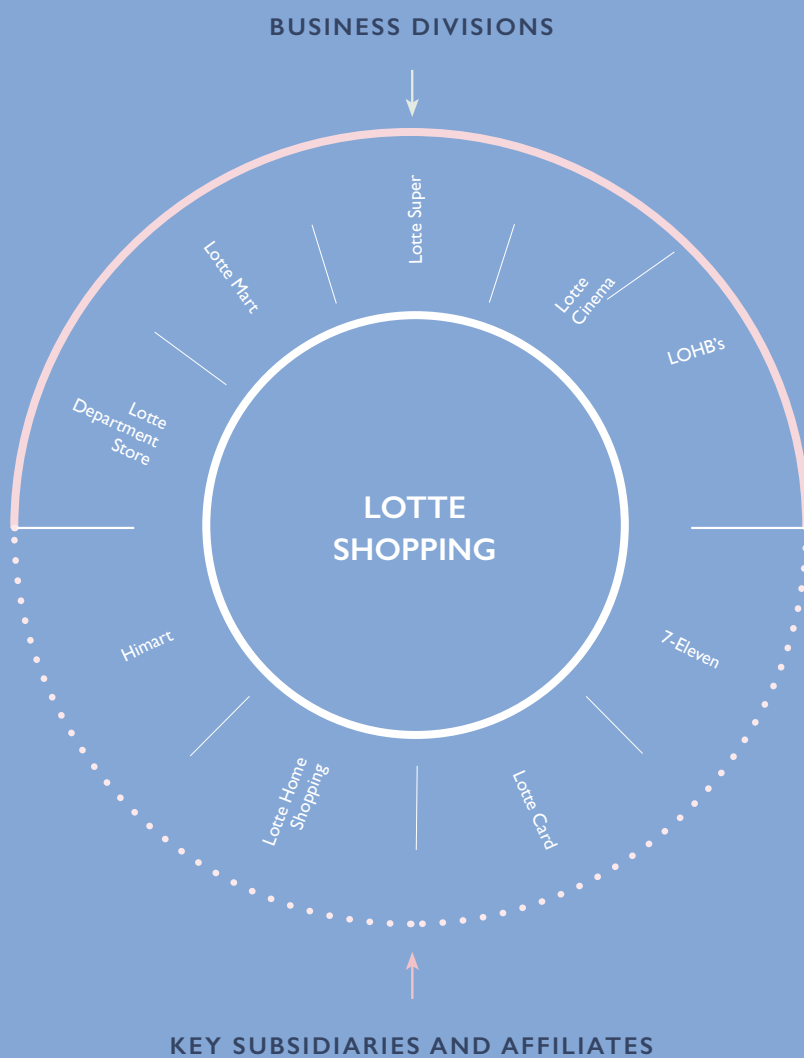
Practicing conservation with our customers

One of the defining characteristics of our environmental commitment is that it encourages customers to join us in our efforts to protect and preserve the environment. Lotte Department Store operates Eco Shops⁵ at its Myeong-dong and Jamsil stores, offering products for a more eco-friendly lifestyle with all profits going to fund environmental campaigns. Lotte Mart stores have installed solar PV power systems and electric car charging stations. Lotte Mart also operates Korea's largest chain of "Green Stores" as designated by the Ministry of Environment. In addition to the above, we provide eco-friendly shopping bags and sponsor a number of environmental campaigns as we strive to make environmental conservation not just an ideal but an integral part of daily life.

5



BUSINESS OVERVIEW



CONSOLIDATED AFFILIATES

Under international financial reporting standards, we have a total 68 consolidated subsidiaries and affiliates, including 21 in Korea and 47 overseas. The 2015 business overview and consolidated statements that follow cover a total of 23 subsidiaries, including Lotte World and Himart. In order to be considered a subsidiary, the affiliate must either account for more than 10% of the holding company's total assets or have total assets worth over KRW 75 billion in the previous fiscal year.

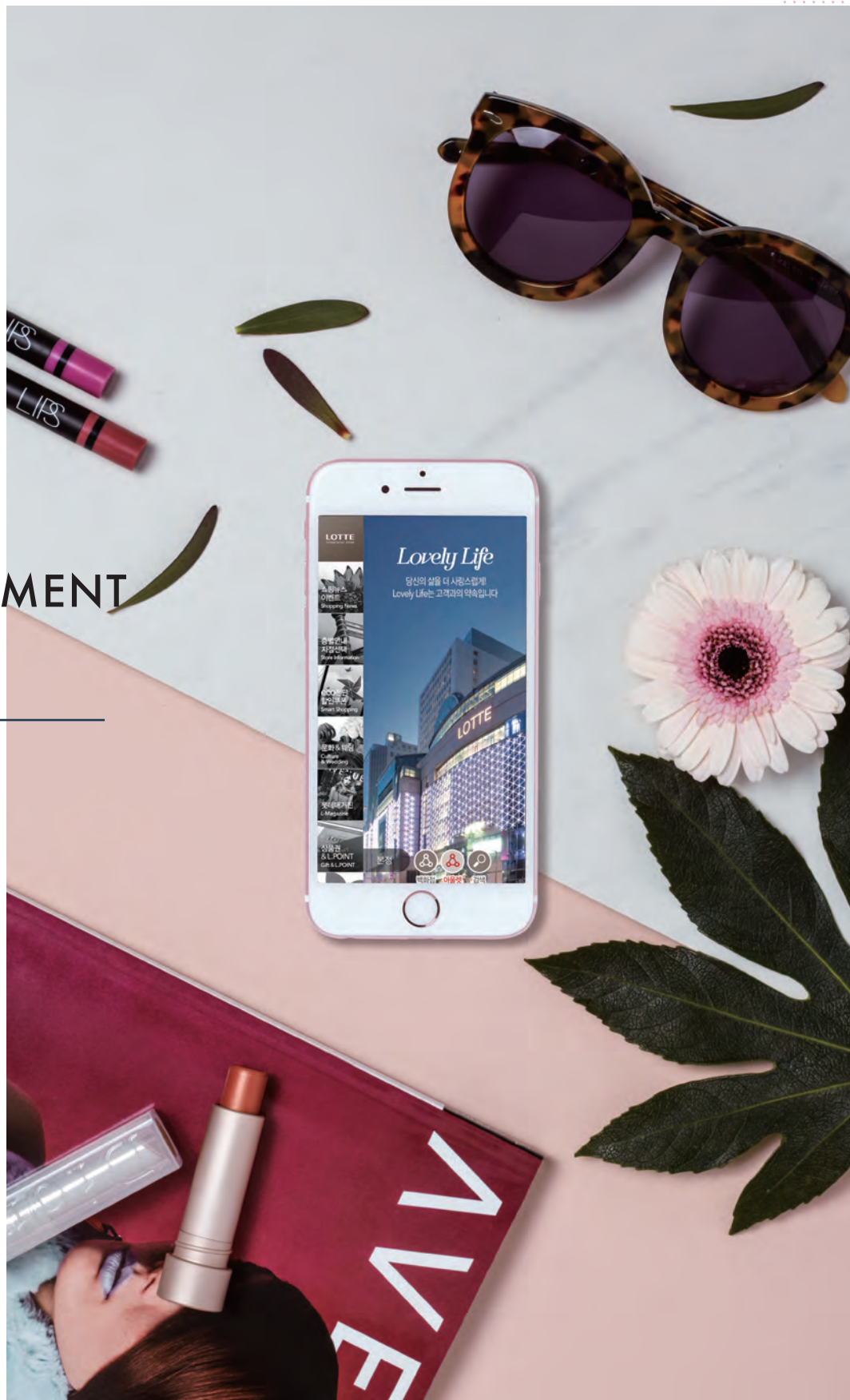
DOMESTIC

Lotte Card Co., Ltd.
 LOTTE Himart Co., Ltd.
 Korea Seven Co., Ltd.
 Woori Home Shopping & Television Co., Ltd.
 Lotte Suwon Station Shopping Town Co., Ltd.
 Lotte Songdo Shopping Town Co., Ltd.
 Lotte.Com Inc
 eB Card Co., Ltd.
 Lotte Members Co., Ltd
 CS Mart Co., Ltd.
 Buy the Way Inc.
 Lotte Department Store Masan Co., Ltd.
 Lotte PS Net
 NCF Co., Ltd.
 Gyeonggi Smartcard Co., Ltd.
 Incheon Smartcard Co., Ltd.
 Lotte Gimhae Development Co., Ltd.
 The 9th Supreme
 The 8th Supreme
 The 7th Supreme
 The 6th Supreme

OVERSEAS

Lotte Shopping Holdings (Hong Kong) Co., Limited
 Swift Harvest Ltd. and 8 subsidiaries
 Lotte Properties (Chengdu) Limited
 LOTTE VIETNAM SHOPPING CO., LTD.
 LOTTE PROPERTIES (CHENGDU) HK LIMITED
 LOTTE SHOPPING HOLDINGS (SINGAPORE) PTE. LTD.
 PT. LOTTE SHOPPING INDONESIA
 LHSC Limited
 PT. LOTTE MART INDONESIA
 LOTTE MART COMPANY LIMITED
 Kotobuki Holding (HK) Ltd
 Hai Thanh - Kotobuki Joint Venture Company
 LOTTE HOTEL & RETAIL VIETNAM PTE. LTD.
 Lotte Mart China Co., Ltd. and 13 subsidiaries
 LOTTE CINEMA VIETNAM CO., LTD.
 Liaoning LOTTE Mart Co., Ltd.
 Lotte Department Store (Chengdu) Co., Ltd.
 Lotte Department Store (Shenyang) Co., Ltd.
 PT. LOTTE Shopping Avenue Indonesia
 Lotte Mart (Chongqing) Commercial Co., Ltd.
 Huai An Full Faith Properties Limited
 Nantong Yaodong Properties Limited
 Lotte Shopping Plaza Vietnam Co., Ltd.
 Lotte International Department Store (Weihai) Co., Ltd.
 Lotte Business Management (Tianjin) Co., Ltd.
 LOTTE MART (CHENGDU) COMMERCIAL COMPANY LIMITED
 LOTTE DEPARTMENT STORE (TIANJIN) CO., LTD.
 Nantong Branda Properties Limited and 1 subsidiary
 Jilin LOTTE Mart Co., Ltd.
 Qingdao LOTTE Mart Commercial Co., Ltd.
 Hong Fung Ltd. and 2 subsidiaries
 Lucky Pai Ltd. and 9 subsidiaries
 Nantong Fine Spring Properties Limited
 Nantong Jinyou Properties Limited and 1 subsidiary
 Nantong Fine Port Properties Limited and 1 subsidiary
 Nantong Fuhua Properties Limited and 1 subsidiary
 Nantong Fortune Trade Properties Limited
 Lotte (China) Management Co., Ltd.
 Lotte Members China
 Zhuji Decheng Properties Limited
 Lotte Datviet Homeshopping Co., Ltd.
 Nantong Meili Properties Limited
 PT. Lotte Members Indonesia
 Lotte Members Vietnam Co., Ltd.
 LOTTEMART C&C INDIA PRIVATE LIMITED
 Lotte Shopping Business Management (Hong Kong) Limited
 Lotte Shopping India Private Limited

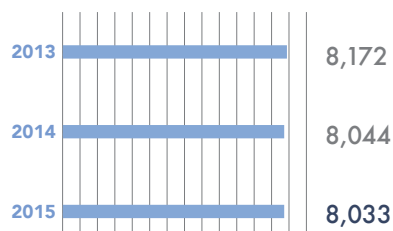
LOTTE DEPARTMENT STORE



SALES

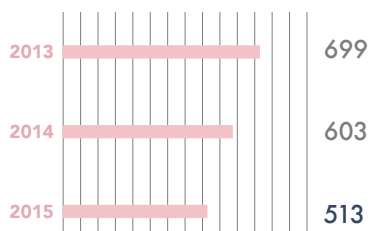
in KRW billions

K-IFRS consolidated basis

**OPERATING PROFIT**

in KRW billions

K-IFRS consolidated basis

**MAJOR BUSINESSES**

Lotte Department Stores
Avenuel
Young Plaza
Lotte Outlets
Lotte Premium Outlets
elLotte premium online mall

In 2015, we launched our new factory outlet format, expanding our outlet mall business as we reorganized our stores and merchandise selection to better appeal to shoppers. We ran major sales promotions to counter the industry downturn and drive demand. We also upgraded our omni-channel services to take shopping convenience to the next level. In 2016, we will be refocusing on overcoming today's marketplace challenges and strengthening our financial soundness and competitive position as we secure a platform for growth going forward.

2015 Review

The Korean department store industry underperformed expectations as it grappled with flagging consumer confidence impacted by the prolonged economic slump, an outbreak of Middle East respiratory syndrome, and an unusually warm winter as well as an accelerated shift in shopper buying patterns to online channels. At the same time, shoppers continued to become increasing value-conscious, driving growth in the outlet mall, multi-purpose shopping mall, and online mall channels.

We pushed forward with a variety of initiatives in 2015 to counter the challenging retail environment and secure a platform for continued growth. Building on the basics of customer-centric merchandising and marketing, we continued to add new stores in the growing outlet mall channel and upgrade our omni-channel services to organically integrate our online and offline retail channels. Overall, our department store segment saw gross sales decline 0.1% to KRW 8,032.5 billion while operating profit declined 14.9% to KRW 513.1 billion due to increased expenditures associated with the addition of new domestic and overseas stores.



During the year, we opened a total of four new stores, focusing on the growing outlet mall channel. Openings included a Lotte Factory Outlets in Incheon in May, a Lotte Outlets in Gwanggyo in September, a Lotte Department Store in Masan in October, and a Lotte Factory Outlets in Gasan in December. Factory outlets provide fashion retailers with a channel to move older merchandise at greater discounts than standard outlets, making them increasingly popular with today's value-conscious consumers. Our continued focus on outlet expansion in 2015 significantly increased year-on-year channel sales.

In addition to expanding our retail channels, we continued to actively upgrade our merchandising to stay a step ahead of changing shopper buying patterns and trends. We opened Korea's largest premium home furnishings departments featuring more than 100 of the world's leading brands at Lotte Department Stores in Jamsil in February and Daegu in September. Designed for convenient one-stop shopping with an open floorplan and minimal boundaries between shops, the new departments offer a wide selection of merchandise including electronics, furniture, bedding, kitchenware, tableware, kitchen appliances, accessories, and candles and fragrances. We also renovated the B1 level of our flagship Myeong-dong store with a focus on dessert brands, bringing the world's top-names together under one roof. In addition to welcoming five new multi-brand shops to our department stores such as Space5.1 and Badminton Square, we also opened more than 180 of our own multi-brand shops.

Marketing was another key area where we expanded our efforts to drive sales growth. We joined our partner companies to run several major sales events featuring huge discounts, exceeding our sales targets. These events included our own Black Shopping Day and Lotte Black Super Show sales as well as the nationwide Korea Black Friday sales event. Beyond satisfying customers looking for good deals, these major discount events helped our partners clear out inventory and generated a significant boost in sales. We also became the first Korean retailer to adopt the Alipay payment platform, rolling out the service at seven of our stores as part of our efforts to better attract and serve the growing numbers of shoppers visiting from China.

In the area of omni-channel services, we stepped up efforts to deliver greater convenience and new experiences to shoppers. We expanded our Smart Pick, Smart Coupon Book, and Smart Beacon services to more shops and product categories as well as rolling out our L.pay payment platform to all shops. These combined efforts boosted online shopping sales, helping mobile shopping sales grow by 62.1%.

In overseas markets, we continued to add new stores as well as focus on strengthening the competitiveness of our merchandising on a store-by-store basis to build a solid revenue base. Overall, our overseas stores in China, Russia, Vietnam, and Indonesia grew sales by 30.2% in 2015 as well as making incremental gains in operating efficiency through cost reductions. In March, we acquired a majority equity stake in Diamond Plaza in Ho Chi Minh City, that market's leading department store in terms of sales. With the addition of Diamond Plaza, our second store in Vietnam, we now have a total of nine overseas stores.

