

서식 있음: 글꼴: (한글) + 본문  
한글

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Consolidated Financial Statements

**December 31, 2012 and 2011**

(With Independent Auditors' Report Thereon)

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## Independent Auditors' Report

Based on a report originally issued in Korean

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

We have audited the accompanying consolidated statements of financial position of Lotte Shopping Co., Ltd. and its subsidiaries (the "Group") as of December 31, 2012 and 2011 and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended. Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Korean International Financial Reporting Standards. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of certain subsidiaries, whose financial statements represent 12.90%, 7.11% of the consolidated total assets as of December 31, 2012 and 2011 and 21.86% and 18.46% of the consolidated total sales for the years then ended, respectively. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for those companies, is based solely on the reports of the other auditors.

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

In our opinion, based on our audits and other auditors' reports, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Group as of December 31, 2012 and 2011 and its financial performance and its cash flows for the years then ended, in accordance with Korean International Financial Reporting Standards.

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

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

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

KPMG Samjong Accounting Corp.  
Seoul, Korea  
March 11, 2013

This report is effective as of March 11, 2013, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

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

As of December 31, 2012 and 2011

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

See accompanying notes to the consolidated financial statements.

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

As of December 31, 2012 and 2011

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

See accompanying notes to the consolidated financial statements.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES  
Consolidated Statements of Comprehensive Income

For the years ended December 31, 2012 and 2011

	Notes	Korean won (millions, except for earnings per share)	
		2012	2011 (Restated)
Sales	25,33,36	₩ 25,043,680	22,253,088
Cost of sales	25,28,33,36	(17,415,492)	(15,377,427)
<b>Gross profit</b>		<u>7,628,188</u>	<u>6,875,661</u>
Selling, general and administrative expenses	26,28	(6,160,720)	(5,180,763)
<b>Operating income</b>		<u>1,467,468</u>	<u>1,694,898</u>
Other income	27	65,509	58,913
Other expense	27	(91,018)	(90,910)
Finance income	29	441,002	257,265
Finance cost	29	(322,210)	(426,658)
Equity method income of investments in associates	10	69,929	61,733
<b>Profit before income tax</b>		<u>1,630,680</u>	<u>1,555,241</u>
Income tax expense	30	(473,042)	(542,641)
<b>Profit for the year</b>		<u>1,157,638</u>	<u>1,012,600</u>
<b>Other comprehensive income:</b>	23		
Net change in unrealized fair value of available-for-sale financial assets		26,732	11,929
Exchange differences on translating foreign operations		(102,374)	39,151
Effective portion of net changes in unrealized fair value of cash flow hedges		3,950	25,460
Defined benefit plan actuarial losses		(42,035)	(10,993)
Net change in equity of equity method investments		6,892	(49,393)
Tax effects	30	1,906	(16,170)
<b>Other comprehensive loss for the year, net of tax</b>		<u>(104,929)</u>	<u>(16)</u>
<b>Total comprehensive income for the year</b>		<u>1,052,709</u>	<u>1,012,584</u>
<b>Profit attributable to:</b>			
- Owners of the Company		1,080,261	931,815
- Non-controlling interests		77,377	80,785
		<u>1,157,638</u>	<u>1,012,600</u>
<b>Total comprehensive income attributable to:</b>			
- Owners of the Company		974,166	916,316
- Non-controlling interests		78,543	96,268
		<u>1,052,709</u>	<u>1,012,584</u>
<b>Earnings per share in won</b>			
- Basic and diluted earnings per share	24	₩ <u>37,195</u>	<u>32,084</u>

See accompanying notes to the consolidated financial statements.

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

For the years ended December 31, 2012 and 2011

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

See accompanying notes to the consolidated financial statements.

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

For the years ended December 31, 2012 and 2011

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

See accompanying notes to the consolidated financial statements

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

For the years ended December 31, 2012 and 2011

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

See accompanying notes to the consolidated financial statements.

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

For the years ended December 31, 2012 and 2011

		Korean won (millions)	
		2012	2011
<b>Cash flows from investing activities</b>			
Proceeds from sale of financial assets	₩	747,437	604,560
Collection of loans		17,138	40,231
Proceeds from sale of available-for-sale financial assets		63,639	77,235
Proceeds from sale of investments in associates		10,817	2,166
Proceeds from disposal of property, plant and equipment		58,161	141,074
Proceeds from disposal of intangible assets		49,061	1,042
Decrease of other non-financial assets		6,398	4,672
Purchase of short-term financial assets		(718,577)	(903,838)
Increase of loans		(26,462)	(19,149)
Purchase of available-for-sale financial assets		(53,915)	(30,324)
Purchase of investments in associates		(64,037)	(63,735)
Acquisition of property, plant and equipment		(1,778,530)	(1,592,148)
Acquisition of investment properties		-	(3,350)
Acquisition of intangible assets		(107,898)	(82,026)
Acquisition of other investments		(1,939)	(10,331)
Business combination, net of cash acquired		(1,431,660)	-
Interest received		79,106	64,462
Dividends received		77,618	12,895
<b>Net cash used in investing activities</b>	₩	<b>(3,073,643)</b>	<b>(1,756,564)</b>

See accompanying notes to the consolidated financial statements.

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

For the years ended December 31, 2012 and 2011

		Korean won (millions)	
		2012	2011
<b>Cash flows from financing activities</b>			
Proceeds from borrowings	₩	5,490,052	7,104,970
Proceeds from issuance of debentures		2,873,351	3,495,255
Capital contribution from non-controlling interests		61,921	89,258
Cash inflows from other financing activities		155	-
Repayment of borrowings		(5,226,349)	(7,827,431)
Redemption of debentures		(1,799,535)	(1,024,169)
Acquisition of interest in subsidiaries		(28,367)	(19,699)
Interest paid		(155,563)	(168,033)
Dividends paid		(54,113)	(53,642)
Cash outflows from other financing activities		-	(1,123)
<b>Net cash provided by financing activities</b>	₩	<u>1,161,552</u>	<u>1,595,386</u>
<b>Net increase (decrease) in cash and cash equivalents</b>		(1,008,116)	709,820
<b>Cash and cash equivalents at beginning of the year</b>		1,958,204	1,242,426
<b>Impact of foreign currency exchange rates on cash and cash equivalents</b>		(231)	(137)
<b>Exchange differences on translating foreign operations</b>		<u>(15,860)</u>	<u>6,095</u>
<b>Cash and cash equivalents at end of the year</b>	₩	<u><u>933,997</u></u>	<u><u>1,958,204</u></u>

See accompanying notes to the consolidated financial statements.

## LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

December 31, 2012 and 2011

#### 1. General Description of Reporting Entity

##### (a) Organization and Description of the Company

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

The stockholders of the Company as of December 31, 2012 are as follows:

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

##### (b) Description of Subsidiaries

The consolidated financial statements of the Company comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities") and the Group's interest in associates and jointly controlled entities. A summary of the subsidiaries of the Company as of December 31, 2012 and 2011 is as follows:

Subsidiaries	December 31, 2012			
	Location	Products or services	Fiscal year	Percentage of ownership (%)
Lotte Midopa Co., Ltd.	Korea	Distribution	Dec. 31	79.01
Lotte Card Co., Ltd.	Korea	Credit card, capital	Dec. 31	92.54
eB Card Co., Ltd.	Korea	Electronic banking business	Dec. 31	95.00
Gyeonggi Smartcard Co., Ltd.	Korea	Electronic banking business	Dec. 31	100.00
Inchon Smartcard Co., Ltd.	Korea	Electronic banking business	Dec. 31	100.00
Chungnam Smartcard Co., Ltd.	Korea	Electronic banking business	Dec. 31	100.00
Woori Home Shopping & Television Co., Ltd.	Korea	Distribution	Dec. 31	53.03

## LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

December 31, 2012 and 2011

#### 1. General Description of the Parent Group, Continued

##### (b) Description of Subsidiaries, Continued

Subsidiaries	December 31, 2012			
	Location	Products or services	Fiscal year	Percentage of ownership (%)
Korea Seven Co., Ltd.	Korea	Distribution	Dec. 31	51.14
Buy the way Inc.	Korea	Distribution	Dec. 31	100.00
Lotte Boulangerie Co., Ltd.	Korea	Bakery	Dec. 31	90.54
NCF Co., Ltd.	Korea	Apparel manufacturing	Dec. 31	94.50
Lotte Gimhae Development Co., Ltd.	Korea	Service company	Dec. 31	100.00
Lotte Suwon Station Shopping Town Co., Ltd.	Korea	Real estate development	Dec. 31	95.00
Lotte Songdo Shopping Town Co., Ltd.	Korea	Real estate development	Dec. 31	58.82
CS Mart Co., Ltd.	Korea	Distribution	Dec. 31	99.94
LOTTE Himart Co., Ltd.	Korea	Consumer electronics	Dec. 31	65.25
Himart Logitech Co., Ltd.	Korea	Freight transport agency	Dec. 31	100.00
Himart Shopping Mall Co., Ltd.	Korea	Electronic commerce	Dec. 31	100.00
Lotte Vietnam Shopping Co., Ltd.	Vietnam	Distribution	Dec. 31	100.00
Qingdao Lotte Mart Commercial Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Mart Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Shopping Holdings (Singapore) Co., Ltd.	Singapore	Holding company	Dec. 31	100.00
PT. Lotte Shopping Indonesia	Indonesia	Distribution	Dec. 31	80.00
PT. Lotte Mart Indonesia	Indonesia	Distribution	Dec. 31	100.00
Lotte Shopping India Pvt., Ltd.	India	Distribution	Dec. 31	100.00
Lotte Hotel & Retail Vietnam Pte. Ltd.	Singapore	Holding company	Dec. 31	60.00
Kotobuki Holding (HK) Ltd.	Vietnam	Holding company	Dec. 31	100.00
Hai Thanh - Kotobuki Joint Venture Company	Vietnam	Hotel	Dec. 31	70.00
Lotte Shopping Holdings (Hong Kong) Co., Ltd.	Hong Kong	Holding company	Dec. 31	100.00
Lotte Mart China Co., Ltd. and its subsidiaries	China	Distribution	Dec. 31	100.00
Lotte Home Shopping Company Limited	Cayman	Holding company	Dec. 31	89.91
Lucky Pai Ltd. and its subsidiaries	China	Distribution	Dec. 31	89.21
Lotte Business Management (Tianjin) Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Mart Global Sourcing Center Co., Ltd.	China	Trading company	Dec. 31	100.00
Liaoning Lotte Mart Co., Ltd.	China	Distribution	Dec. 31	100.00

## LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

December 31, 2012 and 2011

#### 1. General Description of the Parent Group, Continued

##### (b) Description of Subsidiaries, Continued

Subsidiaries	Location	December 31, 2012		
		Products or services	Fiscal year	Percentage of ownership (%)
Lotte Cinema Vietnam Co., Ltd.	Vietnam	Cinema	Dec. 31	90.00
Jilin Lotte Mart Co., Ltd.	China	Distribution	Dec. 31	100.00
LOTTE SHOPPING Avenue INDONESIA (Formerly PT. Lotte Shopping Plaza Indonesia)	Indonesia	Distribution	Dec. 31	100.00
Lotte Department Store (Shenyang) Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte International Department Store (Weihai) Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte DatViet Homeshopping Co., Ltd.	Vietnam	Distribution	Dec. 31	86.17
Lottemart Danang Co., Ltd.	Vietnam	Distribution	Dec. 31	100.00
Lotte Department Store (Tianjin) Co., Ltd.	China	Distribution	Dec. 31	100.00
Lottemart C&C India Pvt. Ltd.	India	Distribution	Dec. 31	100.00
Lotte Shopping Business Management (Hong Kong) Limited	Hong Kong	SPC	Dec. 31	100.00
LOTTE PROPERTIES (CHENGDU) HK LIMITED	Hong Kong	Holding company	Dec. 31	73.46
Lotte Properties (Chengdu) Limited	China	Distribution Business management	Dec. 31	100.00
Lotte (China) Management Co.,Ltd.	China		Dec. 31	70.00
LOTTE DEPARTMENT STORE (CHENGDU) CO., LTD	China	Distribution	Dec. 31	100.00
Lottemart(ChongQing) Commercial Company Limited	China	Distribution	Dec. 31	100.00
The 2nd Supreme (*1)	Korea	SPC	Dec. 31	0.90
The 3rd Supreme (*1)	Korea	SPC	Dec. 31	0.90
The 4th Supreme (*1)	Korea	SPC	Dec. 31	0.90
The 5th Supreme (*1)	Korea	SPC	Dec. 31	0.90
Himart 1st ABS Specialty Co., Ltd. (*2)	Korea	SPC	Dec. 31	0.10

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

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

## LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

December 31, 2012 and 2011

#### 1. General Description of the Parent Group, Continued

##### (b) Description of Subsidiaries, Continued

Subsidiaries	December 31, 2011			
	Location	Products or services	Fiscal year	Percentage of ownership (%)
Lotte Midopa Co., Ltd.	Korea	Distribution	Dec. 31	79.01
Lotte Card Co., Ltd.	Korea	Credit card, capital	Dec. 31	92.54
eB Card Co., Ltd.	Korea	Electronic banking business	Dec. 31	95.00
Gyeonggi Smartcard Co., Ltd.	Korea	Electronic banking business	Dec. 31	100.00
Inchon Smartcard Co., Ltd.	Korea	Electronic banking business	Dec. 31	100.00
Chungnam Smartcard Co., Ltd.	Korea	Electronic banking business	Dec. 31	100.00
Woori Home Shopping & Television Co., Ltd.	Korea	Distribution	Dec. 31	53.03
Korea Seven Co., Ltd.	Korea	Distribution	Dec. 31	51.14
Buy the way Inc.	Korea	Distribution	Dec. 31	100.00
Lotte Boulangerie Co., Ltd.	Korea	Bakery	Dec. 31	90.54
Lotte Square Co., Ltd.	Korea	Distribution	Dec. 31	100.00
NCF Co., Ltd.	Korea	Apparel manufacturing	Dec. 31	94.50
Lotte Gimhae Development Co., Ltd.	Korea	Service company	Dec. 31	100.00
Lotte Suwon Station Shopping Town Co., Ltd.	Korea	Real estate development	Dec. 31	95.00
Lotte Songdo Shopping Town Co., Ltd.	Korea	Real estate development	Dec. 31	58.82
Lotte Vietnam Shopping Co., Ltd.	Vietnam	Distribution	Dec. 31	94.55
Qingdao Lotte Mart Commercial Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Mart Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Shopping Holdings (Singapore) Co., Ltd.	Singapore	Holding company	Dec. 31	100.00
PT. Lotte Shopping Indonesia	Indonesia	Distribution	Dec. 31	80.00
PT. Lotte Mart Indonesia	Indonesia	Distribution	Dec. 31	100.00
Lotte Shopping India Pvt., Ltd.	India	Distribution	Dec. 31	100.00
Lotte Hotel & Retail Vietnam Pte. Ltd.	Singapore	Holding company	Dec. 31	60.00
Lotte Shopping Holdings (Hong Kong) Co., Ltd.	Hong Kong	Holding company	Dec. 31	100.00
Lotte Mart China Co., Ltd. and its subsidiaries	China	Distribution	Dec. 31	100.00
Lotte Home Shopping Company Limited	Cayman	Holding company	Dec. 31	88.98
Lucky Pai Ltd. and its subsidiaries	China	Distribution	Dec. 31	73.80
Lotte Business Management (Tianjin) Co., Ltd.	China	Distribution	Dec. 31	100.00

## LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

December 31, 2012 and 2011

#### 1. General Description of the Parent Group, Continued

##### (b) Description of Subsidiaries, Continued

Subsidiaries	December 31, 2011			
	Location	Products or services	Fiscal year	Percentage of ownership (%)
Lotte Mart Global Sourcing Center Co., Ltd.	China	Trading company	Dec. 31	100.00
Liaoning Lotte Mart Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Cinema Vietnam Co., Ltd.	Vietnam	Cinema	Dec. 31	90.00
Jilin Lotte Mart Co., Ltd.	China	Distribution	Dec. 31	100.00
PT. Lotte Shopping Plaza Indonesia	Indonesia	Distribution	Dec. 31	100.00
Lotte Department Store (Shenyang) Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte International Department Store (Weihai) Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte DatViet Homeshopping Co., Ltd.	Vietnam	Distribution	Dec. 31	63.03
Lottemart Danang Co., Ltd.	Vietnam	Distribution	Dec. 31	100.00
Lottemart C&C India Pvt. Ltd.	Indonesia	Distribution	Dec. 31	100.00
The 4th Sprint (*)	Korea	SPC	Dec. 31	0.90
The 2nd Supreme (*)	Korea	SPC	Dec. 31	0.90
The 3rd Supreme(*)	Korea	SPC	Dec. 31	0.90
The 4rd Supreme(*)	Korea	SPC	Dec. 31	0.90

