

LOTTE SHOPPING CO., LTD.

Separate 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 separate statements of financial position of Lotte Shopping Co., Ltd. (the "Company") as of December 31, 2012 and 2011, and the related separate 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 separate financial statements in accordance with Korean International Financial Reporting Standards. Our responsibility is to express an opinion on these separate financial statements based on our audits.

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 separate financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the separate 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, the separate financial statements referred to above present fairly, in all material respects, the financial position of the Company 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 separate financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying separate financial statements are for use by those knowledgeable about Korean auditing standards and their application in practice.

As discussed in note 2 to the separate financial statements, the Company adopted the amendment to K-IFRS No. 1001, 'Presentation of Financial Statements' for the year ended December 31, 2012. The amendment requires operating profit (loss), 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 Company 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

<p>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 separate 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.</p>

LOTTE SHOPPING CO., LTD.
Separate Statements of Financial Position

As of December 31, 2012 and 2011

	<i>Notes</i>	Korean won (millions)	
		December 31, 2012	December 31, 2011
Assets			
Cash and cash equivalents	6,29,31,36	₩ 217,470	1,336,911
Trade and other receivables	4,6,35,36	682,362	512,422
Other financial assets	5,6,29,36	263,733	279,087
Inventories	7	1,693,109	1,484,170
Other current non-financial assets	8	96,383	120,156
Total current assets		2,953,057	3,732,746
Investments in associates and subsidiaries	9,10,29,35	6,260,260	4,972,343
Other financial assets	5,6,29,36	1,010,237	939,114
Property and equipment, net	11	12,402,202	11,115,381
Investment property, net	12	353,574	413,844
Goodwill	13	605,663	384,913
Other intangible assets, net	13	510,052	506,155
Other non-financial assets	8	707,546	777,834
Total non-current assets		21,849,534	19,109,584
Total assets		₩ 24,802,591	22,842,330

See accompanying notes to the separate financial statements.

LOTTE SHOPPING CO., LTD.
Separate Statements of Financial Position, Continued

As of December 31, 2012 and 2011

	<i>Notes</i>	Korean won (millions)	
		December 31, 2012	December 31, 2011
Liabilities			
Borrowings and debentures, net of issuance costs	6,15,29,36	₩ 607,009	1,209,011
Trade and other payables	6,14,35,36	3,193,419	3,048,650
Other financial liabilities	6,29,36	321,914	288,226
Income taxes payable	30	174,501	114,758
Unearned revenues	16	93,685	81,608
Provisions	17	3,223	3,443
Other current non-financial liabilities	18	607,609	528,291
Total current liabilities		5,001,360	5,273,987
Borrowings and debentures, net of issuance costs	6,15,29,36	4,173,617	2,993,314
Other financial liabilities	6,29,36	105,365	39,535
Employee benefit liabilities	19	122,879	128,026
Deferred tax liabilities	30	1,205,225	1,190,343
Unearned revenues	16	3,380	2,017
Total non-current liabilities		5,610,466	4,353,235
Total liabilities		10,611,826	9,627,222
Equity			
Common stock of ₩5,000 par value Authorized - 60,000,000 shares Issued and outstanding - 29,043,374 shares	1,21	145,217	145,217
Capital surplus	21,37	3,653,765	3,622,183
Retained earnings	22	10,351,354	9,405,868
Accumulated other comprehensive income	23	40,429	41,840
Total equity		14,190,765	13,215,108
Total liabilities and equity		₩ 24,802,591	22,842,330

See accompanying notes to the separate financial statements.

LOTTE SHOPPING CO., LTD.
Separate Statements of Comprehensive Income

For the years ended December 31, 2012 and 2011

	<i>Notes</i>	Korean won (millions, except for earnings per share)	
		2012	2011
Sales	25,33,34,35	₩ 16,121,838	15,181,722
Cost of sales	25,28,35	(11,248,527)	(10,647,566)
Gross profit		<u>4,873,311</u>	<u>4,534,156</u>
Selling, general and administrative expenses	26,28,35	(3,735,749)	(3,281,073)
Operating income		<u>1,137,562</u>	<u>1,253,083</u>
Other income	27	36,794	42,318
Other expense	27	(54,357)	(65,889)
Finance income	29	457,226	233,506
Finance cost	29	(243,050)	(341,038)
Profit before income tax		<u>1,334,175</u>	<u>1,121,980</u>
Income tax expense	30	(315,960)	(379,043)
Profit for the year		<u>1,018,215</u>	<u>742,937</u>
Other comprehensive income:	23,30		
Net change in fair value of available-for-sale financial assets		(5,495)	(59,817)
Effective portion of net changes in fair value of cash flow hedges		3,633	8,768
Defined benefit plan actuarial losses		(38,474)	(10,221)
Tax effects		9,761	12,772
Other comprehensive loss for the year, net of tax		<u>(30,575)</u>	<u>(48,498)</u>
Total comprehensive income for the year		<u>₩ 987,640</u>	<u>694,439</u>
Earnings per share in won			
Basic and diluted earnings per share	24	₩ <u>35,058</u>	<u>25,580</u>

See accompanying notes to the separate financial statements.