2016 Outlook

Given the prevailing low-growth trend in the Korean retail industry, the department store segment is facing an uphill battle to return to growth. Changing shopping patterns driven by growing polarization and an increasing shopper focus on value, an aging population, and rising numbers of single-person households are also fueling competition between retail channels. We will continue to pursue a comprehensive strategy which includes expanding our outlet mall channel, focusing on merchandising innovations such as store repositioning and upgraded food and home furnishing departments, and leveraging big data to make our customer-centric marketing more effective. We will secure new growth engines by moving into new markets such as specialty and multi-brand shops as well as upgrading our omni-channel services. In overseas markets, we will focus on merchandising innovations tailored to each specific market as well as growing sales and reducing overhead to improve profitability.



MAY 2015

Lotte Factory Outlets open in Incheon

On May 26, we opened our 15th outlet mall and first factory outlets in Incheon. Home to a total of 177 fashion, home furnishing, and food and beverage brands, these factory outlets offer overstock merchandise at greater discounts than urban outlets, making them popular with value-conscious consumers.

JULY 2015

Lotte Department Store opens in Masan

On July 1, we reopened the former Daewoo Department Store in Changwon's Masan area under the Lotte name. The renovated store includes a number of new brands, a customer service lounge, a most-valued guest lounge, and other customer amenities that are quickly making it the region's premier department store.

OVERSEAS STORES

RUSSIA	1
CHINA	5
INDONESIA	1
VIETNAM	2

DOMESTIC STORES

DEPARTMENT STORES*	36
OUTLETS	17

* Includes three department stores managed under contract and two Young Plaza stores.



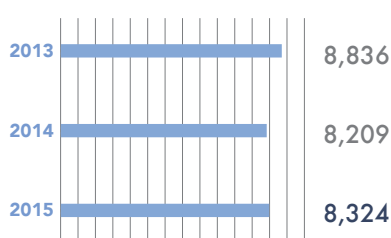
LOTTE MART



SALES

in KRW billions

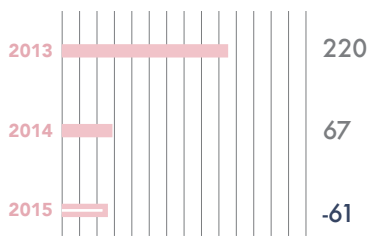
K-IFRS consolidated basis



OPERATING PROFIT

in KRW billions

K-IFRS consolidated basis



MAJOR BUSINESSES

Lotte Mart
VIC Market
Lotte Mart Mall online mall
Specialty stores

In 2015, we introduced the Lotte Mart Innovation 3.0 initiative to drive the next wave of change in our hypermarket business. This initiative included the launch of our third-generation showroom-style store format as well as upgrades to our “value innovation” product lineup, online business, and omni-channel services. Overseas, we opened new stores as we continued to focus on operational efficiency. In 2016, we intend to accelerate the pace of innovation as we launch new stores, merchandise, and services.

2015 Review

In 2015, the Korean hypermarket industry faced a sluggish economy, waning consumer confidence, continued regulatory restrictions, shifting shopper buying patterns, and intensifying competitive pressure from other retail channels. Despite these challenges, the industry enjoyed modest growth for the year as it participated in the national Korea Black Friday sales event and strengthened online distribution to counter the stagnant market situation.

Overall, our hypermarket business saw gross sales decline 2.1% to KRW 8,323.7 billion while operating profit went negative with a loss of KRW 61 billion due to increased rental costs, investments to improve the quality of fresh foods, and slower sales and restructuring expenses from overseas operations.

We continued to expand our Lotte Mart hypermarket chain in 2015 with the opening of three new stores in Geoje, Gwanggyo, and Yeongdeok. In addition to three new Toys “R” Us stores, we opened Korea’s first Babies “R” Us store at Lotte Mart in Gwanggyo, bringing together the industry’s largest selection of major-brand baby products, furniture, food, bedding, clothing, and mother health and wellness products under a single roof.



Another key development was our launch of the Lotte Mart Innovation 3.0 initiative to drive transformation across all areas of operations aimed at overcoming the current business slowdown and laying the foundation for future growth. Our new Yeongdeok store was the first to adopt this next-generation retail format, generating higher sales and positive feedback from customers. The new format adopts a fresh showroom-style approach to merchandise display and features a number of themed zones such as Hav'eat for eco-friendly food and health products, Room X Home for interior decoration and handicrafts, and Page Green for gardening and books.

We continued to invest in exclusive Lotte Mart-only “value innovative products” designed and priced to reflect changing shopper buying patterns with a focus on value and personalization. We continued to develop our Tongkeun, Sonkeun, and Choice L private brand product lines priced to help lighten the burden on family budgets as well as significantly expanding overseas product sourcing. We launched the Yorihada brand of premium ready-to-cook meal solutions. We also launched a number of initiatives to upgrade the quality of our fresh food offerings with a focus on expanding direct sourcing and upgrading purchasing standards and freshness management.

We continued to upgrade our omni-channel services, tightly integrating our online and offline channels to provide innovative shopping experiences to our customers. In 2015, our Smart Pick online order and in-store pickup service and Smart Beacon location-based notification services were joined by the launch of the Drive & Pick service. The first of its kind in Korea, our Drive & Pick service allows shoppers to shop online and then simply drive to the store and collect their order at a designed pick-up point in the store parking lot without leaving their car. We also introduced the Smart Scan service, which allows customers to scan and purchase merchandise during their store visit with a smartphone app for same-day delivery. The Lotte Mart M Coupon app, which replaces the need for direct mail or newspaper coupons, continues to grow in popularity, surpassing 1 million downloads during the year. Combined, these efforts enabled us to grow mobile shopping gross sales by 76% in 2015.

In overseas markets, we pursued a number of initiatives to grow sales and improve profitability through gains in operational efficiency. In China where we faced a slowing economy and increasing competition from other retail channels, we opened three new hypermarkets and closed six existing stores as we actively pushed forward with merchandising improvements, inventory innovations, and omni-channel service integration. In Southeast Asia, we continued to bolster merchandise competitiveness, customer service, and operating efficiency to lay a solid foundation for growth. We opened one hypermarket in Vietnam as well as two hypermarkets and one supermarket in Indonesia during the year.

2016 Outlook

The hypermarket industry is expected to see stagnant growth in 2016, impacted by slowing growth in the broader retail market and intensifying competition between retail channels. At the same time, changes in shopper buying patterns are expected to accelerate with a focus on value, bolstering the growth of smaller store formats that are closer to shoppers as well as online shopping.

In anticipation of this changing retail landscape and social trends, we are now preparing to make the transition to a mobile-based specialized merchandiser. Toward this end, we will focus on innovations in fresh food quality, promoting specialized merchandise offerings, and expanding our private brand merchandise lineup as well as global sourcing. We will build online shopping centers, open specialty mobile shops, and create a “cart-free” shopping experience as we lay the foundation to dramatically grow our online business.

Our Lotte Mart Innovation 3.0 initiative will also gain momentum as we continue to build on the specialty store concept with our new showroom-style format. Our VIC Market business will be stepping up global sourcing as well as expanding its ability to develop specialty product categories and private brand products. In China, Indonesia, Vietnam, and other overseas markets, we will focus on laying the foundation for growth in sales and profitability by pursuing a local market-based strategy tailored to meet the specific circumstances and consumer needs of each market. We will pursue merchandise innovations with a focus on fresh foods and private brand products, expand omni-channel services to enhance the synergy between our online and offline services, and focus on cost reduction and other initiatives to raise operating efficiency and improve our profit structure.



JULY 2015

Drive & Pick service launched

On July 1, we launched the Korean retail industry's first Drive & Pick service at the Lotte Mart Junggye store in Seoul. This ultra-convenient omni-channel service allows shoppers to order online and then collect their purchases at a designated pick-up point in the store parking lot without leaving their cars.

DECEMBER 2015

Next-generation showroom-style store opens in Yeongdeok

On December 3, we unveiled our third-generation retail format with the opening of the Lotte Mart Yeongdeok store in Changwon. Unlike traditional hypermarkets where merchandise is simply displayed on non-descript shelves, the new format features showroom-style merchandising and themed zones such as Hav'eat, Room X Home, and It.Street designed to showcase merchandise in fresh and creative ways.

OVERSEAS STORES

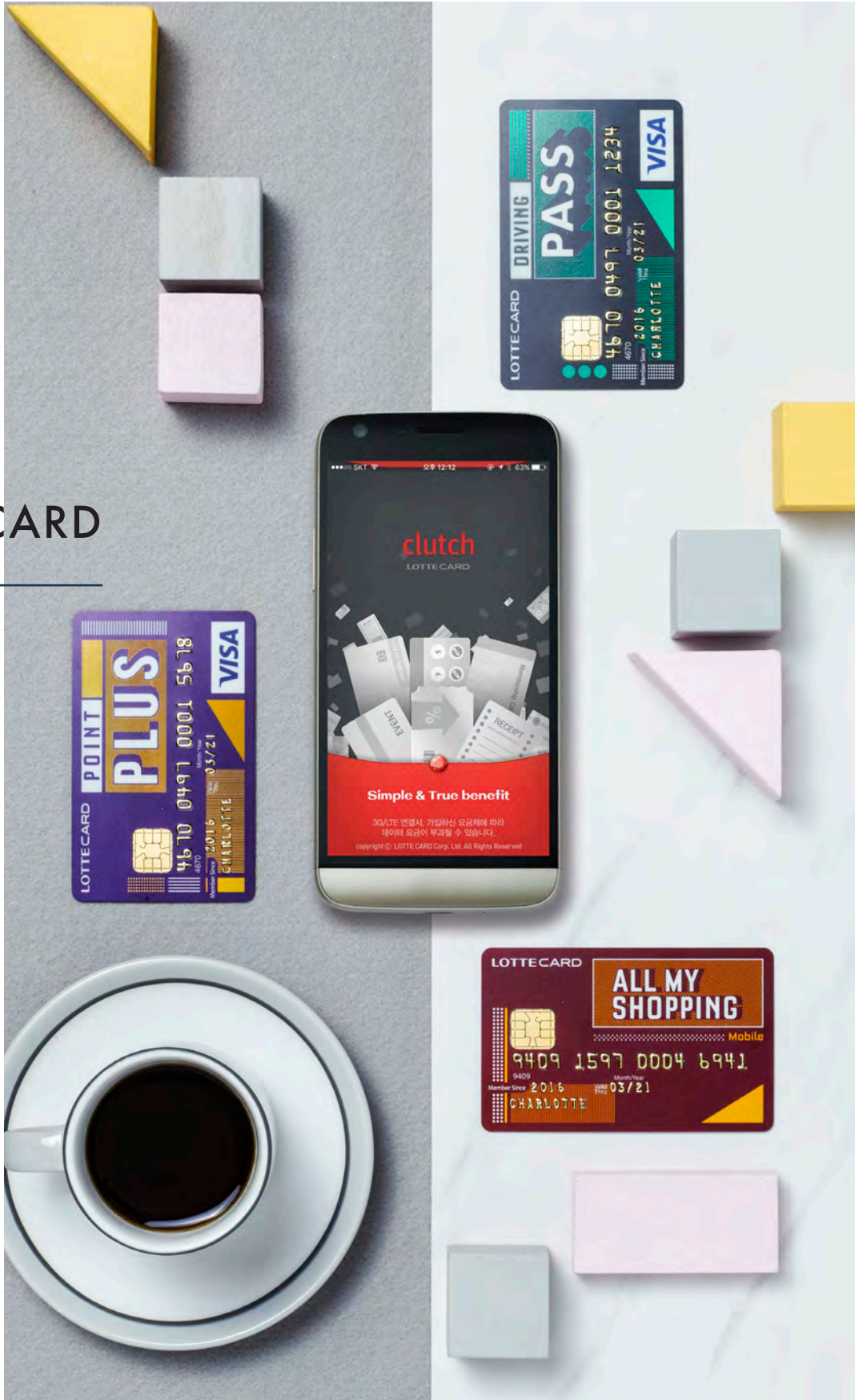
CHINA	116
INDONESIA	41
VIETNAM	11

DOMESTIC STORES

LOTTE MART	112
VIC MARKET	5



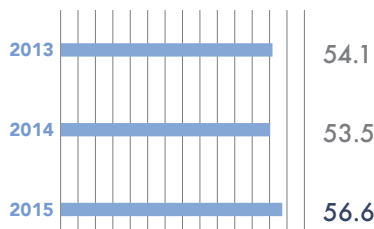
LOTTE CARD



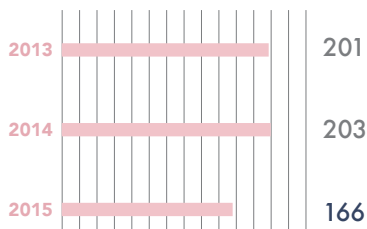
www.lottcard.co.kr
m.lottcard.co.kr

CREDIT CARD BILLINGS

in KRW trillions

**OPERATING PROFIT** in KRW billions

K-IFRS consolidated basis

**NO. OF CARDHOLDERS / MARKET SHARE**

7,255,000

9.0%

2015 Review

Despite the challenges of a continued sluggish economy and slowing consumption, card billings in Korea rose 10.1% in 2015 to KRW 637 trillion. While credit card billings growth was flat, debit card usage continued to rise. Although the industry faced challenges from declining merchant fees and increased competition in the payment processing market, the loosening of regulations in related business fields also opened the door for new growth opportunities.

Overall, our billings to individual cardholders rose 5.7% to KRW 56,551.2 billion. Operating profit declined 17% to KRW 165.7 billion. Total cardholders increased slightly to 7,255,000 and our market share held steady 9.0% as we maintained our No. 5 position in the industry.

In 2015, we introduced a number of new card products as we actively responded to changing consumer trends. We launched two debit cards for government-run social programs covering pregnancy and childcare programs. In June, we launched the popular All My Shopping Card, offering discount benefits across the full spectrum of retailers from the neighborhood supermarket to department stores. In addition, the card offers additional discounts in one selected area of essential spending such as public transportation, lunchtime dining, mobile phone usage, and overseas purchases.

We continued to actively move into new business fields in 2015. In November, we entered the online shopping mall business with our Lotte All My Shopping Mall site, cutting out the middlemen to offer lower prices as well as adding extra value and convenience with a variety of discount offers and a scheduled recurring order shipment service. We expanded our auto and durable goods financing business during the year. We also expanded our overseas Lotte Members loyalty programs in Indonesia and China as well as ramping up preparations to launch that program in Vietnam in 2016.

We also worked on a number of areas that will strengthen our competitiveness going forward in 2015. We launched the Mobile Only Card, the industry's first virtual credit card app for smartphones that eliminates the need to issue a physical plastic card. We launched the Mobile Overseas Security Card, a virtual card for use in overseas purchases to better protect cardholder information. We also launched Smart Clutch, an upgraded version our Clutch e-wallet app that automatically delivers card-linked offers based on customer preferences.

We are also a step ahead in the financial technology fields, leveraging our top-rate IT capabilities that enabled us to launch the industry's first one-click payment service to partner with Samsung Pay and other mobile payment platforms to support these new services. We upgraded our omni-channel services such as the Direct card pick-up service option which allows consumers to apply for a credit card online and then pick up their card the next day at any Lotte Department Store location. We also launched our Topping card recommendation service which leverages big data to deliver tailored recommendations.