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

## LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

December 31, 2012 and 2011

#### 1. General Description of the Parent Group, Continued

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

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

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2012 and 2011

1. General Description of the Parent Group, Continued

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

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

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2012 and 2011

1. General Description of the Parent Group, Continued

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

Company	December 31, 2011			
	Korean won (millions)			
	Total assets	Total liabilities	Sales	Net income (loss)
Lotte Midopa Co., Ltd.	₩ 1,058,431	219,513	405,798	47,429
Lotte Card Co., Ltd.	7,541,569	6,035,433	1,438,574	184,290
eB Card Co., Ltd.	159,199	98,674	35,340	(6,383)
Gyeonggi Smartcard Co., Ltd.	16,963	6,302	19,596	3,676
Inchon Smartcard Co., Ltd.	15,568	8,326	10,714	1,538
Chungnam Smartcard Co., Ltd.	3,617	5,874	384	(933)
Woori Home Shopping & Television Co., Ltd.	639,604	278,010	636,015	87,399
Korea Seven Co., Ltd.	769,815	562,273	1,353,510	30,618
Buy the way Inc.	260,600	122,162	639,287	22,022
Lotte Boulangerie Co., Ltd.	56,126	49,204	90,569	(3,011)
Lotte Square Co., Ltd.	782,256	239,036	452,352	11,776
NCF Co., Ltd.	32,517	14,297	48,501	4,065
Lotte Gimhae Development Co., Ltd.	603	184	1,846	84
Lotte Suwon Station Shopping Town Co., Ltd.	15,590	952	-	(263)
Lotte Songdo Shopping Town Co., Ltd.	180,492	79,353	-	(354)
Lotte Vietnam Shopping Co., Ltd.	132,728	124,604	61,585	(15,994)
Qingdao Lotte Mart Commercial Co., Ltd.	129,919	80,794	28,135	(20,937)
Lotte Mart Co., Ltd.	194,770	154,246	299,634	(7,879)
Lotte Shopping Holdings (Singapore) Co., Ltd.	239,737	19	-	(39)
PT. Lotte Shopping Indonesia	257,485	144,110	775,122	11,573
PT. Lotte Mart Indonesia	205,347	128,998	105,435	(13,711)
Lotte Shopping India Pvt., Ltd.	6	65	-	(1)
Lotte Hotel & Retail Vietnam Pte. Ltd.	114,300	389	-	(1,362)
Lotte Shopping Holdings (Hong Kong) Co., Ltd.	940,220	33	-	(41)
Lotte Mart China Co., Ltd. and its subsidiaries	766,011	521,157	927,164	1,153
Lotte Home Shopping Company Limited	157,800	17	-	15
Lucky Pai Ltd. and its subsidiaries	39,733	27,147	74,082	(13,043)
Lotte Business Management (Tianjin) Co., Ltd.	34,921	12,664	9,055	(21,141)
Lotte Mart Global Sourcing Center Co., Ltd.	357	1,143	890	(1,307)
Liaoning Lotte Mart Co., Ltd.	33,485	15,465	20,058	(7,407)
Lotte Cinema Vietnam Co., Ltd.	10,972	7,630	3,208	(1,033)
Jilin Lotte Mart Co., Ltd.	23,402	9,814	12,811	(4,043)
PT. Lotte Shopping Plaza Indonesia	14,995	250	-	(1,521)
Lotte Department Store (Shenyang) Co., Ltd.	3,062	7	-	(463)
Lotte International Department Store (Weihai) Co., Ltd.	3,257	6	-	(279)
Lotte DatViet Homeshopping Co., Ltd.	2,749	409	-	(104)
Lottemart Danang Co., Ltd.	5,761	6	-	(4)
Lottemart C&C India Pvt. Ltd.	2,190	-	-	(98)
The 4th Sprint	100,204	100,194	7,488	-
The 2nd Supreme	228,723	233,316	10,902	-
The 3rd Supreme	337,945	346,101	10,773	-
The 4th Supreme	161,054	161,886	731	-

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2012 and 2011

1. General Description of the Parent Group, Continued

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

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

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

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

## LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

December 31, 2012 and 2011

#### 2. Basis of Preparation

##### (a) Statement of compliance

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

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

##### (b) Basis of measurement

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

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

##### (c) Functional and presentation currency

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

##### (d) Use of estimates and judgments

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

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

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

## LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

December 31, 2012 and 2011

#### 2. Basis of Preparation, Continued

##### (d) Use of estimates and judgments, continued

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

- Note 7 – Fair value of financial instruments
- Note 13 – Intangible assets
- Note 17 – Provisions
- Note 19 – Employee benefits
- Note 30 – Income taxes
- Note 34 – Contingent liabilities and financial commitments
- Note 37 – Risk management

##### (e) Changes in accounting policies

###### 1) Changes in accounting policies

Presentation of financial statements

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

###### 2) Impact of change in accounting policy

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

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

## LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

December 31, 2012 and 2011

#### 3. Significant Accounting Policies

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

##### (a) Operating segment

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

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

The Group has five reportable segments which consist of department stores, discount stores, credit card service, consumer electronics retail and others, as described in note 33.

##### (b) Basis of consolidation

###### (i) Subsidiaries

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

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

###### (ii) Special purpose entities

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

###### (iii) Intra-group transactions

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

###### (iv) Non-controlling interests

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

## LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

December 31, 2012 and 2011

#### 3. Significant Accounting Policies, Continued

##### (b) Basis of consolidation, Continued

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

##### (c) Business combinations

###### (i) Business combinations

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

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

- Leases and insurance contracts are required to be classified on the basis of their contractual terms and other factors
- Only those contingent liabilities assumed in a business combination that are a present obligation and can be measured reliably are recognized
- Deferred tax assets or liabilities are recognized and measured in accordance with K-IFRS No.1012 *Income Taxes*
- Employee benefit arrangements are recognized and measured in accordance with K-IFRS No.1019 *Employee Benefits*
- Indemnification assets are recognized and measured on the same basis as the indemnified liability or asset
- Reacquired rights are measured on the basis of the remaining contractual terms of the related contract.
- Liabilities or equity instruments related to share-based payment transactions are measured in accordance with the method in K-IFRS No.1102, *Share-based Payment*
- Assets held for sale are measured at fair value less costs to sell in accordance with K-IFRS No. 1105, *Non-current Assets Held for Sale*

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

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

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

## LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

December 31, 2012 and 2011

#### 3. Significant Accounting Policies, Continued

##### (c) Business combinations, continued

###### (ii) Goodwill

The Group measures goodwill at the acquisition date as:

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

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

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

##### (d) Associates and jointly controlled entities

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

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

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

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

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

## LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

December 31, 2012 and 2011

#### 3. Significant Accounting Policies, Continued

##### (e) Cash and cash equivalents

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

##### (f) Inventories

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

Inventories are measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value, are recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