LOTTE SHOPPING CO., LTD.
Separate Statements of Changes in Equity

For the years ended December 31, 2012 and 2011

		Korean won (millions)				Total equity
		Capital stock	Capital surplus	Retained earnings	Accumulated other comprehensive income	
Balance at January 1, 2011	₩	145,217	3,622,183	8,713,656	83,179	12,564,235
Total comprehensive income for the year						
Profit for the year		-	-	742,937	-	742,937
Other comprehensive income:						
Net change in fair value of available for-sale financial assets		-	-	-	(48,148)	(48,148)
Effective portion of net changes in fair value of cash flow hedges		-	-	-	6,809	6,809
Defined benefit plan actuarial losses		-	-	(7,159)	-	(7,159)
Subtotal		-	-	(7,159)	(41,339)	(48,498)
Total comprehensive income for the year		-	-	735,778	(41,339)	694,439
Transactions with owners of the Company, recognized directly in equity:						
Dividends		-	-	(43,566)	-	(43,566)
Balance at December 31, 2011	₩	145,217	3,622,183	9,405,868	41,840	13,215,108

See accompanying notes to the separate financial statements.

LOTTE SHOPPING CO., LTD.
Separate Statements of Changes in Equity, Continued

For the years ended December 31, 2012 and 2011

	Korean won (millions)				
	Capital stock	Capital surplus	Retained earnings	Accumulated other comprehensive income	Total equity
Balance at January 1, 2012	₩ 145,217	3,622,183	9,405,868	41,840	13,215,108
Total comprehensive income for the year					
Profit for the year	-	-	1,018,215	-	1,018,215
Other comprehensive income:					
Net change in fair value of available-for-sale financial assets	-	-	-	(4,165)	(4,165)
Effective portion of changes in fair value of cash flow hedges	-	-	-	2,754	2,754
Defined benefit plan actuarial losses	-	-	(29,164)	-	(29,164)
Subtotal	-	-	(29,164)	(1,411)	(30,575)
Total comprehensive income for the year	-	-	989,051	(1,411)	987,640
Transactions with owners of the Company, recognized directly in equity:					
Merging with the subsidiary company	-	31,582	-	-	31,582
Dividends	-	-	(43,565)	-	(43,565)
Subtotal	-	31,582	(43,565)	-	(11,983)
Balance at December 31, 2012	₩ 145,217	3,653,765	10,351,354	40,429	14,190,765

See accompanying notes to the separate financial statements.

LOTTE SHOPPING CO., LTD.
Separate Statements of Cash Flows

For the years ended December 31, 2012 and 2011

		Korean won (millions)	
		2012	2011
Cash flows from operating activities			
Profit for the period	₩	1,018,215	742,937
Income tax expense		315,960	379,043
Post-employment benefits expense		63,441	59,649
Long-term employee benefits expense		3,181	6,221
Depreciation		374,436	308,541
Amortization		104,182	65,528
Loss on foreign currency translation		602	72,524
Loss on disposal of property and equipment		6,092	17,179
Bad debt expenses (Reversal of bad debt expenses)		(417)	44
Other bad debt expenses (Reversal of other bad debt expenses)		3,176	(16,500)
Impairment loss of intangible assets		271	609
Loss on disposal of investments in associates and subsidiaries		7,554	-
Loss on disposal of available-for-sale financial assets		1,003	6
Impairment of available-for-sale financial assets		4,010	-
Loss on valuation of other non-current assets		-	204
Loss on valuation of derivative instruments		83,039	35,305
Loss on transaction of derivative instruments		2,788	19,904
Rental expenses		54,124	27,194
Loss (gain) on valuation of financial liabilities at fair value through profit or loss		(98,586)	54,544
Gain on foreign currency translation		(200,151)	(562)
Gain on disposal of property and equipment		(1,344)	(9,095)
Gain on disposal of intangible assets		-	(35)
Gain on disposal of investments in associates and subsidiaries		(374)	(204)
Gain on disposal of available-for-sale financial assets		-	(62,777)
Gain on valuation of derivative instruments		-	(18,978)
Gain on transaction of derivative instruments		(50)	(26,492)
Rental income		(3,203)	(2,741)
Interest expense		141,534	149,757
Interest income		(66,906)	(69,942)
Dividends income		(86,530)	(21,474)
Trade receivables		(116,679)	(72,565)
Other receivables		(29,910)	(4,106)
Other financial assets		(77,841)	(86,316)
Inventories		(80,682)	(249,379)
Other non-financial assets		46,608	(88,869)
Trade payables		45,446	272,075
Other payables		(52,903)	87,946
Other financial liabilities		(16,948)	25,345
Other non-financial liabilities		77,787	18,059
Unearned revenues		11,854	3,013
Provisions		(815)	(315)
Payment of post-employment benefits and long-term employee benefits		(39,777)	(28,913)
Plan assets		(84,349)	(32,685)
Income tax paid		(237,318)	(350,931)
Net cash provided by operating activities	₩	1,170,520	1,202,748

See accompanying notes to the separate financial statements.