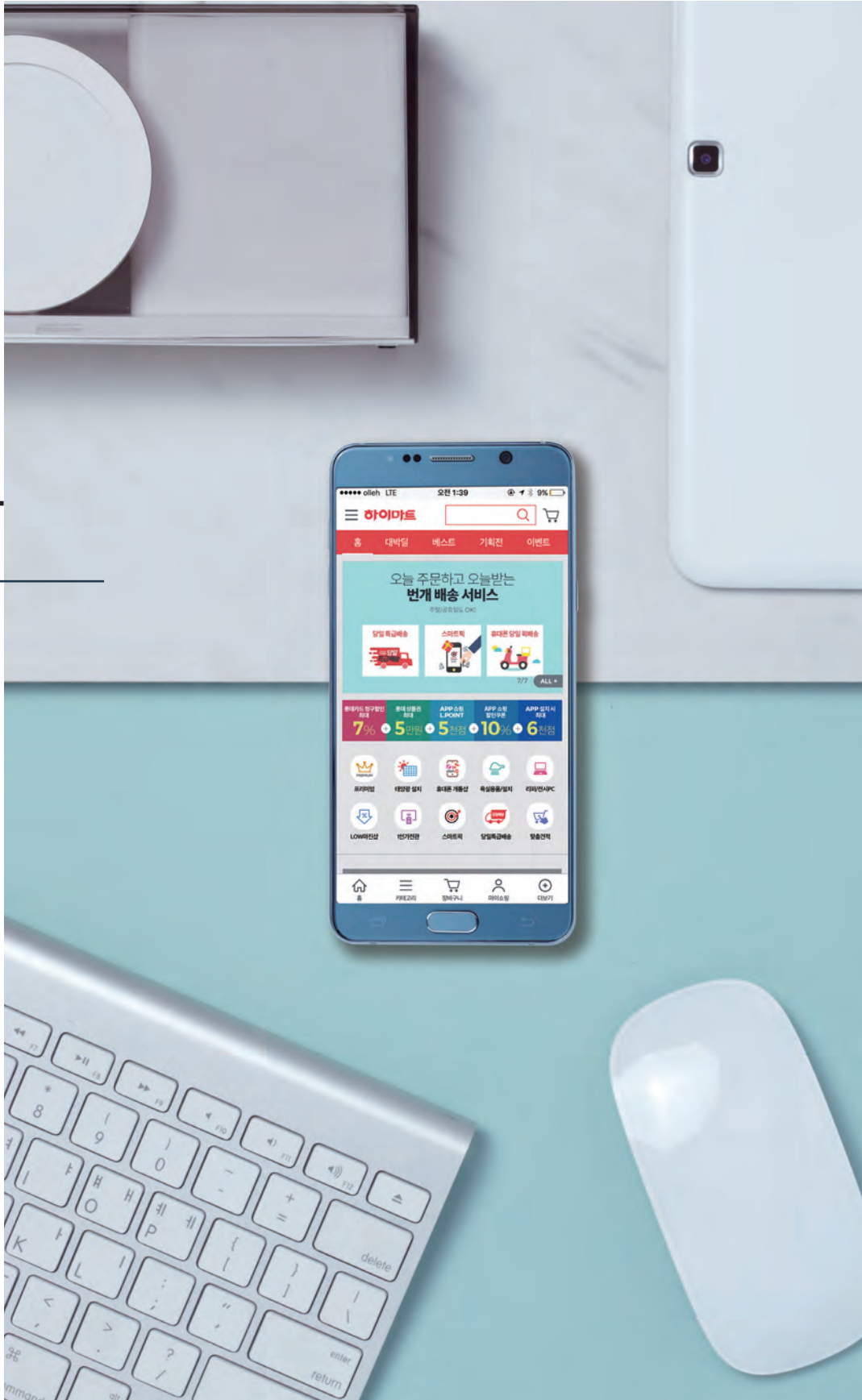
2016 Outlook

Facing a challenging environment with pressure to lower merchant fees and loan interest rates and the launch of Internet banks, the Korean credit card industry is expected to strive to reduce value-added network commissions and leverage financial technology in search of new business opportunities.

Our focus for 2016 is on driving billings growth. We will step up our competitiveness in the mobile space with the launch of specialized mobile-only products, expanding our Direct card pick-up service, app card offerings, and one-click easy payment service as we leverage the power of the mobile channel to deliver integrated, personalized services while increasing customer information security. In response to the launch of Internet banks, we will be flexibly adjusting our interest rate policy as well as partnering with those new players. We will also be adopting biometric payment authentication services, leveraging big data to take our tailored marketing to the next level, expanding the selection of on-demand services, and entering the overseas study consultation and payment processing businesses as we continue to diversify our sources of revenue.



HIMART

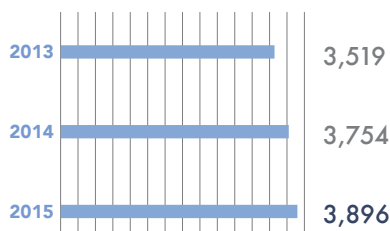


www.himart.co.kr
www.e-himart.co.kr

SALES

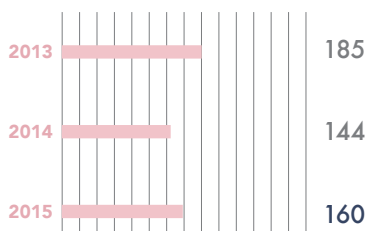
in KRW billions

K-IFRS consolidated basis

**OPERATING PROFIT**

in KRW billions

K-IFRS consolidated basis

**STORES / MARKET SHARE**

440 stores

50%

2015 Review

In 2015, the Korean home appliances and electronics market continued to experience sluggish growth, impacted by the ongoing economic downturn, poor sales of air conditioners and other seasonal appliances, and falling prices and changing tastes in audio and video products. Facing this challenging environment, we moved forward with a variety of initiatives including store renovations, expanding our merchandise scope and selection, and creative marketing. These efforts enabled us to increase the average selling prices of domestic appliances, household appliances, and mobile devices, increasing sales by 3.8% to KRW 3,896.1 billion while boosting operating income 10.9% to KRW 160.2 billion.

During the year, we opened four new stores, bringing our chain total to 440 locations. Departing from the aggressive expansion strategy we pursued in 2014, we announced our vision to become one of Asia's top-5 home and lifestyle retailers by 2020, launching an initiative to transition our existing stores to that new format. In contrast to mass home appliance and electronics retailers, home and lifestyle stores offer a wide selection of household products to provide a one-shop shopping experience that is in tune with today's consumer lifestyle trends.

The first major change we made with this new format was to dramatically expand our merchandise selection, adding daily necessities, automotive accessories, travel products, pet care products, and high-tech niche products. We also stepped up our global sourcing, adding major global brands such as Westinghouse, TCL, Media, Whirlpool, Cuisinart, Hoover, and Silit to our lineup. In December, we made waves in the industry when we began exclusive sales of TVs from TCL of China, the world's No. 3 TV maker. We also became the first major retailer to offer high-tech niche products such as drones, solar PV systems, and electric bikes. We completely revamped merchandising in conjunction with the renovation of several of our larger stores to serve as models. For our medium-size and small stores, we adjusted the flow and furnishings to bring together complimentary products.

We also pushed actively ahead with our omni-channel service strategy to expand the synergy between our brick-and-mortar and online stores. We relaunched our Himart Shopping Mall with a focus on mobile shopping, offering online exclusives to boost

the competitiveness of our online merchandise selection. We also increased consumer convenience and satisfaction by rolling out a number of multi-channel services including Smart Pick, Smart Beacons, and Omni Sales. Launched nationwide in October, the Omni Sales service allows customers shopping in brick-and-mortar stores to order products that are not in stock from the Himart Shopping Mall during their visit. These combined efforts helped boost online sales by 74.5% in 2015.

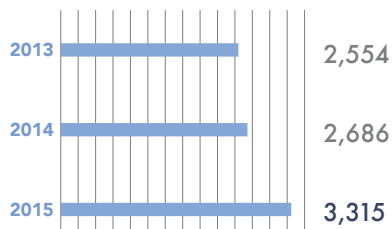
2016 Outlook

The Korean home appliances and electronics market is expected to see sales growth contract in certain product categories as the overall economic downturn continues. While the premium appliances market will see growth steadily slow as it matures and negative growth appears inevitable in the home audio and video market, sales of mobile devices and small appliances are expected to continue to rise.

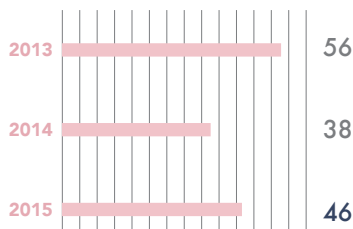
In addition to actively opening new stores, we will continue to transition existing stores to the new home and lifestyle format. We also plan to dramatically increase the range of products offered at stores of all sizes as we aim to create fun-to-visit stores that stock a broad selection of merchandise. We will actively seek out new brands and merchandise to expand our selection. Toward this end, we will focus on global sourcing to bring the world's most-popular brands to consumers faster. We will also continue to upgrade our omni-channel services linking our mobile and offline businesses to further strengthen our market leadership.



SALES in KRW billions
K-IFRS consolidated basis



OPERATING PROFIT in KRW billions
K-IFRS consolidated basis



STORES / MARKET SHARE

8,000 stores

28.0%

7-ELEVEN

www.7-eleven.co.kr



2015 Review

While the Korean retail industry as a whole experienced sluggish growth in 2015 due to dampened consumption related to the ongoing economic downturn, increasing government regulation, and intensifying competition, the convenience store industry grew nearly 30% for the year. This strong growth was a result of the industry's successful adaptation to changing demographics and purchasing patterns driven by rising numbers of 1- and 2-person households, dual-income households, and an aging population as well as the growing trend toward small quantity purchases at local shops.

We effectively responded to these changes in the social environment, generating qualitative growth as we improved the competitiveness of our products, developed a variety of store formats, and expanded our range of convenience services. As a result, sales rose 23.4% to KRW 3,314.8 billion and operating profit rose 21.7% to KRW 45.7 billion. At year-end, we had a total of 8,000 stores operating across Korea.

In 2015, our new private brand products generated a very positive response from consumers for their competitive quality and pricing. Targeting the growing trend toward eating alone, we launched Hyeri Dosirak ready-to-eat meals featuring attractive pricing and a large selection, selling 12 million meals during the year. Our new Seven Cafe coffee kiosk generated strong sales growth as installations surpassed 1,000 stores, winning over consumers with a fully-automated drip-brewing process that delivers a cleaner taste than other coffees at prices about one-third the standard coffee shop price. We also launched other 7-Eleven exclusives such as Gochang Watermelon Milk and Gangneung Gyo-dong Banjeom Jikhwa Jjamp-pong as private brand product sales rose by 22.9%.

Upgrading our omni-channel services was another key focus during the year. We expanded our Smart Beacon service used to deliver promotional coupons to customer smartphones to our entire nationwide chain. We also added Alipay and Tenpay mobile payment options across our chain, enhancing shopping convenience for growing numbers of customers visiting from China.

2016 Outlook

The convenience store industry is expected to continue to grow in 2016 as each competitor executes their strategy to deal with the changing social environment. The battle for leadership is expected to be particularly fierce in the home meal replacement and private brand product areas.

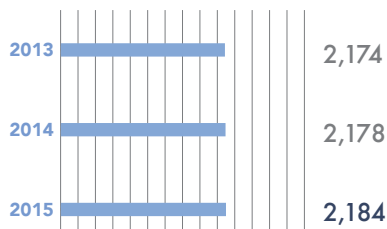
Our focus for 2016 will be on both qualitative and quantitative growth. As our strategic expansion efforts continue, we will also be focusing on boosting sales and profitability at existing stores. Building on our strong product development capabilities, we will be upgrading our food merchandising capabilities and accelerating our Seven Cafe coffee kiosk roll-out as we take aim at being Korea's No. 1 convenience food store. We will also expand the introduction of new store concepts as we take the lead in changing the paradigm of what a convenience store should be from simply a place to pick up small items to a place to eat, shop, and relax.



SALES

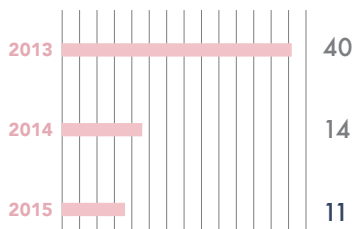
in KRW billions

K-IFRS consolidated basis

**OPERATING PROFIT**

in KRW billions

K-IFRS consolidated basis

**STORES / MARKET SHARE**

571 stores

1st

LOTTE SUPER

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



2015 Review

The Korean supermarket industry continued to face sluggish growth as it grappled with a challenging business environment due to the ongoing economic slump, restrictions on store openings and opening hours, and intensifying competition from other retail channels.

Our focus for the year was on boosting sales through new store openings, executing our store development strategy, and developing products in tune with consumer trends as well as boosting profitability with a focus on improvements in operational efficiency and cost reduction. While these efforts enabled gross sales to rise slightly to KRW 2,183.5 billion, operating profit declined 21.4% to KRW 11.2 billion due to the previously mentioned market factors. We closed the year with a total of 571 stores, solidly leading the industry in both locations and sales. During the year, we expanded our Lotte Fresh Center delivery network dedicated on fulfilling online orders. Following the launch of the first center in Seocho in southern Seoul in 2014, we completed a delivery network covering eastern Seoul with the addition of centers in Sanggye and Jangan. Each center stocks a wide selection of products tailored for their specific area and guarantees delivery within three hours of ordering to ensure greater customer satisfaction.

Our product development efforts in 2015 focused on fresh foods and private brand products. We signed memorandums of understanding with Organic Farmers Korea and Korea's Ministry of Agriculture, Food and Rural Affairs that enable us to provide safe, reasonably-priced organic produce year-round. Our Dawn Vegetables line features produce picked early in the morning and delivered to stores the same day. We began exclusive sales of apple watermelons targeting single-person households as well as expanding our private brand lineup with customer favorites such as honey butter potato snacks, honey butter roll cake, and L Cafe Snowing Black coffee. We also upgraded our omni-channel services linking our offline and online channels. In addition to our Smart Pick service, which

allows customers to order online for pick-up at their nearest Lotte Super, we launched the Drive & Pick service at our Garak store, allowing customers to pick-up orders without leaving their cars, a local industry first. We upgraded our Smart Beacon smartphone coupon delivery service with geo-fencing technology to reach more customers. These efforts helped us grow online shopping sales by 37.6% and mobile shopping sales by 110.4%.

2016 Outlook

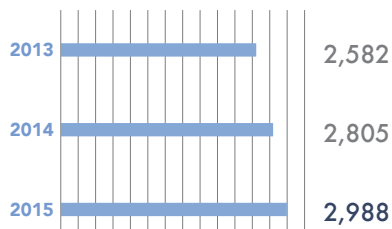
With consumer confidence waning and household debt rising as the Korean economy continues to limp along, domestic consumption is expected to stagnate, prompting the supermarket industry to pursue a variety of strategies to deal with the changing business environment and consumer trends.

In 2016, we will be upgrading our online business by expanding our omni-channel services with a focus on mobile shopping as we steadily expand our delivery area. We will diversify our store expansion strategy, focusing on strategic store openings in markets where we currently have a presence as well as securing an early foothold in new markets. We will also continue to improve the competitiveness of our store product offerings by developing new fresh food and value products as well as new store formats to drive growth going forward.



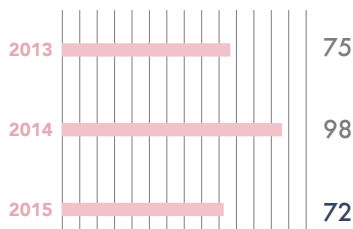
TOTAL TRANSACTION VOLUME

in KRW billions



OPERATING PROFIT in KRW billions

K-IFRS consolidated basis



MAJOR BUSINESSES

TV and Web TV Shopping
Catalog Shopping
Mobile Shopping
Online Shopping
T-Commerce

LOTTE HOME SHOPPING

www.lotteimall.com
m.lotteimall.com



2015 Review

As the Korean retail industry experienced stagnant growth due to the ongoing economic slowdown, the home shopping industry faced a number of challenges including slowing TV shopping volume, increased competition with the launch of Gongyeong Home Shopping, and the issue of refunds related to fake cynanchum wilfordii herbal supplement sales. The industry sought new growth in the fast-growing online shopping sector, focusing on the t-commerce and mobile channels.