##### (g) Non-derivative financial assets

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

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

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

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

###### (ii) Held-to-maturity investments

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

## LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

December 31, 2012 and 2011

#### 3. Significant Accounting Policies, Continued

##### (g) Non-derivative financial assets, Continued

###### (iii) Loans and receivables

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

###### (iv) Available-for-sale financial assets

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

###### (v) De-recognition of financial assets

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

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

###### (vi) Offsetting between financial assets and financial liabilities

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

## LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

December 31, 2012 and 2011

#### 3. Significant Accounting Policies, Continued

##### (h) Derivative financial instruments, including hedge accounting

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

###### (i) Hedge accounting

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

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

###### *Fair value hedge*

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

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

###### *Cash flow hedge*

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

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

###### (ii) Other derivative financial instruments

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

## LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

December 31, 2012 and 2011

#### 3. Significant Accounting Policies, Continued

##### (i) Impairment of financial assets

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

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

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

##### (i) Financial assets measured at amortized cost

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

##### (ii) Financial assets carried at cost

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

##### (iii) Available-for-sale financial assets

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

## LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

December 31, 2012 and 2011

#### 3. Significant Accounting Policies, Continued

##### (j) Property, plant and equipment

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

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

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

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

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

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

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

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

## LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

December 31, 2012 and 2011

#### 3. Significant Accounting Policies, Continued

##### (k) Intangible assets

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

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

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

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

## LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

December 31, 2012 and 2011

#### 3. Significant Accounting Policies, Continued

##### (l) Investment property

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

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

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

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

##### (m) Impairment of non-financial assets

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

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

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

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

## LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

December 31, 2012 and 2011

#### 3. Significant Accounting Policies, Continued

##### (n) Leases

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

##### (i) Finance leases

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

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

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

##### (ii) Operating leases

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

##### (o) Borrowing costs

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

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

## LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

December 31, 2012 and 2011

#### 3. Significant Accounting Policies, Continued

##### (p) Non-derivative financial liabilities

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

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

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

##### (ii) Other financial liabilities

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

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

##### (q) Employee benefits

##### (i) Short-term employee benefits

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

##### (ii) Other long-term employee benefits

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

## LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

December 31, 2012 and 2011

#### 3. Significant Accounting Policies, Continued

##### (q) Employee benefits, continued

###### (iii) Retirement benefits: defined benefit plans

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

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

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

Past service costs which are the change in the present value of the defined benefits obligation for employee service in prior periods, resulting in the current period from the introduction of, or change to post-employment benefits, is recognized as an expense on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits are already vested immediately following the introduction of, or changes to, a defined benefit plan, the Group recognizes the past service cost immediately.

##### (r) Provisions

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

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

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

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

## LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

December 31, 2012 and 2011

#### 3. Significant Accounting Policies, Continued

##### (s) Foreign currencies

###### (i) Foreign currency transactions

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

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

###### (ii) Foreign operations

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

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

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

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

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

## LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

December 31, 2012 and 2011

#### 3. Significant Accounting Policies, Continued

##### (t) Equity capital

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

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

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

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

##### (u) Revenue

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

###### (i) Goods sold

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

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

###### (ii) Customer loyalty programs

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

## LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

December 31, 2012 and 2011

#### 3. Significant Accounting Policies, Continued

##### (u) Revenue, continued

###### (iii) Commissions

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

###### (iv) Rental income

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

###### (v) Income of card business

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

##### (v) Finance income and finance costs

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

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

## LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

December 31, 2012 and 2011

#### 3. Significant Accounting Policies, Continued

##### (w) Income taxes

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

##### (i) Current tax

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

##### (ii) Deferred tax

Deferred tax is recognized, using the asset-liability method, in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. A deferred tax liability is recognized for all taxable temporary differences. A deferred tax asset is recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which they can be utilized. However, deferred tax is not recognized for the following temporary differences: taxable temporary differences arising on the initial recognition of goodwill, or the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting profit or loss nor taxable income.

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

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

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

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

## LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

December 31, 2012 and 2011

#### 3. Significant Accounting Policies, Continued

##### (x) Earnings per share

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

##### (y) Reclassifications

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

##### (z) New standards and interpretations not yet adopted

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

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

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

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

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

## LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

December 31, 2012 and 2011

#### 3. Significant Accounting Policies, Continued

##### (z) New Standards and Interpretations not yet adopted, continued

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

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

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

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

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

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

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

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

## LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

December 31, 2012 and 2011

#### 4. Business Combination and Additional Acquisitions from Entities Under Common Control

(a) Business combination

Significant business combinations of the Group in 2012 are as follows:

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

The Group obtained control of CS Mart Co., Ltd. by acquiring 97.37% of its capital stock on January 19, 2012, and then the Group additionally acquired the shares and owns 99.94% interest as of December 31, 2012. In connection with the business combination, the Group incurred transaction costs of ₩2,387 million for legal commission, examination fee and etc., and the expenses were recognized as selling and administrative expense in the statement of comprehensive income.

(ii) Acquisition of Lotte Hi-mart

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

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

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

## LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

December 31, 2012 and 2011

#### 4. Business Combination and Additional Acquisitions from Entities Under Common Control, Continued

##### (a) Business combination, continued

The following summarizes major classes of consideration transferred.

Description		Korean won (millions)		
		CS Mart Co., Ltd.	LOTTE Himart Co., Ltd.	Kotobuki Holding (HK) Ltd.
Total consideration transferred	₩	244,880	1,248,068	72,782
Cash and cash - equivalents acquired		(8,193)	(109,392)	(16,485)
Net cash outflow	₩	236,687	1,138,676	56,297

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

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

## LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

December 31, 2012 and 2011

#### 4. Business Combination and Additional Acquisitions from Entities Under Common Control, Continued

##### (a) Business combination, continued

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

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

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

##### (b) Additional acquisition of subsidiaries' shares

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

Subsidiaries		Korean won (millions)	Percentage of ownership (%)		Korean won (millions)		
			Additional acquisition	Before additional acquisition	After additional acquisition	Parent's ownership interest	
						Before additional acquisition	After additional acquisition
Lotte Suwon Station Shopping Town Co., Ltd.	₩	33,250	95.00%	95.00%	₩	13,807	47,193
Lotte DatViet Homeshopping Co., Ltd.		4,008	63.03%	86.17%		1,233	3,236
Lotte International Department Store(Weihai) Co.,Ltd.		18,717	100.00%	100.00%		2,907	20,720
LOTTE SHOPPING Avenue INDONESIA		8,029	100.00%	100.00%		12,751	20,781
Lottemart Danang Co., Ltd.		15,261	100.00%	100.00%		5,751	20,808
LOTTE DEPARTMENT STORE (TIANJIN) CO., LTD.		34,168	100.00%	100.00%		10,141	40,017
Lotte Shopping Holdings (Singapore) Co., Ltd.		79	100.00%	100.00%		260,211	260,290
Lotte Vietnam Shopping Co., Ltd.		77,578	94.55%	100.00%		7,523	79,950
Lucky Pai Limited		14,245	73.80%	89.21%		8,390	1,528
CS Mart Co., Ltd.		9,041	97.37%	99.94%		62,294	63,938
Total	₩	214,376			₩	385,008	558,461

## LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

December 31, 2012 and 2011

#### 4. Business Combination and Additional Acquisitions from Entities Under Common Control, Continued

(b) Additional acquisition of subsidiaries' shares, continued

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

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

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2012 and 2011

5. Trade and Other Receivables

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

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

6. Restricted Deposits

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

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

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2012 and 2011

7. Fair Value of Financial Instruments

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

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

## LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

December 31, 2012 and 2011

#### 7. Fair Value of Financial Instruments, Continued

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

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

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

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

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

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

December 31, 2012 and 2011

7. Fair Value of Financial Instruments, Continued

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

	Korean won (millions)				
	December 31, 2012				December 31, 2011
	Number of shares	Percentage of ownership	Acquisition cost	Carrying amount	Carrying amount
<b>Marketable available-for-sale financial assets:</b>					
BS Financial Group Inc.	5,259,597	2.72%	₩ 24,877	69,427	58,119
SHINHAN FINANCIAL GROUP CO., LTD	311,118	0.07%	2,247	12,087	12,367
LOTTE CHILSUNG BEVERAGE CO., LTD (Common stock)	101,024	8.17%	99,179	153,051	148,000
LOTTE CHILSUNG BEVERAGE CO., LTD (Preferred stock)	385	0.32%	179	124	143
LOTTE CONFECTIONARY CO., LTD	42,062	2.96%	64,699	68,561	71,800
LOTTE SAMKANG CO., LTD.	47,180	3.75%	10,167	31,044	19,367
Others	-	-	5,638	4,641	6,274
Subtotal			₩ 206,986	338,935	316,070
<b>Non-marketable available-for-sale financial assets:</b>					
LOTTE TRADING CO., LTD.	94,785	10.58%	₩ 34,465	45,785	49,839
Lotte Aluminum Co., Ltd.	62,609	6.03%	55,881	74,809	72,495
LOTTE LOGISTICS CORP.	66,308	4.64%	4,000	8,455	7,060
Cosmo Investment Management Co., Ltd.	149,807	17.70%	42,436	38,589	44,967
Lotte Properties (Chengdu) Co., Ltd	29,928,756	17.93%	41,919	41,919	41,919
FUBON Multimedia Technology Co., Ltd.	21,906,421	17.13%	40,499	61,173	13,602
Investment in government bonds	-	-	198	197	44,467
Others	-	-	69,653	50,765	50,388
Subtotal			289,051	321,692	324,737
Total			₩ 496,037	660,627	640,807