LOTTE SHOPPING CO., LTD.
Separate Statements of Cash Flows, Continued

For the years ended December 31, 2012 and 2011

		Korean won (millions)	
		2012	2011
Cash flows from investing activities			
Proceeds from sale of short-term financial assets	₩	117,092	612,825
Collection of short-term loans		-	36,445
Collection of long-term loans		1,730	-
Proceeds from sale of available-for-sale financial assets		56,874	74,747
Proceeds from sale of investments in associates and subsidiaries		10,817	2,166
Proceeds from disposal of property and equipment		55,069	134,176
Proceeds from disposal of other intangible assets		48,745	235
Decrease of other assets		-	575
Cash inflows from merger		520	-
Purchase of short-term financial assets		(127,294)	(724,982)
Increase of long-term loans		-	(2,200)
Purchase of available-for-sale financial assets		(53,902)	(10,743)
Purchase of investments in associates and subsidiaries		(1,825,956)	(334,246)
Acquisition of property and equipment		(1,284,649)	(993,715)
Acquisition of investment properties		-	(1,665)
Acquisition of other intangible assets		(93,159)	(58,313)
Increase of other assets		-	(3,420)
Interest received		44,333	41,968
Dividends received		86,530	21,474
Net cash used in investing activities	₩	(2,963,250)	(1,204,673)

See accompanying notes to the separate financial statements.

LOTTE SHOPPING CO., LTD.
 Separate Statements of Cash Flows, Continued

For the years ended December 31, 2012 and 2011

		Korean won (millions)	
		<u>2012</u>	<u>2011</u>
Cash flows from financing activities			
Proceeds from borrowings	₩	1,277,700	1,884,500
Proceeds from issuance of debentures		1,337,065	1,940,774
Repayment of short-term borrowings		(1,346,000)	(2,094,500)
Repayment of current portion of long-term debt		(456,238)	(831,681)
Interest paid		(95,673)	(142,038)
Dividend paid		(43,565)	(43,565)
Net cash provided by financing activities	₩	<u>673,289</u>	<u>713,490</u>
Net increase (decrease) in cash and cash equivalents		<u>(1,119,441)</u>	<u>711,565</u>
Cash and cash equivalents at beginning of year		<u>1,336,911</u>	<u>625,347</u>
Cash and cash equivalents at end of year	₩	<u>217,470</u>	<u>1,336,911</u>

See accompanying notes to the separate financial statements.

LOTTE SHOPPING CO., LTD.
Notes to the Separate 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

2. Basis of Preparation

(a) Statement of compliance

The separate 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*.

These financial statements are separate financial statements prepared in accordance with K-IFRS No.1027, ‘*Consolidated and Separate Financial Statements*’ presented by a parent, an investor in an associate or a venture in a jointly controlled entity, in which the investments are accounted for on the basis of the direct equity interest rather than on the basis of the reported results and net assets of the investees.

The separate financial statements were authorized for issuance 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.

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements

December 31, 2012 and 2011

2. Basis of Preparation, Continued

(b) Basis of measurement

The separate 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 separate 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 Company operates.

(d) Use of estimates and judgments

The preparation of the separate 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.

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 6 – 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 36 – Risk management

(e) Changes in accounting policies

1) Changes in accounting policies

(i) Presentation of financial statements

The Company adopted the amendments to K-IFRS No. 1001, 'Presentation of Financial Statements' from the annual period ended December 31, 2012. The Company's operating profit (loss) 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.

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements

December 31, 2012 and 2011

2. Basis of Preparation, Continued

(e) Changes in accounting policies, Continued

2) Impact of change in accounting policy

The Company 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 amendments	₩	1,119,999	1,229,512
Changes			
Gain on disposal of property, plant and equipment		(1,344)	(9,095)
Gain on foreign currency transactions		(449)	(314)
Gain on foreign currency translation		(14)	(7)
Gain on disposal of intangible assets		-	(35)
Miscellaneous income		(34,987)	(32,867)
Loss on foreign currency transactions		219	808
Loss on foreign currency translation		-	2
Loss on disposal of property, plant and equipment		6,092	17,179
Impairment of intangible assets		271	609
Impairment of other non-current assets		149	204
Donation		14,839	13,525
Other bad debt expenses		1,227	394
Taxes and dues		198	67
Miscellaneous loss		31,362	33,101
Operating profit - after adoption of amendments	₩	<u>1,137,562</u>	<u>1,253,083</u>

LOTTE SHOPPING CO., LTD.

Notes to the Separate Financial Statements

December 31, 2012 and 2011

3. Significant Accounting Policies

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

(a) Operating segment

An operating segment is a component of the Company 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 Company's other components. All operating segments' operating results are reviewed regularly by the Company'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 Company'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 Company has four reportable segments which consist of department stores, discount stores, supermarkets and others, as described in note 33.

(b) Investments in associates, joint ventures and subsidiaries

These separate financial statements are prepared and presented in accordance with K-IFRS No. 1027 Consolidated and Separate Financial Statements. The Company applied the cost method to investments in subsidiaries, joint ventures and associates in accordance with K-IFRS No. 1027. The carrying amount under previous GAAP on the date of transition to K-IFRS is considered to be the deemed cost of investments in subsidiaries, joint ventures and associates on the date of transition. Dividends from subsidiaries, joint ventures or associates are recognized in profit or loss when the right to receive the dividend is established.

(c) 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 Company in management of its short-term commitments. Generally equity investments are excluded from cash and cash equivalents.

(d) 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.

LOTTE SHOPPING CO., LTD.

Notes to the Separate Financial Statements

December 31, 2012 and 2011

3. Significant Accounting Policies, Continued

(e) Non-derivative financial assets

The Company 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 Company recognizes financial assets in the separate statement of financial position when the Company 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 Company has the positive intention and ability to hold to maturity, are classified as held-to-maturity investments. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method.

(iii) Loans and receivables

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

(iv) Available-for-sale financial assets

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

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 Company's right to receive payment is established.