Our successful response to this challenging business environment enabled us to grow total transaction volume by 6.5% to KRW 2,987.9 billion in 2015. While TV shopping sales volume was down slightly for the year, Internet shopping volume rose 21.3%, boosted by growth in mobile shopping driven by our Baro TV app. Despite these gains, operating profit fell 26.5% to KRW 72.4 billion due to the overall industry slowdown, intensifying competition, and refunds related to the fake cynanchum wilfordii herbal supplement scandal.

In March 2015, we became the first in the industry to begin t-commerce services with the launch of Lotte OneTV. Accessible by 13 million households, the service provides a new sales channel for small and medium-size companies facing distribution challenges as well as a greater merchandise selection for shoppers. We also expanded our omni-channel services by launching a companion mobile app for the OneTV service and opening the Studio Shop at



Lotte World Mall, a showcase for the latest home shopping offerings available across all our channels.

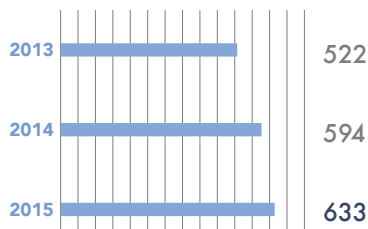
Other areas where we stepped up our efforts in 2015 included our focus on being a lifestyle trendsetter and enhancing our win-win collaboration with small and medium-size partners. We launched several private fashion brands, offering a wide selection of high-quality, practical fashion and beauty merchandise to appeal to value-conscious shoppers. We also ran a number of special promotions to give shoppers the opportunity to save money and partners the chance to clear out inventories. In March, we established the Smart Studio production facility at the Busan Center for Creative Economy & Innovation to support the development of small and medium-size companies based in Korea's southern region.

2016 Outlook

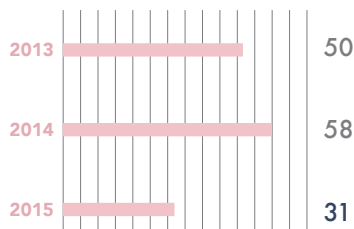
With the economic situation and consumer confidence expected to remain weak in 2016, the home shopping industry is likely to see continued stagnant growth as competition intensifies, sales shift to new channels, and the regulatory environment changes. That said, online shopping as a whole and mobile shopping in particular are expected to enjoy steady growth.

In 2016, we will respond to the challenges mentioned above by pushing forward with a comprehensive growth strategy encompassing all retail channels. In addition to upgrading our omni-channel services, we will continue to expand our eTV and mobile businesses by differentiating our Baro TV, Lotte Home Shopping, and Lotte OneTV mobile app channels. We also plan to expand opportunities for customer interaction via the Baro TV Talk feature as we aim to be the industry trendsetter with unique programming and higher broadcast quality.

SALES in KRW billion
K-IFRS consolidated basis



OPERATING PROFIT in KRW billion
K-IFRS consolidated basis



No. of overseas cinemas/screens

CHINA VIETNAM
10/83 22/99

No. of domestic cinemas/screens

107/753

LOTTE CINEMA

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



2015 Review

The Korean film industry saw sales grow in 2015 thanks to rising revenues from both theatrical and digital online distribution. Box office sales grew 4.2% to reach KRW 2,113.1 billion with an all-time high of 217,290,000 tickets sold. This figure made Koreans the world's most-frequent moviegoers, enjoying an average of 4.22 movies a year per person.

Lotte Cinema gross sales grew 6.6% to reach KRW 632.7 billion in 2015 thanks to our ongoing multiplex expansion strategy, active marketing, a number of box office hits, and growth in overseas markets. Operating profit fell 47% to KRW 30.9 billion. We secured domestic distribution rights for releases from Hollywood film studio Paramount Pictures, owner of the *Mission Impossible* and *Transformers* film franchises, paving the way for future growth. We opened 7 multiplexes in Seoul and the surrounding capital region in 2015, bringing our domestic total to 107 locations.

We spare no effort to enhance the satisfaction of our customers, adopting the latest facilities and attentive service. Following on the heels of our 2014 opening of the Super Plex G theater featuring the world's largest screen, we took things to the next level by installing Korea's first 6-primary color laser projector in 2015. We continued to enhance the movie-going experience through our Eco Bag project, which reduces food waste by providing special paper bags for moviegoers to take home their leftover popcorn. Other efforts included offering special discounts for mothers with infants, launching the Teen-Teen Club with discounts for teenagers, opening new Snack# concessions shops, upgrading the digital theater information system, and expanding our location-based omni-channel services.

Our overseas multiplexes also delivered remarkable performances in 2015. As the Chinese and Vietnamese multiplex theater markets continued to experience strong growth, we focused on rapidly add-

ing new multiplexes, strengthening our strategic local partnerships, and boosting concession revenues to improve overall competitiveness. These efforts helped us boost gross sales in China where we operate a total of 10 multiplexes by 61.7% to KRW 32 billion. In Vietnam, where we added 6 multiplexes to bring our total to 22, gross sales rose 16.0% to KRW 45.1 billion.

2016 Outlook

The film industry is expected to continue to grow worldwide in 2016. In addition to adding new multiplexes in major developments built by Lotte Group affiliates and through ongoing strategic expansion, we will be working to upgrade our brand image by giving our website and mobile services a total makeover as we expand our omni-channel services. We will add premium food items to our concessions menu to further improve profitability.

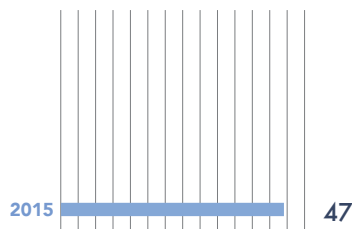
In the investment and distribution field, we will hold major events in conjunction with film releases by Paramount Pictures to generate synergy with our multiplex business as we strive to be the first to screen major tentpole releases. In overseas markets, we will improve profitability by opening specialty theaters as well as moving ahead with plans to enter new markets beyond China and Vietnam.



SALES

in KRW billions

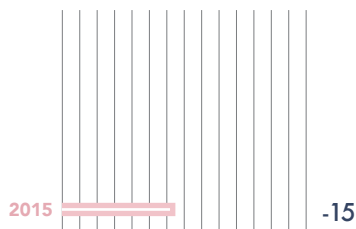
K-IFRS consolidated basis



OPERATING PROFIT

in KRW billions

K-IFRS consolidated basis



STORES

53 stores

LOHB's

www.lohbs.co.kr
m.lohbs.co.kr



2015 Review

Although the Korean retail industry saw continued sluggish growth as the economic downturn dampened consumer confidence, the health and beauty store channel continued lead the industry in growth. Since 2010, the channel has grown roughly 30% annually, driven by the increase in single-person households and changing attitudes by young female shoppers, who like the convenience store-like freedom to drop by and pick up a few items without pressure from sales staff. In 2015, health and beauty channel sales surpassed KRW 1 trillion as the number of stores reached 700. This growth is steadily increasing competition both within the channel and with other retail channels.

We entered the health and beauty market back in 2013 when we opened our first LOHB's at Seoul's Hongik University. In June 2015, we spun-off the operations as an independent business and began a full-scale expansion push. We opened 23 stores during the year, bringing the total to 53 at year end. This aggressive expansion and active marketing helped us achieve gross sales of KRW 46.7 billion.

As a latecomer to the health and beauty store channel, we have pushed forward with a differentiated merchandise strategy to lay a solid foundation for growth. We have brought together a wide variety of health care, beauty care, and health food brands to satisfy the needs of our core demographic of young women. In addition to expanding our brand exclusives, we have partnered with major manufacturers to develop private brand mask packs, brushes, and

other value-priced beauty aids that have been well received. In October 2015, we successfully launched global cosmetics brand Clinique, marking the first time a Korean health and beauty store has offered a premium cosmetics brand. We also updated our store size, interior, and merchandise layout during the year to create a more comfortable and convenient shopping experience. In addition to running a variety of seasonal sales events and social media events to reach new customers, we also ran numerous events aimed at overseas visitors to share K-beauty secrets with the world.

2016 Outlook

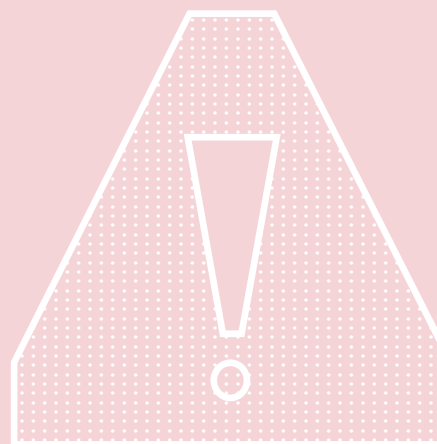
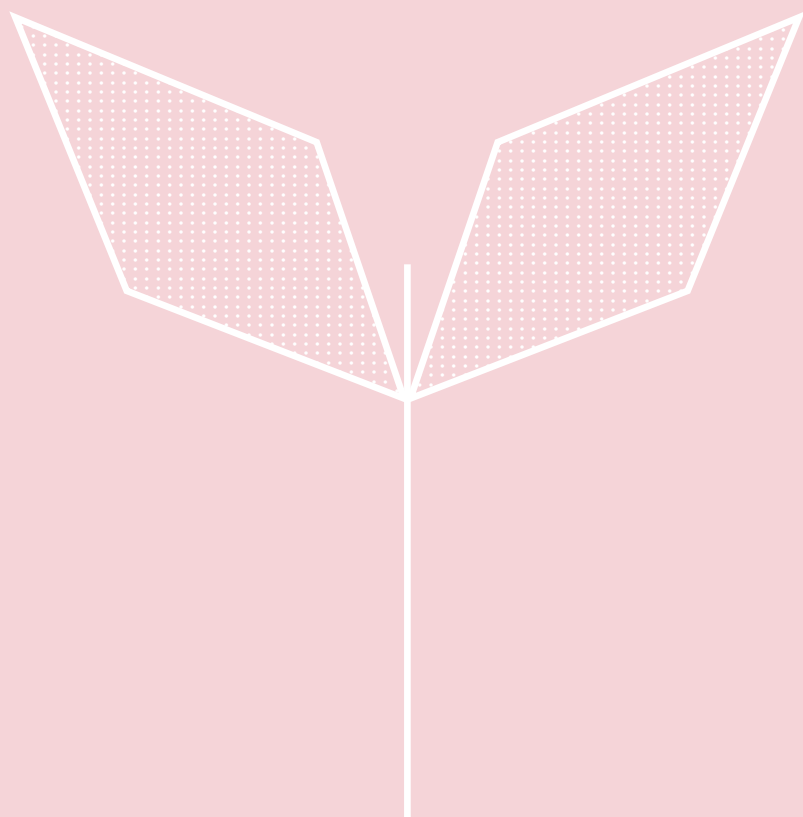
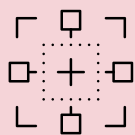
With consumer confidence not expected to recover much in the current sluggish domestic economy and retail industry growth itself expected to be stagnant, competition between retail channels will continue to intensify. That said, the shift in purchasing patterns toward value shopping and expectations for further growth in the health and beauty market will encourage channel players to continue to strive to expand their business with unique strategies.

Our focus will be on upgrading the competitiveness of our merchandise lineup through the development and expanded sourcing of exclusive, private brand, and specialty merchandise as well as collaboration with other Lotte affiliates. We will also be upgrading the competitiveness of our store format by operating larger stores. Beyond this, we will be building a mobile shopping mall and adding collaborative store locations as we adopt new business models to drive future growth.



SOCIAL RESPONSIBILITY

At Lotte Shopping, we are committed to living up to our social and retail responsibilities as a global corporate citizen. By doing our part to address social issues, keep the global environment healthy, grow with our partners, and keep our customers and employees safe, we are making the world a better place to live.

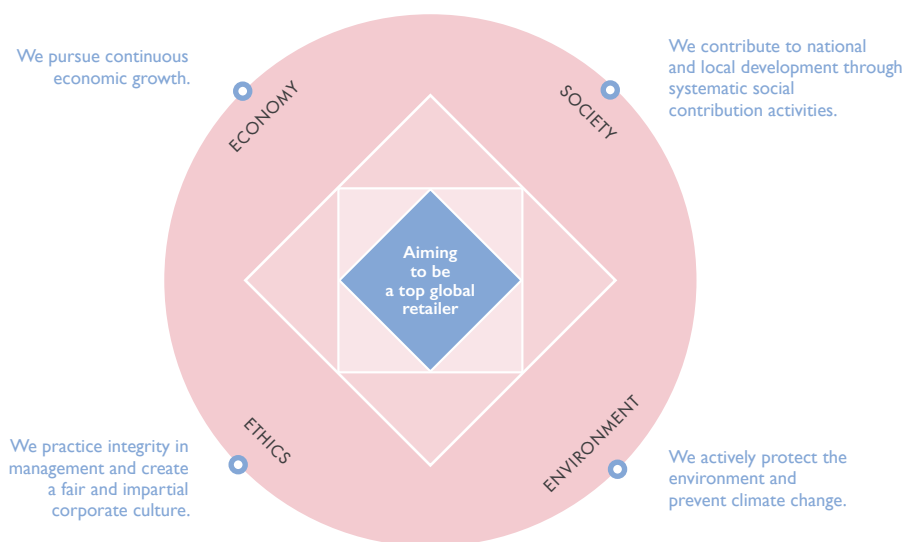


CREATING SHARED VALUE

Our commitment to sustainable management encompasses the economy, environment, customers, society, ethics, employees, and partners. Among these, we have selected four areas—the economy, society, ethics, and environment—as the focus of our sustainability efforts.

Chaired by the CEO, our Sustainable Management Committee systematically manages every aspect of sustainability. Our focus on creating shared value is led by the Shared Growth Team operating under the umbrella of our marketing organization through the Office of External Collaboration. The team works to ensure that all our corporate social responsibility activities and creating shared value activities achieve their full potential.

SUSTAINABLE MANAGEMENT FOCUS





SOCIAL CONTRIBUTIONS

THROUGH WARM
SHARING AND SINCERE
SERVICE, WE ARE CARING
FOR OUR NEIGHBORS
AND ENCOURAGING
THEM TO DREAM BIGGER
AS WE WORK TO MAKE
THE WORLD A BETTER
PLACE FOR ALL.

35

No. of Lovely House Renovations Completed

2,139

No. of Mobile Health Bus Exams Conducted

Creating houses full of love

In 2014, Lotte Department Store launched the Lovely House program to renovate welfare facilities serving children and seniors. The program is funded by a donation-matching campaign where employee contributions of 1% of their salary are matched by the company. Beyond this financial support, employees also visit the centers to lend a helping hand. As of August 2015, the program had completed 35 renovation projects, making life a little warmer and more comfortable for needy children and seniors.

Bringing care to where it's needed most

From December 2014 through April 2015, Lotte Department Store sponsored the Mobile Health Bus program to offer free general health check-ups to needy people across Korea. During its nationwide tour, the bus provided screening for 70 types of disease including 10 types of cancer to approximately 2,139 disabled residents, live-alone seniors, and children from broken families. The program also offered additional screenings to individuals whose initial tests detected potential issues and well as covering surgery and treatment costs for those with serious conditions.

Cultivating tomorrow's leaders

Since 2011, Lotte Department Store has sponsored the Charlotte Dreamers program to give university students interested in the retail and fashion fields an opportunity to cultivate their leadership potential through a variety of missions involving marketing, the environment, and other areas. A total of 50 students participated in the fifth year of the program, which ran for five months between June and October 2015.