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7. Fair Value of Financial Instruments, Continued

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

December 31, 2012 and 2011

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

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

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

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2012 and 2011

7. Fair Value of Financial Instruments, Continued

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

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

## LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

December 31, 2012 and 2011

#### 7. Fair Value of Financial Instruments, Continued

(f) The fair value hierarchy

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

The different levels have been defined as follows:

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

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

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

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

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

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

December 31, 2012 and 2011

8. Inventories

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

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

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

		Korean won (millions)	
		<u>2012</u>	<u>2011</u>
Cost of goods sold:			
Changes of allowance for valuation reserve of inventories	₩	1,289	(986)

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

December 31, 2012 and 2011

9. Other Non-financial Assets

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

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

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

## LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

December 31, 2012 and 2011

#### 10. Investments in Associates and Joint Ventures

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

Company	Location	Principal business	December 31, 2012		Korean won (millions)
			Percentage of Ownership (%)		Balance at December 31, 2012
Associates:					
Lotte Station Building Co., Ltd.	Korea	Distribution	25.00	₩	139,818
Daehong Communications Co., Ltd.	Korea	Advertisement agency	34.00		116,121
Lotte.Com Inc.	Korea	Distribution	34.39		7,860
Lotte Capital Co., Ltd.	Korea	Capital	22.36		125,123
Lotteria Co., Ltd.	Korea	Restaurant chain	38.68		215,716
FRL Korea Co., Ltd.	Korea	Retail	49.00		89,372
Lotte Asset Development Co., Ltd.	Korea	Real estate development	39.14		46,435
Zara Retail Korea Co., Ltd.	Korea	Retail	20.00		20,397
Lotte Buyeo Resort Co., Ltd.	Korea	Real estate development	22.22		11,677
Lotte Giants	Korea	Baseball club	30.00		5,018
Lotte Europe Holdings B.V.	Netherlands	Holding company	34.26		97,080
Coralis S.A.	Luxembourg	Holding company	45.00		46,741
M-Venture Culture Investment L.P.	Korea	Film producing company	25.00		2,608
Capital One Diversity Cinema Fund	Korea	Film producing company	20.00		849
Capital One Middle-Low Budget Cinema Fund	Korea	Film producing company	25.00		3,454
Sovik Visual Contents Investment Fund	Korea	Film producing company	26.67		4,526
Shandong Luckypai TV Shopping	China	Distribution	49.00		5,813
Hubei XL Cinema Co., Ltd.	China	Cinema	49.00		6,189
CJ Venture Investment No.14 Culture Contents Fund	Korea	Film producing company	30.00		5,643
Lotte Capital Indonesia	Indonesia	Capital	25.00		2,817
Hemisphere Film Investors II LLC(*1)	America	Film producing company	100.00		25,095
Shandong Longzhile Cinema Co., Ltd.	China	Cinema	49.02		1,614
Leading Asia Contents Fund	Korea	Film producing company	21.01		3,994
LOTTE Payment & settlement networks Inc.	Korea	Electronic financial services	30.58		12,316
Subtotal					996,276
Jointly controlled entities:					
Intime Lotte Department Store Co., Ltd.	China	Distribution	50.00		-
D-Cinema of Korea Co., Ltd.	Korea	Film equipment	50.00		-
Shenyang SL Cinema Investment Management Co., Ltd.	China	Cinema	49.00		970
STL Co., Limited	Korea	Retail	50.00		1,186
Subtotal					2,156
Total				₩	998,432

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

## LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

December 31, 2012 and 2011

#### 10. Investments in Associates and Joint Ventures, Continued

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

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

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

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

December 31, 2012 and 2011

10. Investments in Associates and Joint Ventures, Continued

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

Company	2012							Balance at December 31, 2012
	Korean won (millions)							
	Beginning balance	Changes						
	Acquisition	Dividends	Net income (loss)	Capital adjustment	Disposals	Other		
Lotte Station Building Co., Ltd.	W 192,645	-	(51,575)	2,959	(4,218)	-	7	139,818
Daehong Communications Co., Ltd.	93,806	1,500	(6)	15,645	5,592	-	(416)	116,121
Lotte.Com Inc.	9,686	-	-	(1,803)	(32)	-	9	7,860
Lotte Capital Co., Ltd.	111,280	-	(1,861)	15,304	620	-	(220)	125,123
Lotteria Co., Ltd.	210,427	-	-	10,244	(4,487)	-	(468)	215,716
FRL Korea Co., Ltd.	71,433	-	(11,760)	29,699	-	-	-	89,372
Lakepark Co., Ltd.	4,564	11,935	(3,219)	(1,604)	13	(11,689)	-	-
Lotte Asset Development Co., Ltd.	50,492	-	-	(1,845)	2,931	-	(5,143)	46,435
Zara Retail Korea Co., Ltd.	16,617	-	-	3,780	-	-	-	20,397
Lotte Buyeo Resort Co., Ltd.	13,381	-	-	(1,704)	-	-	-	11,677
Lotte Giants	2,220	-	-	2,850	-	-	(52)	5,018
Lakepark AMC	73	204	-	(9)	-	(268)	-	-
Lotte Europe Holdings B.V.	63,619	22,092	-	(3,794)	15,163	-	-	97,080
Coralis S.A.	49,178	-	-	(500)	(1,937)	-	-	46,741
Bliss Co., Ltd.	-	-	-	-	2	(2)	-	-
M-Venture Culture Investment L.P.	2,667	-	(250)	191	-	-	-	2,608
Capital One Diversity Cinema Fund	905	-	-	(56)	-	-	-	849
Capital One Middle-Low Budget Cinema Fund	2,912	-	-	542	-	-	-	3,454
Shenyang SL Cinema Investment Management Co., Ltd.	1,219	-	-	(185)	(64)	-	-	970
Sovik Visual Contents Investment Fund	3,985	-	-	541	-	-	-	4,526
Shandong Luckypai TV Shopping	6,075	-	-	95	-	-	(357)	5,813
Hubei XL Cinema Co., Ltd.	5,318	2,157	-	(971)	(315)	-	-	6,189
STL Co., Limited	576	1,500	-	(866)	(23)	-	-	1,187
Hemisphere Film Investors II LLC	21,633	3,479	-	1,818	(1,835)	-	-	25,095
CJ Venture Investment No.14 Culture Contents Fund	6,009	-	-	(366)	-	-	-	5,643
Lotte Capital Indonesia	-	3,120	-	43	-	-	(346)	2,817
Intime Lotte Department Store Co., Ltd.	-	-	-	-	-	-	-	-
D-Cinema of Korea Co., Ltd.	-	-	-	-	-	-	-	-
Shandong Longzhile Cinema Co., Ltd.	-	1,735	-	(73)	(48)	-	-	1,614
Leading Asia Cultural Industry Fund	-	4,000	-	(6)	-	-	-	3,994
LOTTE Payment & Settlement Networks Inc.	-	12,315	-	-	-	-	-	12,315
	W 940,720	64,037	(68,671)	69,929	11,362	(11,959)	(6,986)	998,432