(v) De-recognition of financial assets

The Company 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 Company is recognized as a separate asset or liability.

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

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements

December 31, 2012 and 2011

3. Significant Accounting Policies, Continued

(e) Non-derivative financial assets, continued

(vi) Offsetting between financial assets and financial liabilities

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

(f) Derivative financial instruments, including hedge accounting

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

(i) Hedge accounting

The Company holds forward exchange contracts, interest rate swaps, currency swaps and other derivative contracts to manage interest rate risk and foreign exchange risk. The Company 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 Company 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 Company 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 separate statement of comprehensive income.

The Company 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.

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements

December 31, 2012 and 2011

3. Significant Accounting Policies, Continued

(i) Hedge accounting, continued

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.
Notes to the Separate Financial Statements

December 31, 2012 and 2011

3. Significant Accounting Policies, Continued

(g) Impairment of financial assets

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

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

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

(i) Financial assets measured at amortized cost

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of its estimated future cash flows discounted at the asset's original effective interest rate. If it is not practicable to obtain the instrument's estimated future cash flows, impairment losses would be measured by using prices from any observable current market transactions. The Company 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.
Notes to the Separate Financial Statements

December 31, 2012 and 2011

3. Significant Accounting Policies, Continued

(h) Property and equipment

Property 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 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 separate statement of financial position on the date of transition to K-IFRS, the Company measures certain property 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 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 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 Company 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 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 and equipment is depreciated over its separate useful life.

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

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

	Useful lives (years)
Buildings	10 ~ 50
Structures	7 ~ 40
Machinery	5 ~ 30
Vehicles	5
Display fixtures	5
Furniture and fixtures	5

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.
Notes to the Separate Financial Statements

December 31, 2012 and 2011

3. Significant Accounting Policies, Continued

(i) Intangible assets

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

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

	<u>Useful lives (years)</u>
Industrial property rights	5
Rights to use facility	10 ~ 20
Other intangible assets	4 ~ 10

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.

(j) Investment Property

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

Subsequent costs are recognized in the carrying amount of investment property at cost or, if appropriate, as separate items if it is probable that future economic benefits associated with the item will flow to the Company 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 as estimated useful lives.

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

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements

December 31, 2012 and 2011

3. Significant Accounting Policies, Continued

(k) Non-current assets held for distribution

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

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

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

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

(l) Impairment of Non-financial Assets

The carrying amounts of the Company'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 Company estimates the recoverable amount of an individual asset, if it is impossible to measure the individual recoverable amount of an asset, then the Company 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.
Notes to the Separate Financial Statements

December 31, 2012 and 2011

3. Significant Accounting Policies, Continued

(m) Leases

The Company classifies and accounts for leases as either a finance or operating lease, depending on the terms. Leases where the Company 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 Company recognizes as finance assets and finance liabilities in its separate 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 Company reviews to determine whether the leased asset may be impaired.

(ii) Operating leases

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

(n) Borrowing costs

The Company 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 Company borrows funds specifically for the purpose of obtaining a qualifying asset, the Company 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 Company immediately recognizes other borrowing costs as an expense. To the extent that the Company borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Company 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 Company 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 Company capitalizes during a period shall not exceed the amount of borrowing costs incurred during that period.

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements

December 31, 2012 and 2011

3. Significant Accounting Policies, Continued

(o) Non-derivative financial liabilities

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

(p) Employee benefits

(i) Short-term employee benefits

Short-term employee benefits are employee benefits that are due to be settled within 12 months after the end of the period in which the employees render the related service. When an employee has rendered service to the Company during an accounting period, the Company 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 high-quality corporate bonds that have maturity dates approximating the terms of the Company'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.
Notes to the Separate Financial Statements

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3. Significant Accounting Policies, Continued

(p) 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 Company'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 high-quality corporate bonds that have maturity dates approximating the terms of the Company's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The Company 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 Company 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 Company recognizes the past service cost immediately.

(q) Provisions

Provisions are recognized when the Company 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.
Notes to the Separate Financial Statements

December 31, 2012 and 2011

3. Significant Accounting Policies, Continued

(r) Foreign currencies

Transactions in foreign currencies are translated to the respective functional currencies of Company 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.

(s) 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 Company 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 Company acquires and retains treasury shares, the consideration paid or received is directly recognized in equity.

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements

December 31, 2012 and 2011

3. Significant Accounting Policies, Continued

(t) Revenue

Revenue from sale of goods, rendering of services or use of the Company 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.

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

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 Company 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 Company has fulfilled its obligations to supply its products.

Commissions

When the Company 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 Company.

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.

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements

December 31, 2012 and 2011

3. Significant Accounting Policies, Continued

(u) Finance income and finance costs

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

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

(v) Income taxes

Income tax expense comprises current and deferred tax. Pursuant to the income tax laws and regulations in Korea, the Company and its subsidiaries file separate tax returns therefore the Company's income tax is determined on a separate standalone basis. 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.

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements

December 31, 2012 and 2011

3. Significant Accounting Policies, Continued

(v) Income taxes, continued

(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 measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets or deferred tax liabilities on investment properties measured at fair value, unless any contrary evidence exists, are measured using the assumption that the carrying amount of the property will be recovered entirely through sale.

The Company 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 Company 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 Company 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 Company 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.
Notes to the Separate Financial Statements

December 31, 2012 and 2011

3. Significant Accounting Policies, Continued

(w) Earnings per share

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

(x) New standards and interpretations not yet adopted

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

(i) 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 will be applied retrospectively for the Company's annual periods beginning on or after January 1, 2013.