Caring and sharing around the world

We are also working to make a difference overseas in the countries in which we operate. In June 2015, Lotte Department Store and partner Plan Korea joined forces to build a third Lotte School in Vietnam's Thái Nguyên Province. The school now provides a clean and safe place to learn for more than 140 preschool and primary school students. Lotte Department Store also paid for the installation of a 20-ton rainwater harvest and treatment system to provide potable water to the residents of poorer areas around Ho Chi Minh City. Separately, Lotte Mart and BBB Korea partnered to open the Huế Sejong School in Vietnam's Huế region in 2015, welcoming 136 students to its Korean language program in its first year.

ENVIRONMENTAL MANAGEMENT

BEYOND PARTNERING
WITH OUR CUSTOMERS
TO CREATE GREENER
LIFESTYLES, WE ARE ALSO
ACTIVE IN A VARIETY
OF ENVIRONMENTAL
INITIATIVES OVERSEAS
AIMED AT MAKING THE
PLANET A HEALTHIER
PLACE TO LIVE.

12,851

No. of participants at the Green Lotte Children's
Environmental Art Festival

500

No. of bikes donated through
the Global Green Bike program

Fostering environmental awareness and action

Each year, we sponsor the Green Lotte Children's Environmental Art Festival to help instill the importance of a clean environment and awareness about environmental pollution. A total of 12,851 children participated in the 2015 festival. Lotte Department Store also maintains an Environmental Doomsday Clock in front of its flagship Myeong-dong store in Seoul to serve as a reminder of Korea's current environmental state and our commitment to preserving the environment for future generations. In 2015, the clock was moved backward 8 minutes to 9:19.

Making eco-friendly shopping even more rewarding

Lotte Department Store is an active promoter of the Green Card Eco Money Points program to encourage the use of eco-friendly products. When purchasing eco-friendly products certified by Korea's Ministry of Environment, Green Card holders can accumulate Eco Money points equivalent to between 1% and 5% of the purchase price. During special promotional periods in June and December, the 5% point bonus is increased to 25%. Eco Money points can be redeemed for gift certificates at major retail stores or used in a variety of other ways.

Helping reverse deforestation in Mongolia

Between 2013 and 2015, Lotte Department Store partnered with the Korea Forest Service, People Planting Trees, the Korean Open Doctors Society, and the Korea Green Foundation to participate in reforestation and community service projects in Mongolia's Ulaanbaatar and Lun Sum regions. In 2015, we helped plant a new area with a total of 2,000 saplings, which included 800 Siberian elms, as well as tending to previously planted areas. We also visited the Nalaikh region where we provided medical services and essentials to more than 1,100 residents, built a mobile children's library and stocked it with books, and helped with local community cleanup efforts.

Making personal transportation greener in Myanmar

In 2015, Lotte Department Store partnered with the Korea Green Foundation to launch the Global Green Bike campaign to send unwanted bicycles to developing nations in Asia. A total of 500 bicycles were collected and shipped along with repair parts and tools to Myanmar for donation to needy local residents. A repair center was also set up to handle repairs as well as rentals, providing the additional benefit of new jobs in addition to eco-friendly transport.





WIN-WIN PARTNERSHIPS

BY SUPPORTING THE FINANCIAL STABILITY OF OUR BUSINESS PARTNERS AND ACTIVELY WORKING WITH THEM TO ENTER OVERSEAS MARKETS, WE ARE GROWING TOGETHER AROUND THE GLOBE.

Helping partners open new sales channels

Lotte Department Store is committed to helping each business partner enhance the value and global competitiveness of their brands. In addition to operating Dream Plaza shops at the Myeong-dong, Jamsil, and Busan stores to showcase products from small and medium-sized companies, we help the best open their own shops. We also hold semi-annual Korean product fairs at selected overseas department stores, covering 100% of the expenses associated with export, customs clearance, and event operation. In 2015, our Tianjin and Weihai stores in China hosted these fairs.

Providing essential partner financial support

We provide a number of financial support programs to help our partner companies better manage their finances. For example, Lotte Department Store operates the KRW 100 billion Win-Win Growth Fund, which provides interest-free loans of up to KRW 400 million per partner, as well as the KRW 105 billion Shared Growth Fund, which focuses on reducing the cost of borrowing from financial institutions. We also offer financial assistance to help partners purchase raw and subsidiary materials as well as working with the Industrial Bank of Korea to provide lines of credit.

KRW **100** billion

Lotte Department Store
Win-Win Growth Fund

100%

Support for Overseas Product Fairs

Fostering mutual understanding and partner capabilities

Lotte Department Store holds semi-annual workshop programs to help foster communication and understanding between partner sales personnel and Lotte buyers. Both sales personnel and buyers participate together in each part of the two-day, one-night program, which also includes training to improve business skills as well as an open discussion session for participants to share work experiences and advice. Our Win-Win Growth Academy also offers partner employees both long- and short-term service and job training programs.

Enhancing partner communications with technology

Lotte Department Store operates a dedicated Internet portal site to better support and communicate with its business partners. In addition to providing information on partner financial and training support programs, the portal facilitates consultations on merchandise and events, provides a channel to file fair trade and ethics complaints, and hosts a question-and-answer forum to help partners get the practical, timely support they need.

SAFETY MANAGEMENT

FROM HEALTH
AND SAFETY TO
INFORMATION
SECURITY, WE SPARE
NO EFFORT TO ENSURE
THAT OUR CUSTOMERS
AND EMPLOYEES ARE
SAFE AND SECURE.

Keeping facilities safe and accident-free

Our safety management policy ensures that all facilities undergo quarterly safety inspections covering sales floor and back-office facilities, fire-fighting facilities, gas-related facilities, escalators and elevators, construction sites, and hazardous materials. Our entire workforce receives comprehensive safety training reinforced by regular training drills. We also regularly monitor key indicators of air quality throughout our stores and parking garages to ensure a pleasant environment for both shoppers and employees.

Enhancing terror response capabilities

We have developed phased responses for potential terror scenarios at our Lotte Department Store locations and trained our entire workforce to execute those plans. Our security system operates around-the-clock and is reinforced by regular security patrols and strict access controls. As of December 2015, we had conducted terror response drills at our 52 domestic stores in Korea and 8 overseas stores in China, Vietnam, Indonesia, and Russia, ensuring that our workforce is ready to appropriately respond in the event of an incident.

Ensuring food freshness and safety

We strive to consistently deliver fresh and safe food products to our customers. In addition to regular internal inspections, each store is regularly inspected by the Lotte Food Safety Authority. Our meat and seafood preparation facilities are HACCP certified and we operate systems to track where domestic beef was produced and seafood originated. We have also upgraded our food sanitation management to prevent or restrict the sale of products with a high likelihood of developing bacteria that can lead to food poisoning, particularly during the summer months.

Protecting customer information

We employ a variety of systems and checks to protect personal information from unauthorized disclosure. We have overhauled our personal information handling policies and now operate a world-class information security management system that has earned ISO 27001 and Korea Internet & Security Agency certifications. Key components of our state-of-the-art system include an electronic content management system, a separate network for handling customer information, a software management system, and a document encryption solution. We also conduct regular employee training sessions as well holding quarterly executive-level information security committee meetings.



60

No. of Department Stores Have Conducted
Terror Response Drills

ISO 27001

Certified Information Security
Management System

INDEPENDENT AUDITORS' REPORT

Based on a report originally issued in Korean



[March 9, 2016]

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

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error.

In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

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

Other matter

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

KPMG Samjong Accounting Corp.

Seoul, Korea

This report is effective as of March 9, 2016, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Lotte Shopping Co., Ltd. and Subsidiaries

As of December 31, 2015 and 2014

58

59

Korean won (millions)

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

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION, CONTINUED

Lotte Shopping Co., Ltd. and Subsidiaries

As of December 31, 2015 and 2014

Korean won (millions)

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

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Lotte Shopping Co., Ltd. and Subsidiaries
For the years ended December 31, 2015 and 2014

60

61

Korean won (millions, except for earnings per share)

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

See accompanying notes to the consolidated financial statements.

Korean won (millions)

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

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Lotte Shopping Co., Ltd. and Subsidiaries
For the years ended December 31, 2015 and 2014

Korean won (millions)

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

	2015	2014
Unearned revenues	(19,837)	(482)
Provisions	(9,602)	(12,648)
Other non-financial liabilities	91,248	(19,608)
Payment of post-employment benefits	(54,698)	(60,461)
Plan assets	(89,176)	(58,180)
Income tax paid	(346,210)	(536,253)
Interest received	697,143	693,964
Interest paid	(155,429)	(144,992)
Dividends received	83	140
Net cash provided by operating activities	₩ 641,069	₩ 1,629,855
Cash flows from investing activities		
Proceeds from sale of financial assets	1,323,830	1,119,662
Collection of loans	13,976	14,748
Proceeds from sale of available-for-sale financial assets	123,111	89,767
Proceeds from disposal of property, plant and equipment	140,929	1,297,265
Proceeds from disposal of intangible assets	735	2,580
Proceeds from disposal of investment property	3,400	1,150
Proceeds from disposal of non-current assets held for sale	-	21,463
Proceeds from capital distribution from associates	7,648	750
Decrease of other non-financial assets	6	262
Purchase of financial assets	(1,773,228)	(1,122,392)
Increase of loans	(5,137)	(5,566)
Purchase of available-for-sale financial assets	(144,966)	(65,916)
Purchase of investments in associates and joint ventures	(139,247)	(53,799)
Acquisition of property, plant and equipment	(1,094,939)	(1,863,149)
Acquisition of intangible assets	(100,165)	(81,662)
Acquisition of investment property	(8,040)	-
Acquisition of other investments	(2,833)	(6,061)
Business combination, net of cash acquired	1,431	(27,463)
Cash outflows from disposal of subsidiaries, net of proceeds received	(37)	(1,498)
Interest received	46,173	48,325
Dividends received	48,999	31,485
Net cash used in investing activities	₩ (1,558,354)	₩ (600,049)
Cash flows from financing activities		
Proceeds from borrowings	2,494,790	6,072,009
Proceeds from issuance of debentures	3,008,247	4,027,377
Capital contribution from non-controlling interests	3,297	-
Proceeds related to sale and lease back transactions	7,570	25,053
Repayment of borrowings	(2,177,278)	(5,358,194)
Redemption of debentures	(2,251,083)	(4,875,148)
Acquisition of additional ownership in subsidiaries	(343)	(3,823)
Cash outflows from settlement of derivative instruments	(18,675)	-
Payment of hybrid securities interests	(12,721)	(12,721)
Payment of finance lease liabilities	(13,865)	(1,512)
Cash outflows from other financing activities	(112)	(504)
Interest paid	(234,905)	(229,766)
Dividends paid	(73,914)	(58,994)
Net cash provided by (used in) financing activities	₩ 731,008	₩ (416,223)
Net Increase (decrease) in cash and cash equivalents	(186,277)	613,583
Cash and cash equivalents at beginning of the year	1,928,136	1,309,484
Impact of foreign currency exchange rates on cash and cash equivalents	2,290	284
Exchange differences on translating foreign operations	7,119	4,785
Cash and cash equivalents at end of the year	₩ 1,751,268	₩ 1,928,136

See accompanying notes to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Lotte Shopping Co., Ltd. and Subsidiaries

December 31, 2015 and 2014

1. General Description of Reporting Entity

(a) Organization and Description of the Company

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

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

(b) Description of Subsidiaries

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

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

Subsidiaries	December 31, 2015			
	Location	Products or services	Fiscal year	Percentage of ownership (%)
Lotte Card Co., Ltd.	Korea	Credit card, financing	Dec. 31	93.78
eB Card Co., Ltd.	Korea	Electronic banking business	Dec. 31	95.00
Gyeonggi Smartcard Co., Ltd.	Korea	Electronic banking business	Dec. 31	100.00
Inchon Smartcard Co., Ltd.	Korea	Electronic banking business	Dec. 31	100.00
The 6th Supreme (*1)	Korea	SPC	Dec. 31	0.90
The 7th Supreme (*1)	Korea	SPC	Dec. 31	0.90
The 8th Supreme (*1)	Korea	SPC	Dec. 31	0.90
The 9th Supreme (*1)	Korea	SPC	Dec. 31	0.90
PT. Lotte Members Indonesia	Indonesia	Business support service	Dec. 31	100.00
Lotte Members China	China	Business support service	Dec. 31	100.00
Lotte Members Vietnam Co., Ltd.	Vietnam	Business support service	Dec. 31	100.00
Woori Home Shopping & Television Co., Ltd.	Korea	TV Home Shopping	Dec. 31	53.03
Lotte DatViet Homeshopping Co., Ltd.	Vietnam	TV Home Shopping	Dec. 31	85.58
Korea Seven Co., Ltd.	Korea	Distribution	Dec. 31	51.14
Buy the way Inc.	Korea	Distribution	Dec. 31	100.00
NCF Co., Ltd.	Korea	Apparel manufacturing	Dec. 31	99.80
Lotte Gimhae Development Co., Ltd.	Korea	Service company	Dec. 31	100.00
Lotte Suwon Station Shopping Town Co., Ltd.	Korea	Real estate development	Dec. 31	95.00
Lotte Songdo Shopping Town Co., Ltd.	Korea	Real estate development	Dec. 31	56.30
CS Mart Co., Ltd.	Korea	Distribution	Dec. 31	99.95
Lotte Himart Co., Ltd. (*2)	Korea	Consumer electronics	Dec. 31	65.25
Lotte Department Store Masan Co., Ltd.	Korea	Distribution	Dec. 31	100.00
Lotte Members Co., Ltd	Korea	Business support service	Dec. 31	93.78
Lotte.com Inc	Korea	E-commerce business	Dec. 31	50.01
...