10. Investments in Associates and Joint Ventures, Continued

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

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

December 31, 2012 and 2011

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

## LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

December 31, 2012 and 2011

#### 10. Investments in Associates and Joint Ventures, Continued

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

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

## LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

December 31, 2012 and 2011

#### 10. Investments in Associates and Joint Ventures, Continued

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

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

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

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

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

December 31, 2012 and 2011

11. Property, Plant and Equipment

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

		2012					
		Korean won (millions)					
		Acquisition cost as of January 1, 2012	Acquisition	Increase from business combination	Disposals	Others (*)	Acquisition cost as of December 31, 2012
Land	₩	7,076,909	5,158	245,709	(1,471)	245,587	7,571,892
Buildings		5,407,196	58,376	318,951	(42,912)	552,190	6,293,801
Structures		268,785	8,614	2,722	(2,824)	13,427	290,724
Machinery		242,998	16,544	3,110	(751)	2,149	264,050
Vehicles		8,591	1,153	791	(674)	(407)	9,454
Display fixtures		368,505	52,407	4,330	(9,051)	47,066	463,257
Furniture and fixtures		2,123,654	183,153	178,873	(90,172)	346,400	2,741,908
Tools and equipment		193,750	31,224	-	(3,177)	(14,531)	207,266
Other PP&E		202,193	19,950	515	(2,200)	(8,548)	211,910
Construction-in-progress		885,733	1,401,951	980	(190)	(1,313,235)	975,239
Total	₩	<u>16,778,314</u>	<u>1,778,530</u>	<u>755,981</u>	<u>(153,422)</u>	<u>(129,902)</u>	<u>19,029,501</u>

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

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

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

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2012 and 2011

11. Property, Plant and Equipment, Continued

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

		<b>2012</b>					
		Korean won (millions)					
		Accumulated depreciation as of January 1, 2012	Disposals	Increase from business combination	Depreciation	Others	Accumulated depreciation as of December 31, 2012
Buildings	₩	1,535,530	(4,669)	105,427	170,945	9,769	1,817,002
Structures		56,333	(156)	857	12,770	1,154	70,958
Machinery		115,760	(557)	2,621	26,689	(2,006)	142,507
Vehicles		5,463	(572)	260	1,189	(265)	6,075
Display fixtures		226,016	(6,155)	1,133	49,070	(2,203)	267,861
Furniture and fixtures		1,411,716	(68,291)	106,646	286,476	(470)	1,736,077
Tools and equipment		86,712	(2,717)	-	21,275	(8,188)	97,082
Other PP&E		54,897	(897)	374	15,169	(3,522)	66,021
<b>Total</b>	₩	<u>3,492,427</u>	<u>(84,014)</u>	<u>217,318</u>	<u>583,583</u>	<u>(5,731)</u>	<u>4,203,583</u>

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

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

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December 31, 2012 and 2011

11. Property, Plant and Equipment, Continued

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

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

  

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

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

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

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

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

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December 31, 2012 and 2011

12. Investment Property

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

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

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

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

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

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

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December 31, 2012 and 2011

12. Investment Property, Continued

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

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

		<b>2011</b>				
		Korean won (millions)				
		Accumulated depreciation as of January 1, 2011	Depreciation (*)	Others		Accumulated depreciation as of December 31, 2011
Buildings	₩	66,235	7,006	216		73,457

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

		<b>2012</b>				
		Korean won (millions)				
		Accumulated impairment as of January 1, 2012	Impairment loss	Others		Accumulated impairment as of December 31, 2012
Land	₩	-	-	762		762
Buildings		584	1,285	(82)		1,787
		584	1,285	680		2,549

		<b>2011</b>				
		Korean won (millions)				
		Accumulated impairment as of January 1, 2011	Impairment loss	Others		Accumulated impairment as of December 31, 2011
Buildings	₩	-	584	-		584

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December 31, 2012 and 2011

**12. Investment Property, Continued**

(d) Income and expense from investment property

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

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

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

Description		Korean won (millions)	
		Book value	Fair value
Land and buildings	₩	508,257	726,580

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December 31, 2012 and 2011

13. Intangible Assets

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

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

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

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

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

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

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

December 31, 2012 and 2011

13. Intangible Assets, Continued

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

For the purpose of impairment testing, goodwill is allocated to the units at the lowest level at which the goodwill may be monitored in terms of internal management of the Group and cannot be higher than any of the Group's operating segments, as defined by note 33.

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

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

The value in use of each cash-generating unit was determined by discounting its estimated future cash flows. The approach used to determine value in use as of December 31, 2012 was consistent with those used in 2011. The calculation of value in use was based on the following key assumptions:

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

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

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

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2012 and 2011

13. Intangible Assets, Continued

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

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

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

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

14. Trade and Other Payables

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

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

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES  
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December 31, 2012 and 2011

15. Borrowings and Debentures

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

		Korean won (millions)	
		December 30, 2012	December 31, 2011
Current:			
Short-term borrowings	₩	2,171,551	1,176,921
Short-term debentures		-	17,299
Discount on debentures		-	(6)
Current portion of long-term borrowings		83,112	762,793
Current portion of long-term debentures		1,857,018	1,490,756
Discount on debentures		(545)	(479)
Subtotal		4,111,136	3,447,284
Non-current:			
Long-term borrowings		970,332	348,619
Long-term debentures		7,124,033	6,406,009
Discount on debentures		(80,085)	(15,981)
Subtotal		8,014,280	6,738,647
Total	₩	12,125,416	10,185,931

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

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

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES  
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December 31, 2012 and 2011

15. Borrowings and Debentures, Continued

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

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

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2012 and 2011

15. Borrowings and Debentures, Continued

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

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

## LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

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December 31, 2012 and 2011

#### 15. Borrowings and Debentures, Continued

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

(a) Type of bonds:	Registered overseas unsecured convertible bonds
(b) Total face value of bonds:	
USD Bonds:	500,000,000
JPY Bonds:	32,500,000,000
Total(in won):	978,969,250,000
(c) Exchange Rate	
USD Fixed Exchange Rate:	exchange rate of KRW 1,083.50/USD 1.00
JPY Fixed Exchange Rate:	exchange rate of KRW 13.4529/JPY 1.00
(d) Bond interest rate	
Coupon rate(%):	-
Yield to maturity(%):	0 (overseas convertible bonds without guarantee in U.S. dollars) (0.25) (overseas convertible bonds without guarantee in Japanese yen)
(e) Date of bond maturity:	July 5, 2016
(f) Principal redemption method:	
i. Redemption on the maturity date: Redemption in lump sum on the maturity date for the principal amount of bonds for which a condition for early redemption has not occurred and the conversion right has not been exercised.	
ii. Early redemption: The Group has a call option, whereas bond holders have a put option	
(g) Put option by bondholders:	
the put option can be exercised if any of the following conditions occurs:	
On the third anniversary of the date of payment (July 5, 2014);	
i. If any change of control occurs in the company; or	
ii. The issued stocks of the company is unlisted from the stock exchange or their transaction is suspended for 30 consecutive transaction days or longer.	
(h) Call option by the company:	
the call option can be exercised if any of the following conditions occurs:	
i. If the closing price for 20 transactional days in 30 consecutive transaction days reaches 130% or more of the conversion price between 3 years from the issuance date and 30 business days to the maturity date;	
ii. If the balance of bonds that has not been redeemed reaches less than 10% of the sum of the total issued amount (clean up call); or	
iii. Any additional tax burden arises due to the amendments of the related laws and regulations.	
(i) Matters relating to conversion:	
i. Conversion ratio (%):	100
ii. Conversion price (KRW per share):	650,000
iii. Method to decide conversion price:	
While following Article 5-22 of the Regulations on Issuance, Public Disclosure, etc. of Securities, 23.8% conversion premium was applied to the closing price of the shares listed on the Korea Exchange on the day of conversion price determination	
iv. Type of shares to be issued following conversion:	Registered common shares
v. Period to apply for conversion:	
Start date:	July 5, 2012
End date:	7 business days prior to the maturity date
vi. Matters for the adjustment of conversion price:	
In the case where a condition for re-adjustment of the conversion price has occurred, such as share dilution, the conversion price will be adjusted in accordance with the provisions in the relevant bonds purchase agreement.	