(ii) 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 Company's annual periods beginning on or after January 1, 2013.

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

The amendments require presenting in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendment is mandatorily effective for annual periods beginning on or after July 1, 2012. Management believes the impact of the amendments on the Company's separate financial statements is not significant.

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements

December 31, 2012 and 2011

4. Trade and Other Receivables

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

		Korean won (millions)	
		December 31, 2012	December 31, 2011
Trade receivables	₩	520,896	395,432
Other receivables		164,599	119,489
Allowance for doubtful accounts		(3,133)	(2,499)
Trade and other receivables	₩	682,362	512,422

5. Restricted Deposits

Restricted deposits included in current and non-current other financial assets as of December 31, 2012 and December 31, 2011 are summarized as follows:

		Korean won (millions)	
Description	Depository	December 31, 2012	December 31, 2011
Current:			
Short-term financial instruments	Woori Bank and others	17,294	17,093
	Industrial Bank of Korea	74,500	64,500
Non-current:			
Long-term financial instruments	Shinhan Bank and others	16	16
Available-for-sale financial assets	Gyeongsangnam-do Metropolitan Government and others	38,479	32,211
Total		₩ 130,289	113,820

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements

December 31, 2012 and 2011

6. Fair Value of Financial Instruments

- (a) The carrying amount and the fair value of financial instruments as of December 31, 2012 and December 31, 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	₩ 217,470	217,470	1,336,911	1,336,911
Loans and receivables (*1)	Trade and other receivables	682,362	682,362	512,422	512,422
	Short-term financial instruments	191,794	191,794	181,593	181,593
	Other financial assets	20	20	20	20
	Accrued income	4,587	4,587	10,297	10,297
	Deposits	751,812	751,812	670,127	670,127
	Long-term financial instruments	16	16	16	16
	Long-term loans	67,200	67,200	70,880	70,880
	Subtotal	1,697,791	1,697,791	1,445,355	1,445,355
Available-for-sale financial assets	Marketable available-for-sale equity securities (*2)	81,539	81,539	70,522	70,522
	Non-marketable available-for-sale equity securities (*3)	115,114	115,114	93,420	93,420
	Equity securities valued by acquisition cost (*4)	61,889	61,889	63,648	63,648
	Non-marketable debt securities (*5)	-	-	37,227	37,227
	Subtotal	258,542	258,542	264,817	264,817
	Current derivative assets-hedge	-	-	17,622	17,622
	Non-current derivative assets-hedge	-	-	2,828	2,828
	Subtotal	-	-	20,450	20,450
	Total	₩ 2,173,803	2,173,803	3,067,533	3,067,533

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements

December 31, 2012 and 2011

6. Fair Value of Financial Instruments, Continued

(a) The carrying amount and the fair value of financial instruments as of December 31, 2012 and December 31, 2011 are summarized as follows:, 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 equity securities that do not have a quoted market price in an active market are measured at fair value based on valuation of external valuation agencies.

(*4) 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.

(*5) Non-marketable available-for-sale debt securities that do not have a quoted market price in an active market are measured at fair value based on valuation of external valuation agencies.

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

Account	Korean won (millions)	
	December 31, 2012	December 31, 2011
Current:		
Short-term financial instruments	₩ 191,794	181,593
Accrued income	4,587	10,297
Deposits	67,332	59,793
Available-for-sale financial assets	-	9,762
Derivative assets held for the purpose of hedging	-	17,622
Other	20	20
Subtotal	263,733	279,087
Non-current:		
Long-term financial instruments	16	16
Long-term loans	67,200	70,880
Deposits	684,479	610,334
Available-for-sale financial assets	258,542	255,056
Derivative assets held for the purpose of hedging	-	2,828
Subtotal	1,010,237	939,114
Total	₩ 1,273,970	1,218,201

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

6. Fair Value of Financial Instruments, Continued

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

	Korean won (millions)				December 31, 2011 Carrying amount
	December 31, 2012				
	Number of shares	Owner- ship(%)	Acquisition cost	Carrying amount	
Marketable available-for-sale financial assets:					
BS Financial Group	5,259,597	2.72%	₩ 24,877	69,426	58,119
Shinhan Financial Group	311,118	0.07%	2,247	12,087	12,367
Others	-	-	608	26	36
Subtotal			27,732	81,539	70,522
Non-marketable available-for-sale financial assets:					
Lotte Trading Co., Ltd.	94,785	10.58%	18,878	32,334	35,197
Lotte Aluminium Co., Ltd.	62,609	6.03%	28,976	37,465	36,306
LOTTE LOGISTICS CORP.	66,308	4.64%	4,000	8,455	7,060
Lotte Properties (Chengdu) Ltd.	29,928,756	17.93%	41,919	41,919	41,919
Government and public bonds	-	-	-	-	37,227
Others (*)	-	-	85,777	56,830	36,587
Subtotal			179,550	177,003	194,296
Total			₩ 207,282	258,543	264,818

(*) The Company recognized of ₩4,010 million impairment losses in 2012.