Subsidiaries	December 31, 2015			
	Location	Products or services	Fiscal year	Percentage of ownership (%)
Lotte PS Net	Korea	Financial support service	Dec. 31	63.64
Lotte Mart Company Limited	China	Distribution	Dec. 31	100.00
Lotte (China) Management Co., Ltd.	China	Business management	Dec. 31	70.00
Lotte Shopping Holdings (Hong Kong) Co., Limited	Hong Kong	Holding company	Dec. 31	100.00
Qingdao Lotte Mart Commercial Co., Ltd.	China	Distribution	Dec. 31	100.00
Liaoning Lotte Mart Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Mart China Co., Ltd. and its subsidiaries	China	Distribution, Real estate development	Dec. 31	100.00
Swift Harvest Ltd. and its subsidiaries (*3)	Hong Kong	Distribution, Real estate development	Dec. 31	100.00
Hong Fung Ltd. and its subsidiaries (*3)	Hong Kong	Real estate development	Dec. 31	100.00
Nantong Meili Properties Limited (*3)	China	Real estate development	Dec. 31	100.00
Zhuji Decheng Properties Limited (*3)	China	Real estate development	Dec. 31	100.00
Nantong Yaodong Properties Limited (*3)	China	Real estate development	Dec. 31	100.00
Nantong Fuhua Properties Limited and its subsidiary (*3)	China	Real estate development	Dec. 31	100.00
Nantong Jinyou Properties Limited and its subsidiary (*3)	China	Real estate development	Dec. 31	100.00
Nantong Branda Properties Limited and its subsidiary (*3)	China	Real estate development	Dec. 31	100.00
Nantong Fortune Trade Properties Limited (*3)	China	Real estate development	Dec. 31	100.00
Nantong Fine Spring Properties Limited (*3)	China	Real estate development	Dec. 31	100.00
Nantong Fine Port Properties Limited and its subsidiary (*3)	China	Real estate development	Dec. 31	100.00
Huai An Full Faith Properties Limited (*3)	China	Real estate development	Dec. 31	100.00
Jilin Lotte Mart Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Mart (Chongqing) Commercial Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Business Management (Tianjin) Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Department Store (Shenyang) Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte International Department Store (Weihai) Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Department Store (Tianjin) Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Department Store (Chengdu) Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Mart (Chengdu) Commercial Company Limited	China	Distribution	Dec. 31	100.00
Lotte Shopping Business Management (Hong Kong) Limited	Hong Kong	SPC	Dec. 31	100.00
LHSC Limited	Cayman islands	Holding company	Dec. 31	91.14
Lucky Pai Ltd. and its subsidiaries	China	TV Home Shopping	Dec. 31	100.00
Lotte Properties (Chengdu) HK Limited	Hong Kong	Holding company	Dec. 31	73.46
Lotte Properties (Chengdu) Limited	China	Real estate lease	Dec. 31	100.00
Lotte Vietnam Shopping Co., Ltd.	Vietnam	Distribution	Dec. 31	100.00
Lotte Shopping Holdings (Singapore) Pte. Ltd.	Singapore	Holding company	Dec. 31	100.00
PT. Lotte Shopping Indonesia	Indonesia	Distribution	Dec. 31	80.00
PT. Lotte Mart Indonesia	Indonesia	Distribution	Dec. 31	100.00
PT. Lotte Shopping Avenue Indonesia	Indonesia	Distribution	Dec. 31	100.00
Lotte Shopping India Private Limited	India	Distribution	Dec. 31	100.00
Lotte Mart C&C India Private Limited	India	Distribution	Dec. 31	100.00
Lotte Shopping Plaza Vietnam Co., Ltd.	Vietnam	Distribution	Dec. 31	100.00
Lotte Hotel & Retail Vietnam Pte. Ltd.	Singapore	Holding company	Dec. 31	60.00
Kotobuki Holding (HK) Ltd.	Hong Kong	Holding company	Dec. 31	100.00
Hai Thanh - Kotobuki Joint Venture Company	Vietnam	Hotel	Dec. 31	70.00
Lotte Cinema Vietnam Co., Ltd.	Vietnam	Cinema	Dec. 31	90.00

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

(*2) During 2013, the Company issued exchangeable bonds which are exchangeable to common stocks of Lotte Himart Co., Ltd. Due to the exercise of the put option, the Company redeemed \ 307,400 million of the issued bonds on January 25, 2016. Therefore, the total number of the exchangeable common stocks for the issued bond is changed from 3,538,224 shares to 152,016 shares. If all exchangeable bonds are exchanged to the common stocks of Lotte Himart Co., Ltd., the Company's percentage of ownership on Lotte Himart Co., Ltd. will be decreased from 65.25% to 64.60%. In addition, the Company entered into securities lending agreements to lend shares of Lotte Himart Co., Ltd. owned by the Company up to 50% of the total exchangeable common stocks. As of December 31, 2015, the total number of the common stocks of Lotte Himart Co., Ltd. under securities lending agreements is 1,180,384 shares. On January 25, 2016, the Company collected all of them.

(*3) These subsidiaries were presented as Lotte Mart China Co., Ltd. and its subsidiaries until 2014. As Lotte Mart China Co., Ltd. sold the shares of these subsidiaries to Lotte Shopping Holdings (Hong Kong) Co., Limited in 2015, the Group presents these subsidiaries separately.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Lotte Shopping Co., Ltd. and Subsidiaries
December 31, 2015 and 2014

Subsidiaries	December 31, 2014			
	Location	Products or services	Fiscal year	Percentage of ownership (%)
Lotte Card Co., Ltd.	Korea	Credit card, financing	Dec. 31	93.78
eB Card Co., Ltd.	Korea	Electronic banking business	Dec. 31	95.00
Gyeonggi Smartcard Co., Ltd.	Korea	Electronic banking business	Dec. 31	100.00
Inchon Smartcard Co., Ltd.	Korea	Electronic banking business	Dec. 31	100.00
Chungnam Smartcard Co., Ltd.	Korea	Electronic banking business	Dec. 31	100.00
The 4th Supreme (*1)	Korea	SPC	Dec. 31	0.90
The 5th Supreme (*1)	Korea	SPC	Dec. 31	0.90
The 6th Supreme (*1)	Korea	SPC	Dec. 31	0.90
The 7th Supreme (*1)	Korea	SPC	Dec. 31	0.90
PT. Lotte Members Indonesia	Indonesia	Business support service	Dec. 31	100.00
Lotte Members China	China	Business support service	Dec. 31	100.00
Woori Home Shopping & Television Co., Ltd.	Korea	TV Home Shopping	Dec. 31	53.03
Lotte DatViet Homeshopping Co., Ltd.	Vietnam	TV Home Shopping	Dec. 31	85.58
Korea Seven Co., Ltd.	Korea	Distribution	Dec. 31	51.14
Buy the way Inc.	Korea	Distribution	Dec. 31	100.00
NCF Co., Ltd.	Korea	Apparel manufacturing	Dec. 31	98.30
Lotte Gimhae Development Co., Ltd.	Korea	Service company	Dec. 31	100.00
Lotte Suwon Station Shopping Town Co., Ltd.	Korea	Real estate development	Dec. 31	95.00
Lotte Songdo Shopping Town Co., Ltd.	Korea	Real estate development	Dec. 31	56.30
CS Mart Co., Ltd.	Korea	Distribution	Dec. 31	99.95
Lotte Himart Co., Ltd. (*2)	Korea	Consumer electronics	Dec. 31	65.25
Lotte Incheon Town Co., Ltd.	Korea	Real estate lease	Dec. 31	100.00
Lotte Department Store Masan Co., Ltd.	Korea	Distribution	Dec. 31	100.00
Lotte Mart Company Limited	China	Distribution	Dec. 31	100.00
Lotte (China) Management Co., Ltd.	China	Business management	Dec. 31	70.00
Lotte Shopping Holdings (Hong Kong) Co., Limited	Hong Kong	Holding company	Dec. 31	100.00
Qingdao Lotte Mart Commercial Co., Ltd.	China	Distribution	Dec. 31	100.00
Liaoning Lotte Mart Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Mart China Co., Ltd. and its subsidiaries	China	Distribution, real estate development	Dec. 31	100.00
Jilin Lotte Mart Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Mart (Chongqing) Commercial Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Business Management (Tianjin) Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Department Store (Shenyang) Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte International Department Store (Weihai) Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Department Store (Tianjin) Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Department Store (Chengdu) Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Mart (Chengdu) Commercial Company Limited	China	Distribution	Dec. 31	100.00
Lotte Shopping Business Management (Hong Kong) Limited	Hong Kong	SPC	Dec. 31	100.00
LHSC Limited	Cayman island	Holding company	Dec. 31	91.14
Lucky Pai Ltd. and its subsidiaries	China	TV Home Shopping	Dec. 31	100.00
Lotte Properties (Chengdu) HK Limited	Hong Kong	Holding company	Dec. 31	73.46
Lotte Properties (Chengdu) Limited	China	Real estate lease	Dec. 31	100.00
Lotte Vietnam Shopping Co., Ltd.	Vietnam	Distribution	Dec. 31	100.00
...

Subsidiaries	December 31, 2015			
	Location	Products or services	Fiscal year	Percentage of ownership (%)
Lotte Mart 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
Lotte Mart 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.

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

Korean won (millions)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Lotte Shopping Co., Ltd. and Subsidiaries
December 31, 2015 and 2014

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)
LHSC Limited	188,203	5	188,198	-	(4)	(4,138)
Lotte Vietnam Shopping Co., Ltd.	382,772	315,467	67,305	143,261	(7,491)	(5,849)
Lotte Shopping Holdings (Singapore) Pte. Ltd.	333,054	22	333,032	-	1,469	10,645
PT. Lotte Shopping Indonesia	269,896	157,940	111,956	771,908	10,294	12,593
PT. Lotte Mart Indonesia	183,884	165,590	18,294	241,273	(9,542)	(8,821)

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

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

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

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

(f) Non-controlling interests

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

Korean won (millions)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Lotte Shopping Co., Ltd. and Subsidiaries
December 31, 2015 and 2014

Korean won (millions)

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

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

Details of the parent's additional investments in subsidiaries

for the years ended December 31, 2015 and 2014 are summarized as follows:

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

Subsidiaries		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

2. Basis of Accounting

(a) Statement of compliance

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

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

(b) Basis of measurement

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

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

The preparation of the consolidated financial statements in conformity

with K-IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, Income and expenses. Actual results may differ from these estimates.

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

① Information about assumptions and estimation uncertainties

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

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

② 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,

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Including the level in the fair value hierarchy in which such valuations should be classified.

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

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

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

The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred. Further information about the assumptions made in measuring fair values is Included in following notes:

- Note 8: Fair value of financial instruments

3. Changes in Accounting Policies

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

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

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

The nature of the changes are explained below.

① Employee contributions

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

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

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

4. Significant Accounting Policies

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

(a) Operating segment

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

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

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

(b) Basis of consolidation

① 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.

② 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.

③ 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.

④ 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.

⑤ Interests in equity-accounted Investees

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

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies.

A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

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

⑥ 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.

⑦ Acquisitions from entities under common control

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

(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.

① 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.

② 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.

③ 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

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the effective interest method except for loans and receivables of which the effect of discounting is immaterial.

④ 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.

⑤ De-recognition of financial assets

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

⑥ 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.

① Hedge accounting

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

On initial designation of the hedge, the Group formally documents

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

Fair value hedge

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

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

Cash flow hedge

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

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

② 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.

① 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.

② 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.

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

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

(i) Intangible assets

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

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

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

Useful lives and the amortization methods for intangible assets with finite useful lives are reviewed at the end of each reporting period. The useful lives

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

(j) Investment property

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

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

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

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

(k) Non-current assets held for sale

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

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

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

(l) Impairment of non-financial assets

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

there is any indication of impairment, are tested for impairment annually by comparing their recoverable amount to their carrying amount.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets ("CGU"). The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. The value in use is estimated by applying a pre-tax discount rate that reflects 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.

① Finance leases

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

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

The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use on a systematic

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

② 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.

① 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.

② 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

① 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.

② 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.

③ Retirement benefits: defined contribution plans

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

④ 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

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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

① Foreign currency transactions

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

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

translated using the exchange rate at the date of the transaction.

② 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

① Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects. When the Group repurchases its share capital, the amount of the consideration paid is recognized as a deduction from equity and classified as treasury shares. The profits or losses from the purchase, disposal, reissue, or retirement of treasury shares are not recognized as current profit or loss. If the Group acquires and retains treasury shares, the consideration paid or received is directly recognized in equity.

② 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.

① Sales of goods

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

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

② 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.

③ 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.

④ 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.

⑤ 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.

① 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.

② 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

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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) Emission Rights

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

① Greenhouse Gases Emission Right

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

Emission rights held for the purpose of performing the obligation is classified as an intangible asset and is initially measured at cost and are carried at cost less accumulated impairment losses after initial recognition. Emission rights held for short-swing profits are classified as current asset and are measured at fair value with any changes in fair value recognized as profit or loss in the respective reporting period. The Group derecognizes an emission right asset when the emission allowance is unusable, disposed or submitted to government in which the future economic benefits are no longer expected to be probable.

② Emission liability

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

the end of the reporting period.

(y) New standards and interpretations not yet adopted

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

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

K-IFRS 1109 'Financial Instruments'

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

K-IFRS 1115 'Revenue from Contracts with Customers'

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

5. Business Combination

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

① Acquisition of Lotte.com Inc

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

② Acquisition of Lotte PS Net

The Group and Lotte.com Inc held 31.91% and 30.87% of Lotte PS Net, respectively, prior to the Group's obtaining control over Lotte.com Inc in February 2015. As a result of obtaining control over Lotte.com Inc, the Group obtained control over Lotte PS net by holding 62.78% of its capital stock.

③ Acquisition of Lotte Department Store Masan Co., Ltd.

The Group entered into an agreement to acquire department stores (Masan Store And Busan Central Store) from Daewoo International Corporation on September 2, 2014 and the Group consummated the acquisition on June 30, 2015.

The following summarizes major classes of consideration transferred.

Korean won (millions)

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

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

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

Korean won (millions)

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

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

Korean won (millions)

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

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6. Trade and Other Receivables

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

Korean won (millions)

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

7. Restricted Deposits

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

Korean won (millions)

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

8. Fair Value of Financial Instruments

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

Korean won (millions)

		December 31, 2015		December 31, 2014	
		Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	Cash and cash equivalents	₩ 1,751,268	₩ 1,751,268	₩ 1,928,136	₩ 1,928,136
Financial assets at fair value through profit or loss	Short-term financial instruments	60,003	60,003	30,002	30,002
	Derivative assets held for the purpose of trading	-	-	1,201	1,201
	Subtotal	₩ 60,003	₩ 60,003	₩ 31,203	₩ 31,203
...

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

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

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

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

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

Korean won (millions)

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

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

Korean won (millions)

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

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

Korean won (millions)

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

		December 31, 2015		December 31, 2014	
		Carrying amount	Fair value	Carrying amount	Fair value
Derivative liabilities held for the purpose of hedging	Current	₩ 602	₩ 602	₩ 19,672	₩ 19,672
	Non-current	15,345	15,345	61,501	61,501
	Subtotal	₩ 15,947	₩ 15,947	₩ 81,173	₩ 81,173
	Total	₩ 20,362,825	₩ 20,362,825	₩ 19,219,875	₩ 19,219,875

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

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

Korean won (millions)

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

(f) The fair value hierarchy

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

Korean won (millions)

Description	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets	₩ 282,887	₩ 386	₩ 198,034	₩ 481,307
Derivative assets	-	162,387	-	162,387
Total financial assets	₩ 282,887	₩ 162,773	₩ 198,034	₩ 643,694
Oversees convertible bonds	-	113,440	-	113,440
Derivative liabilities	-	15,947	24,608	40,555
Total financial liabilities	-	₩ 129,387	₩ 24,608	₩ 153,995

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

Korean won (millions)

Description	Level 1	Level 2	Level 3	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
Oversees convertible bonds	-	105,325	-	105,325
Derivative liabilities	-	81,173	12,329	93,502
Total financial liabilities	-	₩ 186,498	₩ 12,329	₩ 198,827

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

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

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(g) Level 3 fair values

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

Korean won (millions)

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

(h) Sensitivity analysis

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

① 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	₩ 103,359	₩ (74,647)	₩ 8,177	₩ 50,869

② Stock options (liability-classified)

Korean won (millions)

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

9. Inventories

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

Korean won (millions)

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

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

Korean won (millions)

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

10. Other Non-financial Assets

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

Korean won (millions)

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

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

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11. Non-current assets held for sale

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

Korean won (millions)

	December 31, 2015	December 31, 2014
Tools and equipment (*1)	₩ 447	-

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

12. Investments in Associates

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

Korean won (millions)

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

Company	December 31, 2014			
	Location	Major operation	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	241,347
FRL Korea Co., Ltd.	Korea	Retail	49.00	161,831
Lotte Asset Development Co., Ltd.	Korea	Real estate development	39.14	40,871
Lotte Trading Co., Ltd.	Korea	Product brokerage	27.68	134,725
Lotte Europe Holdings B.V.	Netherlands	Holding company	30.97	11,731
Coralis S.A.	Luxembourg	Holding company	45.00	37,616
Others				119,377
Total				₩ 1,147,086

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

Korean won (millions)

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

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

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

(c) Financial information of significant associates as of and

for the years ended December 31, 2015 and 2014 are summarized as follows:

Korean won (millions)

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

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

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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.

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

Korean won (millions)

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

13. Joint Ventures

(a) When the Group has rights to the net assets of the joint venture entity, the Group classifies the investment in entity as a joint venture.