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

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December 31, 2012 and 2011

15. Borrowings and Debentures, Continued

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

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

16. Unearned Revenues

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

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

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17. Provisions

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

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

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

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18. Other Non-financial Liabilities

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

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

19. Employee Benefits

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

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

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

		Korean won (millions)	
		December 31, 2012	December 31, 2011
Present value of other long-term employee benefits	₩	46,251	46,751

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December 31, 2012 and 2011

19. Employee Benefits, Continued

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

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

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

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

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

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

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December 31, 2012 and 2011

19. Employee Benefits, Continued

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

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

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

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

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

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

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December 31, 2012 and 2011

20. Derivative Instruments and Hedge Accounting

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

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

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

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

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

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

## LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

December 31, 2012 and 2011

#### 21. Capital Stock and Capital Surplus

- (a) Pursuant to its amended Articles of Incorporation, the Company's authorized capital stock is 60,000,000 shares, which consist of common shares and preferred shares each with a par value of ₩5,000 per share. The Company is authorized to issue non-voting preferred shares of up to one-fourth of the Company's total issued and outstanding capital stock. Holders of preferred shares may, upon a resolution of the board of directors at the time of the issuance of the preferred shares, be entitled to receive dividends prior to the holders of common shares. The preferred shares will be automatically converted to common shares within ten years of issuance as determined by the Company's board of directors. However, if the holders of preferred shares do not receive the minimum dividends as prescribed, the prescribed conversion date will be extended to the time when all such minimum dividend amount is paid to the holders of preferred shares. As of December 31, 2012, the Company has not issued any preferred stock and 29,043,374 shares of common stock were issued and outstanding as of December 31, 2012.
- (b) Capital surplus as of December 31, 2012 and 2011 consists of the following:

	Korean won (millions)	
	December 31, 2012	December 31, 2011
Additional paid-in capital	₩ 3,605,117	3,605,117
Others	17,066	17,066
	₩ 3,622,183	3,622,183

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2012 and 2011

22. Retained Earnings

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

		Korean won (millions)	
		December 31, 2012	December 31, 2011
Legal reserve	₩	175,307	170,950
Voluntary reserve		9,160,052	5,420,052
Unappropriated retained earnings		1,757,367	4,500,894
	₩	<u>11,092,726</u>	<u>10,091,896</u>

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

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

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2012 and 2011

23. Accumulated Other Comprehensive Income

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

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

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

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2012 and 2011

24. Earnings per Share

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

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

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

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

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

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

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2012 and 2011

25. Sales and Cost of Sales

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

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

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

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

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2012 and 2011

26. Selling, general and administrative expenses:

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

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

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2012 and 2011

27. Other income and expense

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

		Korean won (millions)	
		2012	2011
<b>Other income:</b>			
Gain on foreign currency transactions	₩	838	484
Gain on foreign currency translation		628	205
Gain on disposal of property, plant and equipment		1,641	10,320
Gain on disposal of intangible assets		297	461
Reversal of impairment of intangible asset		10	-
Others (*1)		62,095	47,443
Total	₩	<u>65,509</u>	<u>58,913</u>
<b>Other expense:</b>			
Loss on foreign currency transactions	₩	1,782	1,606
Loss on foreign currency translation		912	109
Impairment of investment property		1,285	549
Loss on disposal of investment property		-	2
Loss on disposal of property, plant and equipment		12,935	24,148
Loss on disposal of intangible assets		98	3
Impairment of intangible assets		4,268	1,336
Loss on disposal of trade receivables		56	-
Loss on disposal of other non-current assets		56	-
Impairment of other non-current assets		149	204
Donation		20,377	20,022
Other bad debt expenses		2,456	3,378
Taxes and dues		2,962	67
Others (*2)		43,682	39,486
Total	₩	<u>91,018</u>	<u>90,910</u>

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

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

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2012 and 2011

28. Nature of Expenses

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

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

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

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December 31, 2012 and 2011

29. Finance Income and Finance Costs

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

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

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2012 and 2011

29. Finance Income and Finance Costs, Continued

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

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

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December 31, 2012 and 2011

30. Income Taxes

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

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

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

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

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

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2012 and 2011

30. Income Taxes, Continued

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

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

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

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

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December 31, 2012 and 2011

30. Income Taxes, Continued

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

	2012				
	Korean won (millions)				
	Beginning balance	Business combination	Profit or loss	Other comprehensive income	Ending balance
Impairment loss of available-for-sale financial assets	₩ 506	12	1,208	-	1,726
Buildings	(10,665)	(8,360)	(1,262)	-	(20,287)
Depreciation expense	40,842	19,554	(11,863)	-	48,533
Allowance for doubtful accounts	3,639	17	(168)	-	3,488
Accrued revenues	(4,476)	(72)	2,170	-	(2,378)
Unearned revenue	2,646	3,514	264	-	6,424
Non-current prepaid expenses	(9,884)	-	(22,025)	-	(31,909)
Losses on valuation of inventories	2,365	-	663	-	3,028
Provision for sales return	1,377	39	153	-	1,569
Property, plant and equipment (capitalization of borrowing costs)	(13,307)	-	426	-	(12,881)
Land (asset revaluation)	(1,031,206)	(32,339)	19	-	(1,063,526)
Unearned revenues	20,332	-	491	-	20,823
Provision for mileage program	11,439	136	1,702	-	13,277
Accrued expense	12,829	1,104	1,382	-	15,315
Foreign currency translation gains (losses)	4,040	-	1,739	-	5,779
Gains (losses) on valuation of convertible bonds	(11,502)	-	3,672	-	(7,830)
Construction-in-progress	443	(1)	(23)	-	419
Other intangible assets	(1,124)	(64,950)	741	-	(65,333)
Rental guarantee deposits	8,640	(2,483)	9,134	-	15,291
Goodwill	(21,828)	-	(13,911)	-	(35,739)
Investments in subsidiaries and associates	(236,293)	(1,075)	(51,470)	3,445	(285,393)
Losses (gains) on valuation of available-for-sale financial assets	(53,008)	-	-	(10,225)	(63,233)
Losses (gains) on valuation of derivatives	3,682	-	984	(1,106)	3,560
Salaries and retirement benefits	27,598	2,503	(16,205)	11,011	24,907
Translation difference of foreign subsidiaries	400	-	-	3,205	3,605
Others	(27,602)	(3,608)	42,035	-	10,825
Total	₩ <u>(1,280,117)</u>	<u>(86,009)</u>	<u>(50,144)</u>	<u>6,330</u>	<u>(1,409,940)</u>

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December 31, 2012 and 2011

30. Income Taxes, Continued

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

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

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2012 and 2011

30. Income Taxes, Continued

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

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

31. Consolidated statements of cash flows

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

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

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2012 and 2011

32. Operating Leases

(a) Lessee

The Group has entered into the operating leases for buildings, furniture and fixtures and vehicles. Future lease payments under operation leases as of December 31, 2012 and 2011 are as follows:

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

In lieu of rent, certain agreements require the Group to advance a non-interest bearing refundable security deposit to the landlord for the Group's use during the lease term. The amount of the advance is determined by the prevailing market rate. The Group has recorded rent expense and interest income related to these leases of ₩60,269 million and ₩42,811 million during 2012 and ₩30,761 million and ₩35,590 million during 2011, respectively. The related deposit balances amount to ₩1,598,457 million and ₩1,375,955 million as of December 31, 2012 and 2011 respectively. Such amounts were calculated on the fixed interest rate for time deposits with similar maturities.

(b) Lessor

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

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

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Notes to the Consolidated Financial Statements

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33. Operating Segments and Geographic Information

- (a) The Group's major reportable segments consist of department stores (retail), discount stores (retail), card business, consumer electronics retail (new from 2012) and others (convenience stores, television home shopping, supermarkets, movie theaters, and clothing retail) as follows:

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

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

	Korean won (millions)					
	December 31, 2012					
	Department stores	Discount stores	Card business	Consumer electronics retail	Others	Total
External sales	8,210,722	8,952,795	1,473,330	604,662	5,802,171	25,043,680
Internal sales	35,178	1,798	199,630	-	154,004	390,610
Total sales	8,245,900	8,954,593	1,672,960	604,662	5,956,175	25,434,290
Interest income	51,677	10,270	1,308	1,599	53,594	118,448
Interest expenses	92,942	71,858	2,731	9,202	33,154	209,887
Depreciation and amortization	231,299	207,603	20,516	7,541	155,522	622,481
Other bad debt expenses	756	15	-	50	1,757	2,578
Equity method income (loss) of investments in associates	68,355	48	-	-	1,526	69,929
Income tax expense	280,529	55,301	59,060	3,079	45,311	443,280
Segment profit	866,410	63,093	154,751	10,047	117,574	1,211,875
Segment assets	15,077,912	10,970,095	8,087,110	2,603,494	5,503,220	42,241,831
Acquisition of non-current assets	737,065	2,009,739	28,340	8,735	672,113	3,455,992
Segment liabilities	9,709,881	2,126,180	6,426,157	1,129,080	2,017,286	21,408,584