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements

December 31, 2012 and 2011

6. Fair Value of Financial Instruments, Continued

(d) The carrying amount and the fair value of financial liabilities as of December 31, 2012 and December 31, 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	3,193,419	3,193,419	3,048,650	3,048,650
	Short-term borrowings	300,000	300,000	300,000	300,000
	Long-term borrowings	374,250	374,250	560,571	560,571
	Debentures	3,197,743	3,197,743	2,334,535	2,334,535
	Financial guarantee liabilities	1,478	1,478	437	437
	Accrued expenses	89,691	89,691	78,243	78,243
	Deposits received	254,612	254,612	236,885	236,885
	Subtotal	7,411,193	7,411,193	6,559,321	6,559,321
Derivative liabilities held for the purpose of hedging	Current derivative liabilities-hedge	5,595	5,595	7,096	7,096
	Non-current derivative liabilities-hedge	75,903	75,903	5,100	5,100
	Subtotal	81,498	81,498	12,196	12,196
Total		₩ 8,401,324	8,401,324	7,578,736	7,578,736

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

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements

December 31, 2012 and 2011

6. Fair Value of Financial Instruments, Continued

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

	Korean won (millions)	
	<u>December 31, 2012</u>	<u>December 31, 2011</u>
Current:		
Derivative liabilities held for the purpose of hedging	₩ 5,595	7,096
Financial guarantee liabilities	1,478	437
Accrued expenses	89,691	78,243
Deposits received	<u>225,150</u>	<u>202,450</u>
Subtotal	<u>321,914</u>	<u>288,226</u>
Non-current:		
Derivative liabilities held for the purpose of hedging	75,903	5,100
Deposits received	<u>29,462</u>	<u>34,435</u>
Subtotal	<u>105,365</u>	<u>39,535</u>
Total	<u>₩ 427,279</u>	<u>327,761</u>

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

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements

December 31, 2012 and 2011

6. Fair Value of Financial Instruments, Continued

(f) The fair value hierarchy

The Company 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)			
	Level I	Level II	Level III	Total
Available-for-sale financial assets	₩ 81,539	-	115,114	196,653
Total financial assets	₩ 81,539	-	115,114	196,653
Financial liabilities at fair value through profit or loss	₩ -	908,632	-	908,632
Derivative liabilities	-	81,499	-	81,499
Total financial liabilities	₩ -	990,131	-	990,131

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

Description	Korean won (millions)			
	Level I	Level II	Level III	Total
Available-for-sale financial assets	₩ 70,522	37,227	93,420	201,169
Derivative assets	-	20,450	-	20,450
Total financial assets	₩ 70,522	57,677	93,420	221,619
Financial liabilities at fair value through profit or loss	₩ -	1,007,219	-	1,007,219
Derivative liabilities	-	12,196	-	12,196
Total financial liabilities	₩ -	1,019,415	-	1,019,415

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements

December 31, 2012 and 2011

7. Inventories

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

		Korean won (millions)	
		December 31, 2012	December 31, 2011
Merchandise, net of allowance for valuation losses	₩	1,636,517	1,478,568
Finished goods		3,636	2,933
Goods in process		144	249
Raw materials		192	166
Subsidiary materials		60	29
Supplies		567	1,188
Materials-in-transit		302	158
Finished apartment units		-	879
Unfinished apartment units		5,555	-
Lots		46,136	-
Total	₩	1,693,109	1,484,170

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

		Korean won (millions)	
		2012	2011
Cost of goods sold:			
- Changes of allowance for valuation reserve of inventories	₩	1,289	(2,878)

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements

December 31, 2012 and 2011

8. Other Non-financial Assets

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

Description	Korean won (millions)	
	December 31, 2012	December 31, 2011
Current		
Advance payments	₩ 38,750	61,904
Prepaid expenses	57,395	58,252
Others	238	-
Subtotal	96,383	120,156
Non-current		
Long-term advance payments	82,632	126,007
Long-term prepaid expenses (*)	624,914	651,827
Subtotal	707,546	777,834
Total	₩ 803,929	897,990

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

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements

December 31, 2012 and 2011

9. Investments in Associates and Joint Ventures

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

December 31, 2012				
Company	Location	Principal business	Percentage of Ownership (%)	Korean won (millions) Balance at December 31, 2012
Associates:				
Lotte Station Building Co., Ltd.	Korea	Distribution	25.00	₩ 157,380
Daehong Communications Co., Ltd.	Korea	Advertisement agency	34.00	28,785
Lotte.Com Inc.	Korea	Distribution	34.39	11,610
Lotte Capital Co., Ltd.	Korea	Capital	20.22	70,214
Lotteria Co., Ltd.	Korea	Restaurant chain	30.81	83,333
FRL Korea Co., Ltd.	Korea	Retail	49.00	24,827
Lakepark Co., Ltd.	Korea	Real estate development	-	-
Lotte Asset Development Co., Ltd.	Korea	Real estate development	31.96	43,480
Zara Retail Korea Co., Ltd.	Korea	Retail	20.00	16,106
Lotte Buyeo Resort Co., Ltd.	Korea	Real estate development	22.22	16,673
Lotte Giants	Korea	Baseball club	30.00	823
Lakepark AMC	Korea	Real estate development	-	-
Lotte Europe Holdings B.V.	Netherlands	Holding company	34.26	132,999
Coralis S.A.	Luxembourg	Holding company	45.00	55,131
Bliss Co., Ltd.	Korea	Food manufacturing	-	-
M-Venture Culture Investment L.P.	Korea	Film producing company	25.00	2,500
Capital One Diversity Cinema Fund	Korea	Film producing company	20.00	1,000
Sovic Visual Contents Investment Fund	Korea	Film producing company	26.67	4,000
Capital One Middle-Low Budget Cinema Fund	Korea	Film producing company	25.00	3,000
Hubei XL Cinema Co., Ltd.	China	Cinema	49.00	7,687
Hemisphere Film Investors II LLC (*)	America	Film producing company	100.00	26,740
CJ Venture Investment No.14 Culture Contents Fund	Korea	Film producing company	30.00	6,000
Leading Asia Contents Fund	Korea	Film producing company	21.01	4,000
Shandong Longzhile Cinema Co.,Ltd	China	Cinema	49.02	1,735
Subtotal				<u>698,023</u>
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	1,496
STL Co., Limited	Korea	Retail	50.00	2,500
Subtotal				<u>3,996</u>
Total			₩	<u>702,019</u>