The details of joint ventures as of December 31, 2015 and 2014 are summarized as follows:

Korean won (millions)

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

Korean won (millions)

Company	December 31, 2015				Balance at December 31, 2014
	Location	Major operation	Ownership (%)		
D-Cinema of Korea Co., Ltd.	Korea	Film equipment	50.00		₩ -
STL Co., Limited	Korea	Retail	50.00		1,335
Shenyang SL Cinema Investment Management Co., Ltd.	China	Cinema	49.00		925
Shandong Luckypai TV Shopping	China	TV Home Shopping	49.00		9,906
Yunnan Maile TV Shopping Media Co., Ltd.	China	TV Home Shopping	49.00		4,225
Chongqing Yujia Co., Ltd.	China	TV Home Shopping	49.00		-
Total					₩ 16,391

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

Korean won (millions)

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

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

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

Korean won (millions)

Company	2015							
	Current asset	Non-current asset	Current liabilities	Non-current liabilities	Sales	Operating income (loss)	Other comprehensive income (loss)	Total comprehensive income (loss)
D-Cinema of Korea Co., Ltd.	₩ 25,784	₩ 9,289	₩ 13,777	₩ 17,845	₩ 22,747	₩ 9,553	-	₩ 6,931
STL Co., Limited	3,436	1,186	2,978	434	13,724	(1,187)	-	(1,458)
Lotte JTB Co.,Ltd	15,500	3,441	23,709	2,965	18,998	(13,551)	-	(15,980)
Shenyang SL Cinema Investment Management Co., Ltd.	884	1,586	513	-	1,454	(37)	35	75
Shandong Luckypai TV Shopping	47,014	3,583	32,252	-	24,086	(310)	-	(260)
Yunnan Maile TV Shopping Media Co., Ltd.	14,528	2,580	10,477	-	29,944	1,315	-	394
Chongqing Yujia Co., Ltd.	1,622	385	32,252	-	38,025	(12,329)	-	(11,418)
International Business Center Company Limited	13,831	54,857	32,701	1,609	23,577	12,664	(1,996)	6,384

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
STL Co., Limited	3,629	1,847	2,432	375	9,904	(1,261)	(47)	(1,384)
Shenyang SL Cinema Investment Management Co., Ltd.	614	1,737	469	-	1,303	(134)	114	88
Shandong Luckypai TV Shopping	43,074	3,716	26,574	-	94,998	3,794	-	2,455
Yunnan Maile TV Shopping Media Co., Ltd.	14,234	2,919	10,426	-	29,309	877	-	623
Chongqing Yujia Co., Ltd.	9,721	1,643	28,564	-	57,862	(12,266)	-	(12,304)

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

Korean won (millions)

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

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

Korean won (millions)

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

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

Korean won (millions)

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

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

	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.

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

Korean won (millions)

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

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

Korean won (millions)

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

15. Investment Property

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

Korean won (millions)

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

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

Korean won (millions)

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

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

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

Korean won (millions)

	2014				Book value as of December 31, 2014
	Book value as of January 1, 2014	Depreciation	Disposals	Others (*)	
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.

(d) Income and expense from investment property

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

Korean won (millions)

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

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

Korean won (millions)

Description	Book value	Fair value
Land and buildings	₩ 520,982	₩ 702,804

16. Goodwill and Intangible Assets**(a) Intangible assets as of December 31, 2015 and 2014 are summarized as follows:**

Korean won (millions)

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

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

Korean won (millions)

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

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

	2014							Book value as of December 31, 2014
	Book value as of January 1, 2014	Acquisition	Business combination	Amortization	Impairment	Disposals	Others (*)	
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.

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

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

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

Korean won (millions)

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

The value in use of each cash-generating unit was determined by discounting its estimated future cash flows. The approach used to determine value in use as of December 31, 2015 was consistent with those used in 2014. The calculation of value in use was based on the following key assumptions:

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

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

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

The recoverable amount was determined based on the value in use. Value in use is estimated by applying 7.74% discount rate and 2.0% terminal growth rate with 5 years, the period for the estimated future cash flows, based on management's business plan.

Terminal growth rate does not exceed the long-term average growth rate in the industry. No impairment loss on goodwill recognized during the year ended December 31, 2015 as recoverable amounts calculated based on the value in use exceeded the carrying value of the cash-generating unit.

The value in use is affected by the key assumptions such as discount rate or terminal growth rate used in discounted cash flow model.

When the discount rate increases by 0.4%, the value in use would be decreased by 8.76%. When the terminal growth rate decreases by 0.4%, the value in use would be decreased by 6.85%.

Management of the Group estimated that the any reasonably possible change in the key assumption on which the recoverable amount could influence on impairment losses of goodwill. For the years ended December 31, 2015 and 2014, the impairment losses and recoverable amounts of the impaired cash-generating units are as follows:

Korean won (millions)

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

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

The details of intangible assets with indefinite estimated useful lives as of December 31, 2015 and 2014 are as follows:

Korean won (millions)

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

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

17. Trade and Other Payables

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

Korean won (millions)

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

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18. Borrowings and Debentures

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

Korean won (millions)

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

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

Korean won (millions)

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

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

Korean won (millions)

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

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

Korean won (millions)

Description	Maturity	Interest rate (%)	December 31, 2015	December 31, 2014
54-2nd placed	Mar. 12, 2015	-	-	₩ 400,000
59-1st placed	Aug. 07, 2015	-	-	350,000
59-2nd placed	Aug. 07, 2017	3.20	230,000	230,000
59-3rd placed	Aug. 07, 2019	3.33	200,000	200,000
60th placed (foreign currency)	Dec. 13, 2015	3M USD Libor+0.68	-	109,920
61th placed	Mar. 21, 2018	3.05	100,000	100,000
62th placed	Jun. 21, 2018	2.80	110,000	110,000
63-1st placed	Jul. 02, 2017	2.79	200,000	200,000
63-2nd placed	Jul. 02, 2019	3.08	200,000	200,000
64-1st placed (foreign currency)	May 25, 2018	3M USD Libor+0.50	175,800	164,880
64-2nd placed (foreign currency)	May 25, 2018	3M USD Libor	117,200	109,920
64-3rd placed (foreign currency)	May 25, 2018	3M USD Libor+0.02	117,200	109,920
65-1st placed	Mar. 03, 2020	2.26	160,000	-
65-2nd placed	Mar. 03, 2022	2.45	240,000	-
66-1st placed	Jun. 23, 2020	2.40	130,000	-
66-2nd placed	Jun. 23, 2022	2.64	50,000	-
66-3rd placed	Jun. 23, 2025	2.98	140,000	-
67-1st placed (foreign currency)	Aug. 17, 2018	3M USD Libor+0.60	175,800	-
67-2nd placed (foreign currency)	Aug. 17, 2018	3M USD Libor+0.02	117,200	-
67-3rd placed (foreign currency)	Aug. 06, 2018	3M USD Libor+0.60	117,200	-
68th placed	Jul. 31, 2020	2.40	110,000	-
1st placed (Global bond)	Apr. 07, 2016	3.88	468,800	439,680
2nd placed (Global bond)	May 09, 2017	3.38	468,800	439,680
USD convertible bonds (*1)	Jul. 05, 2016	-	22,340	20,744
JPY convertible bonds (*1)	Jul. 05, 2016	-	91,100	84,581
Exchangeable bonds (*2)	Jan. 24, 2018	-	321,200	321,200
Korea Seven Co., Ltd.	Jan. 30, 2015	-	-	40,000
Korea Seven Co., Ltd. (foreign currency)	Jan. 30, 2015	-	-	20,243
Korea Seven Co., Ltd. (foreign currency)	Apr. 18, 2016	3M USD Libor+0.50	35,160	32,976
Korea Seven Co., Ltd. (convertible bonds)	May 08, 2018	-	7,920	7,920
Lotte Card Co., Ltd.	Multiple	1.87~3.86	5,264,040	4,641,932
CS Mart Co., Ltd.	Oct. 29, 2015	-	-	13,802
Lotte Himart Co., Ltd.	Multiple	2.90~3.04	620,000	600,000
Lotte Himart Co., Ltd. (foreign currency)	Mar. 29, 2016	3M USD Libor+0.50	35,160	32,976
LSBM	Feb. 09, 2015	-	-	132,923
Subtotal			₩ 10,024,920	₩ 9,113,297
Less: Discount on debentures			(36,467)	(52,486)
Less: Exchange rights adjustment			(18,874)	(28,404)
Total book value			₩ 9,969,579	₩ 9,032,407
Less: Current portion of debentures, net of discount			(2,009,679)	(2,245,111)
Total			₩ 7,959,900	₩ 6,787,296

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

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

(b) Total face value of bonds:

USD Bonds: 19,200,000

JPY Bonds: 9,560,000,000

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

(c) Exchange Rate

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

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

(d) Bond interest rate

Coupon rate (%): -

Yield to maturity (%):

- (overseas convertible bonds without guarantee in U.S. dollars)

(0.25) (overseas convertible bonds without guarantee in Japanese yen)

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

(f) Principal redemption method:

① 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.

② 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);

① If any change of control occurs in the company; or

② 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:

① 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;

② 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

③ Any additional tax burden arises due to the amendments of the related laws and regulations.

(i) Matters relating to conversion:

① Conversion ratio (%): 100

② Conversion price (KRW per share) (*): 647,979

③ 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

④ Type of shares to be issued following conversion:

Registered common shares

⑤ Period to apply for conversion:

Start date: July 5, 2012

End date: 7 business days prior to the maturity date

⑥ Matters for the adjustment of conversion price:

In the case where a condition for re-adjustment of the conversion price has occurred, such as share dilution, the conversion price will be adjusted in accordance with the provisions in the relevant bonds purchase agreement.

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

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

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

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

(c) Bond interest rate

Coupon rate (%): -

Yield to maturity (%): -

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

(e) Principal redemption method:

① 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.

② 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);

① If any change of control occurs in the Lotte Himart; or

② 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:

① 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;

② 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

③ Any additional tax burden arises due to the amendments of the related laws and regulations.

(h) Matters relating to exchange:

① Exchange ratio (%): 100

② Exchange price (KRW per share): 90,780

③ Type of shares to be issued following exchange: Common shares of Lotte Himart Co., Ltd.

④ Period to apply for exchange:

Start date: March 5, 2013

End date: January 15, 2018

⑤ 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, 2015 are scheduled as follows:

Korean won (millions)

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

19. Unearned Revenues

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

Korean won (millions)

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

20. Provisions

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

Korean won (millions)

	2015			
	Beginning balance	Increase	Utilization	Balance as of December 31, 2015
Current:				
Provision for bonus points reward program	₩ 24,443	₩ 74,389	₩ (70,870)	₩ 27,962
Provision for bonus payable	9,896	49,206	(50,577)	8,525
Provision for sales return	9,186	9,242	(9,405)	9,023
Other provisions (*1)	11,388	62,415	(58,954)	14,849
Subtotal	₩ 54,913	₩ 195,252	₩ (189,806)	₩ 60,359
Non-current:				
Provision for unused credit card limits (*2)	25,546	1,745	-	27,291
Other provisions	1,257	4,352	(442)	5,167
Subtotal	₩ 26,803	₩ 6,097	₩ (442)	₩ 32,458
Total	₩ 81,716	₩ 201,349	₩ (190,248)	₩ 92,817

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

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

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

Korean won (millions)

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

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

21. Other Non-financial Liabilities

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

Korean won (millions)

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

22. Employee Benefits

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

Korean won (millions)

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

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

Korean won (millions)

	December 31, 2015	December 31, 2014
Present value of other long-term employee benefits	₩ 43,222	₩ 42,286

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

Korean won (millions)

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

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

Korean won (millions)

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

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

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

Korean won (millions)

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

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

Korean won (millions)

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

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

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

(h) Sensitivity analysis

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

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

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

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

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

23. Derivative Instruments and Hedge Accounting

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

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

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

Korean won (millions)

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

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

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

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.

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However, if the holders of preferred shares do not receive the minimum dividends as prescribed, the prescribed conversion date will be extended to the time when all such minimum dividend amount is paid to the holders of preferred shares.

As of December 31, 2015, the Company has not issued any preferred stock and 31,490,892 shares of common stock were issued and outstanding as of December 31, 2015.

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

Korean won (millions)

	December 31, 2015	December 31, 2014
Additional paid-in capital	₩ 3,786,431	₩ 3,786,431
Others	124,321	124,321
	₩ 3,910,752	₩ 3,910,752

25. Hybrid Securities Classified as Equity

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

Korean won (millions)

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

(*) Details of hybrid securities are as follows:

Korean won (millions)

	Hybrid security 1-1	Hybrid security 1-2
Issue price	₩ 240,000	₩ 300,000
Maturity date	30 years (The Company has the unconditional right to extend the maturity date)	
Interest rate	Issue date ~ November 15, 2018: 4.723%, reset every 5 years as follows: After 5 years: treasury rate (5 years) + 1.5% After 10 years: additionally +1% according to Step-up clauses	
Interest payments condition	February 15, May 15, August 15 and November 15 of each calendar year (Conditional deferral of interest payments is available to the Company)	March 30, June 30, September 30, December 30 of each calendar year (Conditional deferral of interest payments is available to the Company)
Others	The Group can call the hybrid security at year 5 and interest payment date afterwards. The hybrid security holder's preference in the event of liquidation is the same as the preference stock holders; higher than the common stock holders but lower than other creditors.	

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

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

27. Retained Earnings

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

Korean won (millions)

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

28. Accumulated Other Comprehensive Income

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

Korean won (millions)

	2015			
	Beginning balance	Changes for the year	Tax effects for the year	Balance as of December 31, 2015
Net change in unrealized fair value of available for-sale financial assets	₩ 145,678	₩ (76,939)	₩ 21,959	₩ 90,698
Exchange rate differences on translating foreign operations	(70,788)	38,458	(55)	(32,385)
Effective portion of unrealized changes in fair values of cash flow hedges	(10,950)	(3,050)	1,736	(12,264)
Change in equity of equity method investments	42,896	12,131	(5,574)	49,453
Total	₩ 106,836	₩ (29,400)	₩ 18,066	₩ 95,502

	2014			
	Beginning balance	Changes for the year	Tax effects for the year	Balance as of December 31, 2015
Net change in unrealized fair value of available for-sale financial assets	₩ 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

29. Earnings per Share

(a) Basic earnings per share

① Basic earnings per share for the years ended December 31, 2015 and 2014 are as follows:

Korean won (millions, except per share amount)

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

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② Weighted average number of ordinary shares

Number of shares

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

(b) Diluted earnings per share

① Diluted earnings per share for the years ended December 31, 2015 and 2014 are as follows:

Korean won (millions, except per share amount)

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

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

② Diluted weighted average number of ordinary shares

Number of shares

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

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

③ Potential ordinary shares from conversion of convertible bonds as of December 31, 2015 are as follows:

Korean won (millions, except for conversion price)

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

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

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

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

Korean won (millions)

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

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

Korean won (millions)

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

31. Selling, General and Administrative Expenses:

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

Korean won (millions)

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

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32. Other Income and expenses

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

Korean won (millions)

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

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

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

33. Nature of Expenses

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

Korean won (millions)

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

34. Finance Income and Finance Costs

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

Korean won (millions)

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

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

Korean won (millions)

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

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

Korean won (millions)

	2014						
	Cash and cash equivalents	Loans and receivables	Available-for-sale financial assets	Financial assets and liabilities at fair value through profit or loss	Derivative assets and liabilities held for the purpose of hedging	Financial liabilities based on amortized cost	Total
Recognized in profit or loss :							
Interest Income	₩ 51,308	₩ 760,466	₩ 692	₩ 93	-	-	₩ 812,559
Interest expense	-	-	-	-	-	(432,121)	(432,121)
Dividend Income	-	-	4,616	-	-	-	4,616
Valuation / Disposal	-	28,024	31,490	8,687	50,615	-	118,816
Impairment	(68)	(206,478)	(1,529)	-	-	-	(208,075)
Gain (loss) on foreign currency translation/transactions	846	(1,218)	-	-	-	(56,509)	(56,881)
Commission revenue	-	744,393	-	-	-	-	744,393
Others	-	(692,074)	-	17,267	21,248	-	(653,559)
Subtotal	₩ 52,086	₩ 633,113	₩ 35,269	₩ 26,047	₩ 71,863	₩ (488,630)	₩ 329,748
...