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2012 and 2011

33. Operating Segments and Geographic Information, Continued

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

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

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2012 and 2011

33. Operating Segments and Geographic Information, Continued

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

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

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

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2012 and 2011

33. Operating Segments and Geographic Information, Continued

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

		Korean won (millions)	
		December 31, 2012	
		Assets	Liabilities
Department stores	₩	15,077,912	9,709,881
Discount stores		10,970,095	2,126,180
Card business		8,087,110	6,426,157
Consumer electronics retail		2,603,494	1,129,080
Others		5,503,220	2,017,285
Segment totals		42,241,831	21,408,583
Elimination of inter-segment assets and liabilities		(269,864)	(269,864)
Adjustments of business combinations		1,015,299	-
Investments in subsidiaries and associates		(6,130,221)	-
Subtotal		(5,384,786)	(269,864)
After consolidated adjustments	₩	36,857,045	21,138,720

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

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2012 and 2011

33. Operating Segments and Geographic Information, Continued

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

Region		Korean won (millions)	
		2012	2011
Domestic	₩	22,322,706	19,937,519
China		1,607,808	1,370,842
Vietnam		79,900	64,216
Indonesia		1,033,266	880,511
Total	₩	<u>25,043,680</u>	<u>22,253,088</u>

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

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2012 and 2011

33. Operating Segments and Geographic Information, Continued

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

		Korean won (millions)					
		December 31, 2012					
		Department stores	Discount stores	Card business	Consumer electronics retail	Others (*)	Total
Sales of merchandise	₩	7,619,363	8,447,981	5,369	601,941	4,535,248	21,209,902
Sales of products		-	-	-	-	131,252	131,252
Financial income		-	-	1,615,538	-	-	1,615,538
Commissions		-	-	-	-	842,881	842,881
Rental income		566,821	144,428	-	611	27,335	739,195
Others		59,715	362,184	52,054	2,111	419,458	895,522
Total segment sales	₩	8,245,900	8,954,593	1,672,961	604,662	5,956,174	25,434,290

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

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

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

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

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

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

## LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

December 31, 2012 and 2011

#### 34. Contingent Liabilities and Financial Commitments

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

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

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

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

#### 34. Contingent Liabilities and Financial Commitments, Continued

(c) As of December 31, 2012, the Group are the plaintiff in various lawsuits claiming damages totaling ₩17,607 million and the Group are the defendant in various lawsuits with damage claims totaling ₩46,163 million.

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

## LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

**December 31, 2012 and 2011**

Educational Institution.

- (e) Lotte Midopa Co., Ltd. did not recover 93 blank checks and 653 blank notes from related customers, which had been pledged as collateral for debt. Management believes that the possibilities of payment are extremely low.
- (f) Lotte Card Co., Ltd. has sold certain card assets to SPCs pursuant to the Assets-Backed Securitization Law of the Republic of Korea and assumed the liability to pay the outstanding card assets when the transferred card assets cannot meet the prescribed qualifications in the contract or fall into arrears in accordance with the terms of assets transfer agreement and other contracts. Accordingly, as prescribed in the assets transfer agreement and other contracts, the SPCs have obligations of early redemption of the asset-backed securities when average portfolio earning ratio during three consecutive settlement periods is lower than the average primary cost ratio or when outstanding balance of adjusted securitized assets is less than the minimum principal balance as of closing date of each settlement period and others.

## LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

December 31, 2012 and 2011

#### 35. Inter-company Transactions and Balances with Consolidated Companies

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

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

#### 36. Transactions and Balances with Related Companies

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

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

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

## LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

December 31, 2012 and 2011

#### 36. Transactions and Balances with Related Companies, Continued

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

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

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

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

## LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

December 31, 2012 and 2011

#### 36. Transactions and Balances with Related Companies, Continued

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

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

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

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

## LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

December 31, 2012 and 2011

#### 37. Risk Management

##### (a) Management of financial risks

###### *Objectives and Policies of the Group*

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

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

###### *Credit Risk*

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

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

##### 1) Exposure to credit risk

The book value of a financial asset represents the maximum exposure to credit risk. The maximum exposures to credit risk as of December 31, 2012 and 2011 are as follows:

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

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

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

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

December 31, 2012 and 2011

37. Risk Management, Continued

(a) Management of financial risks, continued

2) Impairment loss

Trade and other receivables, other financial assets (current), and other financial assets (non-current), before deducting the allowance for doubtful accounts as of December 31, 2012 and 2011 are summarized as follows:

Description	Korean won (millions)			
	December 31, 2012			
	Receivables that are neither past due nor impaired	Receivables that are past due as at the end of the reporting period but not impaired	Receivables impaired(*)	Total
Trade and other receivables	₩ 896,610	18,306	15,747	930,663
Other financial assets (current)	7,894,828	107,172	254,652	8,256,652
Other financial assets (non-current)	1,179,144	6,080	2,377	1,187,601
Total	₩ 9,970,582	131,558	272,776	10,374,916

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

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

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

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2012 and 2011

37. Risk Management, Continued

(a) Management of financial risks, continued

3) Allowance for doubtful trade and other receivables

The movement in the allowance for doubtful trade and other receivables for the years ended December 31, 2012 and 2011 are summarized as follow:

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

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

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

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

		Korean won (millions)	
		2012	2011
Balance at beginning of period	₩	-	-
Impairment loss		2,000	-
Others		376	-
Balance at end of period	₩	2,376	-

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

December 31, 2012 and 2011

37. Risk Management, Continued

(a) Management of financial risks, continued

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

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

		Korean won (millions)				
		<b>December 31, 2012</b>				
Description		Carrying amount	3 months or less	3 ~ 6 months	6 ~ 12 months	More than 1 year
Trade and other receivables	₩	18,306	13,964	1,963	1,511	868
Other financial assets (current)		107,172	107,046	126	-	-
Other financial assets (non-current)		6,080	-	-	-	6,080
Total	₩	<u>131,558</u>	<u>121,010</u>	<u>2,089</u>	<u>1,511</u>	<u>6,948</u>
		Korean won (millions)				
		<b>December 31, 2011</b>				
Description		Carrying amount	3 months or less	3 ~ 6 months	6 ~ 12 months	More than 1 year
Trade and other receivables	₩	12,334	6,103	2,284	2,200	1,747
Other financial assets (current)		133,249	116,210	17,039	-	-
Other financial assets (non-current)		6,080	-	-	-	6,080
Total	₩	<u>151,663</u>	<u>122,313</u>	<u>19,323</u>	<u>2,200</u>	<u>7,827</u>

5) Guarantees

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

## LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

December 31, 2012 and 2011

#### 37. Risk Management, Continued

##### (a) Management of financial risks, continued

###### *Liquidity Risks*

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

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

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

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

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

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

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

## LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

December 31, 2012 and 2011

#### 37. Risk Management, Continued

##### (a) Management of financial risks, continued

###### *Market Risks*

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

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

##### 1) Currency risk

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

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

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

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

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

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

## LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

December 31, 2012 and 2011

#### 37. Risk Management, Continued

##### (a) Management of financial risks, continued

The Group regularly measures exchange risks on Korean won against foreign currency fluctuations. The Group assumes that foreign currency exchange rates fluctuate 10% at the end of reporting period, and others variables are not changed. Sensitivity analysis of income before taxes from changes of foreign currency exchange rate as of December 31, 2012 and 2011 are summarized as follows:

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

Borrowings and debentures with currency swaps and overseas convertible bonds designated as financial liabilities at fair value through profit or loss are not included. The sensitivity analysis above is related to the monetary assets and liabilities, denominated in a currency other than the Group's functional currency, as of December 31, 2012 and 2011 of the Group entities in Korea.

##### 2) Interest rate risk

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

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

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

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

## LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

December 31, 2012 and 2011

#### 37. Risk Management, Continued

##### (a) Management of financial risks, continued

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

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

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

##### (b) Capital Management

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

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

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

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

#### 38. Subsequent Events

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