(*) The Company 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.
Notes to the Separate Financial Statements

December 31, 2012 and 2011

9. Investments in Associates and Joint Ventures, Continued

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

Company	Location	Principal business	December 31, 2011	
			Percentage of Ownership (%)	Korean won (millions) Balance at December 31, 2011
Associates:				
Lotte Station Building Co., Ltd.	Korea	Distribution	25.00	₩ 157,380
Daehong Communications Co., Ltd.	Korea	Advertisement agency	30.00	27,285
Lotte.Com Inc.	Korea	Distribution	34.39	11,610
Lotte Capital Co., Ltd.	Korea	Capital	20.22	70,214
Lotteria Co., Ltd.	Korea	Restaurant chain	30.81	83,333
FRL Korea Co., Ltd.	Korea	Retail	49.00	24,827
Lakepark Co., Ltd.	Korea	Real estate development	23.90	5,636
Lotte Asset Development Co., Ltd.	Korea	Real estate development	31.96	43,480
Zara Retail Korea Co., Ltd.	Korea	Retail	20.00	16,106
Lotte Buyeo Resort Co., Ltd.	Korea	Real estate development	22.22	16,673
Lotte Giants	Korea	Baseball club	30.00	823
Lakepark AMC	Korea	Real estate development	23.90	72
Lotte Europe Holdings B.V.	Netherlands	Holding company	30.81	110,908
Coralis S.A.	Luxembourg	Holding company	45.00	55,131
Bliss Co., Ltd.	Korea	Food manufacturing	30.00	150
M-Venture Culture Investment L.P.	Korea	Film producing company	25.00	2,500
Capital One Diversity Cinema Fund	Korea	Film producing company	20.00	1,000
Sovic Visual Contents Investment Fund	Korea	Film producing company	26.67	4,000
Capital One Middle-Low Budget Cinema Fund	Korea	Film producing company	25.00	3,000
Hubei XL Cinema Co., Ltd.	China	Cinema	49.00	5,530
Hemisphere Film Investors II LLC (*)	America	Film producing company	100.00	23,260
CJ Venture Investment No.14 Culture Contents Fund	Korea	Film producing company	30.00	6,000
Subtotal				<u>668,918</u>
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	1,496
STL Co., Limited	Korea	Retail	50.00	<u>1,000</u>
Subtotal				<u>2,496</u>
Total				₩ <u>671,414</u>

(*) The Company 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.
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December 31, 2012 and 2011

10. Investments in Subsidiaries

(a) A summary of the subsidiaries of the Company as of December 31, 2012 and December 31, 2011 is as follows:

Subsidiaries	Location	Products or services	December 31, 2012		Korean won (millions) Balance at December 31, 2012
			Fiscal year	Percentage of ownership (%)	
Lotte Boulangerie Co., Ltd.	Korea	Bakery	Dec. 31	90.54	₩ 9,530
Lotte Midopa Co., Ltd.	Korea	Distribution	Dec. 31	79.01	582,875
Lotte Card Co., Ltd.	Korea	Credit card, capital	Dec. 31	92.54	982,950
Woori Home Shopping & Television Co., Ltd.	Korea	Distribution	Dec. 31	53.03	393,213
Korea Seven Co., Ltd.	Korea	Distribution	Dec. 31	51.14	82,473
Lotte Gimhae Development Co., Ltd.	Korea	Service company	Dec. 31	100.00	300
Lotte Suwon Station Shopping Town Co., Ltd.	Korea	Real estate development	Dec. 31	95.00	47,548
Lotte Songdo Shopping Town Co., Ltd.	Korea	Real estate development	Dec. 31	39.22	40,000
NCF Co., Ltd.	Korea	Apparel manufacturing	Dec. 31	94.50	18,875
CS Mart Co., Ltd.	Korea	Distribution	Dec. 31	99.94	255,817
LOTTE Himart Co., Ltd.	Korea	Consumer electronics retail	Dec. 31	65.25	1,248,068
Lotte Shopping Holdings (Hong Kong) Co., Ltd.	Hong Kong	Holding company	Dec. 31	100.00	1,054,688
Lotte Shopping Holdings (Singapore) Co., Ltd.	Singapore	Holding company	Dec. 31	100.00	239,545
Lotte Vietnam Shopping Co., Ltd.	Vietnam	Distribution	Dec. 31	100.00	125,243
Qingdao Lotte Mart Commercial Co., Ltd.	China	Distribution	Dec. 31	53.84	39,864
Lotte Mart Co., Ltd.	China	Distribution	Dec. 31	100.00	158,134
Liaoning Lotte Mart Co., Ltd.	China	Distribution	Dec. 31	40.00	10,841
PT. Lotte Shopping Indonesia	Indonesia	Distribution	Dec. 31	55.00	214,068
Lotte Cinema Vietnam Co., Ltd.	Vietnam	Cinema	Dec. 31	90.00	7,099
LOTTE PROPERTIES (CHENGDU) HK LIMITED	Hong Kong	Holding company	Dec. 31	18.46	40,878
Lotte(China) Company Management Co., Ltd.	China	Managing company	Dec. 31	70.00	6,232
					₩ <u>5,558,241</u>

(*) Percentage of ownership represents an ownership of the Company. Percentage of ownership described in note 36 represents an ownership of the Company and its subsidiaries.