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 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	₩ 633,113	₩ 166,732	₩ 26,047	₩ 51,520	₩ (488,630)	₩ 440,868

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

35. Income Taxes

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

Korean won (millions)

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

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

Korean won (millions)

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

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

Korean won (millions)

	2015	2014
Profit before Income tax	₩ (79,764)	₩ 1,077,996
Tax rates (%)	23.60%	24.11%
Income tax using statutory tax rates	(18,827)	259,899
...

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

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

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

Korean won (millions)

	2015			
	Beginning balance	Profit or loss	Other comprehensive Income	Balance as of December 31, 2015
Impairment loss on available-for-sale financial assets	₩ 1,969	₩ 3,790	-	₩ 5,759
Buildings	(13,458)	(419)	-	(13,877)
Depreciation expense	42,624	3,838	-	46,462
Allowance for doubtful accounts	2,586	(29)	-	2,557
Accrued revenues	(1,404)	24	-	(1,380)
Unearned revenues	30,553	(16,103)	-	14,450
Non-current prepaid expenses	(40,445)	443	-	(40,002)
Losses on valuation of inventories	2,563	2,607	-	5,170
Provision for sales return	2,296	(110)	-	2,186
Property, plant and equipment (capitalization of borrowing costs)	(10,293)	510	-	(9,783)
Land	32,548	-	-	32,548
Land (asset revaluation)	(1,022,505)	851	-	(1,021,654)
Provision for mileage program	18,652	(4,256)	-	14,396
Accrued expense	24,082	70	-	24,152
Gain (loss) on foreign currency translation	5,201	(3,370)	-	1,831
Gain (loss) on valuation of convertible bonds	(891)	441	-	(450)
Construction-in-progress	1,707	(56)	-	1,651
Other intangible assets	(52,072)	1,051	-	(51,021)
Rental guarantee deposits	12,744	(312)	-	12,432
Goodwill	(72,574)	21,587	-	(50,987)
Exchangeable debenture	(6,874)	2,168	-	(4,706)
Other capital surplus	62,270	-	-	62,270
Investments in subsidiaries and associates	(290,708)	(37,058)	(5,127)	(332,893)
Loss (gain) on valuation of available-for-sale financial assets	(102,175)	-	27,502	(74,673)
Loss (gain) on valuation of derivatives	15,446	(180)	1,695	16,961
Salaries and retirement benefits	18,756	(3,074)	5,000	20,682
Translation difference of foreign subsidiaries	2,485	-	(55)	2,430
Others	18,428	11,133	-	29,561
Total	₩ (1,318,489)	₩ (16,454)	₩ 29,015	₩ (1,305,928)

	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)

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

Korean won (millions)

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

36. Consolidated statements of cash flows

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

Korean won (millions)

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

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37. Operating Leases

(a) Lessee

The Group has entered into the operating leases for buildings, furniture and fixtures and vehicles.

Future lease payments under operating leases of land and buildings as of December 31, 2015 and 2014 are as follows:

Korean won (millions)

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

In lieu of rent, certain agreements require the Group to advance a non-interest bearing refundable security deposit to the landlord for the Group's use during the lease term. The amount of the advance is determined by the prevailing market rate. The Group has recorded rent expense and interest income related to these leases of ₩ 41,380 million and ₩ 45,316 million during 2015 and ₩ 41,046 million and ₩ 45,121 million during 2014, respectively. The related deposit balances amount to ₩ 1,827,999 million and ₩ 1,765,251 million as of December 31, 2015 and 2014 respectively. Such amounts were measured using the fixed interest rate for time deposits with similar maturities.

(b) Lessor

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

Korean won (millions)

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

38. Greenhouse Gases Emission Rights

(a) Emission Right

The Group participates in the allocation and trading system of emissions. The commitment period is from 2015 to 2017.

The emissions were allocated to each compliance year as follows:

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

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

(b) Emission liability

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

39. Operating Segments and Geographic Information

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

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

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

Korean won (millions)

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

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

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

Korean won (millions)

	2015	
	Sales	Profit for the year
Department stores	₩ 8,032,532	₩ 447,010
Discount stores	8,323,692	(470,282)
Finance business	1,789,948	119,811
Consumer electronics retail	3,896,137	106,595
Convenience stores	3,314,814	(44,153)
Others	4,328,135	(1,153,696)
Segment totals	₩ 29,685,258	₩ (994,715)
Elimination of inter-segment amounts	₩ (557,603)	₩ 649,214
After consolidated adjustments	₩ 29,127,655	₩ (345,501)

	2014	
	Sales	Profit for the year
Department stores	₩ 8,043,745	₩ 686,698
Discount stores	8,208,957	(215,721)
Finance business	1,760,811	147,390
Consumer electronics retail	3,754,295	96,438
Convenience stores	2,685,505	26,355
Others	4,027,510	(384,629)
Segment totals	₩ 28,480,823	₩ 356,531
Elimination of inter-segment amounts	₩ (381,256)	₩ 259,193
After consolidated adjustments	₩ 28,099,567	₩ 615,724

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

Korean won (millions)

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

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

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

Korean won (millions)

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

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

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

Korean won (millions)

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

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

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

Korean won (millions)

	December 31, 2015						
	Department stores	Discount stores	Finance business	Consumer electronics retail	Convenience stores	Others (*)	Total
Sales of merchandise	₩ 6,929,852	₩ 7,753,894	₩ 3,894	₩ 3,880,911	₩ 3,102,471	₩ 2,524,188	₩ 24,195,210
Sales of products	-	-	-	-	-	54,982	54,982
Financial Income	-	-	1,697,784	-	-	-	1,697,784
Commissions	-	-	-	-	211,905	774,906	986,811
Rental Income	507,444	170,590	-	1,403	438	57,759	737,634
Others	595,236	399,208	88,270	13,823	-	916,300	2,012,837
Total segment sales	₩ 8,032,532	₩ 8,323,692	₩ 1,789,948	₩ 3,896,137	₩ 3,314,814	₩ 4,328,135	₩ 29,685,258

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	December 31, 2014						Total
	Department stores	Discount stores	Finance business	Consumer electronics retail	Convenience stores	Others (*)	
Sales of merchandise	₩ 7,123,132	₩ 7,640,011	₩ 4,708	₩ 3,738,940	₩ 2,455,330	₩ 2,512,242	₩ 23,474,363
Sales of products	-	-	-	-	-	89,082	89,082
Financial Income	-	-	1,675,891	-	-	-	1,675,891
Commissions	-	-	-	-	229,490	747,231	976,721
Rental Income	855,533	204,306	-	2,098	685	14,221	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	₩ 2,685,505	₩ 4,027,510	₩ 28,480,823

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

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

40. Contingent Liabilities and Financial Commitments

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

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

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

Company	Contractor	Description of contract
Lotte Shopping Co., Ltd.	Lotte Station Building Co., Ltd.	Providing management services
Lotte Card Co., Ltd.	American Express Company, Master Card International, Visa International, JCB International and UnionPay International	Commissions based on credit card transaction amount
...

Company	Contractor	Description of contract
Woori Home Shopping & Television Co., Ltd.	Lotte Capital Co., Ltd.	Contract of operating leases
	Lotte Rental Co., Ltd.	Contract of operating leases
	Shinhan Card	
	Lotte Card Co., Ltd.	Issuing credit cards
	BC Card Co., Ltd.	
	Lotte Logistics Corp.	Logistics services
	Hyundai Logistics Co., Ltd.	
	CJ Korea Express Corporation	
	Hanjin Transportation Co., Ltd.	
Korea Seven Co., Ltd.	Cable TV Operators	Providing broadcast programs
	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.	7-Eleven, Inc.	Using the registered trademark and operating know-how
	Ktoto. Co., Ltd.	Renewal guarantees of payments for goods every year

(c) As of December 31, 2015, the Group is the plaintiff in various lawsuits with damage claims totaling ₩ 66,213 million and the Group is the defendant in various lawsuits with damage claims totaling ₩ 123,471 million, among which ₩ 35,462 million is related to a claim against Lotte Card Co., Ltd., a subsidiary of the Company, related to personal data leaks. The Group cannot reliably estimate the impacts from lawsuit results related to personal data leaks and recognized other provision of ₩ 4,093 million in regard to the claim. The management believes that the ultimate resolutions of other legal action except 90 lawsuits recognized as an other provision of ₩ 4,734 million will not have a material effect of the financial position or results of operations of the Group.

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

(e) The Company has the right to purchase 5.1% of the Hyundai Logistics Co., Ltd. shares held by IGIS I Corporation and in the event the Company does not exercise the call option, IGIS I Corporation has the right to require the Company to purchase 5.1% of Hyundai Logistics Co., Ltd. shares held by IGIS I Corporation. In connection with IGIS I Corporation's borrowings, all IGIS I Corporation shares (₩ 5,477 million of book value) held by the Company have been in pledge in Mizuho Corporate Bank.

(f) The Group disposed of land and buildings to structured entities and the Group has been leasing the assets. The details are as follows:

- ① The Company disposed of land and buildings of 3 stores Including Lotte mart Jeju store to KTB Confidence Private Real Estate Investment Trust for ₩ 220 billion in 2008 and the Company has been leasing the assets. The Company has the options to purchase the assets at a fair value at the end of the lease.
- ② 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.
- ③ The Company has been leasing the building of Lotte outlet esiapolis store from KB Star Retail Private Real Estate Investment Trust since 2013 and the Company has the preferential right of negotiation to purchase the building.
- ④ In 2014, the Company disposed of land and buildings of 2 Lotte department stores Including Ilsan store and 5 Lotte mart stores Including Bupyeong store to KTB Confidence Private Real Estate Investment Trust for ₩ 602 billion and the Company has been leasing the assets. The Company disposed of land and buildings of 2 Lotte department stores Including Dongnae store and 3 Lotte mart stores Including Sungjung store to Capstone Private Real Estate Investment Trust for ₩ 500 billion and the Company has been leasing the assets. The Company has the preferential right of negotiation to purchase the assets at the end of the lease.
- ⑤ In 2015, the Company disposed of land and buildings of Lotte outlets store Gwangmyeong to KTB Confidence Private Real Estate Investment Trust for ₩ 147 billion and the Company has been leasing the assets. And the Company disposed of land and buildings of Lotte mart Yangdeok to KB Lotte Master Lease Private Real Estate Investment Trust for ₩ 55 billion and the Company has been leasing the assets. The Company has the preferential right of negotiation to purchase the assets at the end of the lease. The Group does not consolidate these structured entities.

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41. Inter-company Transactions and Balances with Consolidated Companies

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

Consolidated company	Provided by	Guarantee recipient	2015	
			Type of borrowings	Guaranteed amount (thousands)
Lotte Properties (Chengdu) HK Limited	Lotte Shopping Co., Ltd.	Korea Exchange Bank	Working capital	USD 140,000
		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
		ING		USD 120,214
		Shinhan Bank		HKD 8,000
		HSBC		USD 95,298
PT. Lotte Shopping Avenue Indonesia	Lotte Shopping Co., Ltd.	DBS	Working capital	USD 20,000
		JP Morgan		IDR 200,000,000
Lotte Business Management (Tianjin) Co., Ltd.	Lotte Shopping Co., Ltd.	DBS	Working capital	CNY 200,000
Lotte Department Store (Tianjin) Co., Ltd.	Lotte Shopping Co., Ltd.	DBS	Working capital	CNY 110,000
Lucky Pai (Shanghai) Trading Co., Ltd.	Lotte Shopping Co., Ltd. and Woori Home Shopping & Television Co., Ltd.	Shinhan Bank	Working capital	CNY 46,000
				CNY 14,000
		KEB Hana Bank		CNY 57,000
				CNY 58,000
				CNY 39,900
				CNY 20,100

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

42. Transactions and Balances with Related Companies

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

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

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

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

Korean won (millions)

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

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

Korean won (millions)

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

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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.

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

Korean won (millions)

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

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

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

Korean won (millions)

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

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

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

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

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

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

(h) The Group entered into an agreement to jointly provide financial support for HND able 2nd limited ("HND able") and Invest Farmland Co., Ltd. in default of the principal and interest on the Asset Backed Commercial Paper ("ABCP", ₩ 700,000 million of par value in maturing in 57 months) issued by HND able on May 27, 2013, which is collateralized with the assets of Lotte Incheon Development Co., Ltd. and on the electronics a short-term debenture (₩ 34,000 million of par value in maturing in 14 months) issued by Lotte Incheon Town Co., Ltd on October 26, 2015.

(i) In 2015, Lotte Incheon Town Co., Ltd., which is the Group's associate, entered into a land sale and purchase contract with the government of Incheon city. As a result of the contract, the Group collected a security deposit of ₩ 30,600 million, which was previously paid by the Group to the Incheon city from Lotte Incheon Town Co., Ltd.

(j) In 2013, the Group issued hybrid securities, among which ₩ 20,000 million is held by Lotte Non-Life Insurance Co., Ltd.

43. Risk Management

(a) Management of financial risks

Objectives and Policies of the Group

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

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

Credit Risk

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

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

① Exposure to credit risk

The book value of a financial asset represents the maximum exposure to credit risk.

The maximum exposures to credit risk as of December 31, 2015 and 2014 are as follows:

Korean won (millions)

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

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

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

② Impairment loss

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

Korean won (millions)

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

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

Korean won (millions)

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.

③ Allowance for doubtful trade and other receivables

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

Korean won (millions)

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

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

Korean won (millions)

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

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

Korean won (millions)

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

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

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

⑤ Guarantees

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

Liquidity Risks

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

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

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

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

Korean won (millions)

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

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

Market Risks

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

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

① Currency risk

The Group is exposed to currency risk on borrowings and debentures that are denominated in a currency other than the respective functional currencies of the Group. Currencies that generate exchange positions Include USD, JPY and others. The objective of exchange risk management is to continue stable financial activities by minimizing uncertainty and profit and loss fluctuations. Foreign currency trade for speculation is strictly prohibited. The Group enters into currency swap transactions with financial institutions to hedge currency risks of foreign currency denominated borrowings and debentures. When the Group needs foreign currencies, the Group enters into a forward exchange contract with major financial institutions to avoid the risks of exchange rate fluctuations.

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

Korean won (millions)

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

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

Korean won (millions)

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

The Group regularly measures exchange risks on Korean won against foreign currency fluctuations. The Group assumes that foreign currency exchange rates fluctuate 10% at the end of reporting period, and others variables are not changed. Sensitivity analysis of Income before taxes from changes of foreign currency exchange rate as of December 31, 2015 and 2014 are summarized as follows:

Korean won (millions)

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

Borrowings and debentures with currency swaps and overseas convertible bonds designated as financial liabilities at fair value through profit or loss are not Included. The sensitivity analysis above is related to the monetary assets and liabilities, denominated in a currency other than the Group's functional currency, as of December 31, 2015 and 2014 of the Group entities in Korea.

② Interest rate risk

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

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

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

Korean won (millions)

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

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

Korean won (millions)

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

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

③ Price risk

The Group is exposed to fluctuations of price in available-for-sale financial assets.

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

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

Korean won (millions)

	December 31, 2015		December 31, 2014	
	10% Increase	10% decrease	10% Increase	10% decrease
Other comprehensive Income	₩ 28,289	₩ (28,289)	₩ 39,001	₩ (39,001)

(b) Capital Management

The objective of the Group's capital management is maximizing shareholders' profit through maintaining a sound capital structure.

The Group makes necessary improvements to the capital structure through monthly monitoring of financial ratios such as liabilities to equity ratios and net borrowings to equity ratios in order to achieve an optimal capital structure.

The liabilities to equity ratios and net borrowings to equity ratios as of December 31, 2015 and 2014 are as follows:

Korean won (millions)

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

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

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