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements

December 31, 2012 and 2011

10. Investments in Subsidiaries, Continued

(a) A summary of the subsidiaries of the Company as of December 31, 2012 and December 31, 2011 is as follows, continued:

Subsidiaries	Location	Products or services	December 31, 2011		Korean won (millions) Balance at December 31, 2011
			Fiscal year	Percentage of ownership (%)	
Lotte Boulangerie Co., Ltd.	Korea	Bakery	Dec. 31	90.54	₩ 9,530
Lotte Midopa Co., Ltd.	Korea	Distribution	Dec. 31	79.01	582,875
Lotte Card Co., Ltd.	Korea	Credit card, capital	Dec. 31	92.54	982,950
Woori Home Shopping & Television Co., Ltd.	Korea	Distribution	Dec. 31	53.03	393,213
Korea Seven Co., Ltd.	Korea	Distribution	Dec. 31	51.14	82,471
Lotte Square Co., Ltd.	Korea	Distribution	Dec. 31	100.00	520,042
Lotte Gimhae Development Co., Ltd.	Korea	Service company	Dec. 31	100.00	300
Lotte Suwon Station Shopping Town Co., Ltd.	Korea	Real estate development	Dec. 31	95.00	14,298
Lotte Songdo Shopping Town Co., Ltd.	Korea	Real estate development	Dec. 31	39.22	40,000
NCF Co., Ltd.	Korea	Apparel manufacturing	Dec. 31	94.50	18,876
Lotte Shopping Holdings (Hong Kong) Co., Ltd.	Hong Kong	Holding company	Dec. 31	100.00	945,999
Lotte Shopping Holdings (Singapore) Co., Ltd.	Singapore	Holding company	Dec. 31	100.00	232,705
Lotte Vietnam Shopping Co., Ltd.	Vietnam	Distribution	Dec. 31	94.55	47,666
Qingdao Lotte Mart Commercial Co., Ltd.	China	Distribution	Dec. 31	53.84	39,864
Lotte Mart Co., Ltd.	China	Distribution	Dec. 31	100.00	158,134
Liaoning Lotte Mart Co., Ltd.	China	Distribution	Dec. 31	40.00	10,841
PT. Lotte Shopping Indonesia	Indonesia	Distribution	Dec. 31	55.00	214,068
Lotte Cinema Vietnam Co., Ltd.	Vietnam	Cinema	Dec. 31	90.00	7,097
					₩ <u>4,300,929</u>

(b) The fair value of marketable securities of the Company's investments in subsidiaries as of December 31, 2012 and December 31, 2011 are summarized as follows:

Description	Korean won (millions)	
	December 31, 2012	December 31, 2011
Lotte Midopa Co., Ltd.	₩ 710,367	823,613
LOTTE Himart Co., Ltd.	1,059,745	-

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

11. Property and Equipment

(a) Changes in acquisition cost of property 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	Acquisitions	Addition from merger of subsidiary	Disposals	Others (*)	Acquisition cost as of December 31, 2012
Land	₩	6,493,817	5,026	152,750	(1,403)	245,052	6,895,242
Buildings		4,498,761	33,986	240,956	(41,702)	532,130	5,264,131
Structures		258,370	1,048	92	(2,752)	4,827	261,585
Machinery		68,592	3,758	-	(305)	2,228	74,273
Vehicles		3,111	652	4	(173)	71	3,665
Display fixtures		152,227	7,454	1,257	(886)	20,945	180,997
Furniture and fixtures		1,564,535	106,300	99,925	(51,082)	252,039	1,971,717
Construction-in-progress		701,709	1,126,425	6,665	(190)	(1,075,148)	759,461
Total	₩	13,741,122	1,284,649	501,649	(98,493)	(17,856)	15,411,071

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

		2011				
		Korean won (millions)				
		Acquisition cost as of January 1, 2011	Acquisitions	Disposals	Others (*)	Acquisition cost as of December 31, 2011
Land	₩	6,429,414	12,082	(99,387)	151,708	6,493,817
Buildings		4,334,478	22,328	(47,551)	189,506	4,498,761
Structures		243,968	1,685	(3,291)	16,008	258,370
Machinery		54,484	1,583	(621)	13,146	68,592
Vehicles		2,805	332	(79)	53	3,111
Display fixtures		208,545	2,501	(64,038)	5,219	152,227
Furniture and fixtures		1,530,773	92,169	(187,344)	128,937	1,564,535
Construction-in-progress		797,024	861,035	(284)	(956,066)	701,709
Total	₩	13,601,491	993,715	(402,595)	(451,489)	13,741,122

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

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements

December 31, 2012 and 2011

11. Property and Equipment, Continued

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

		2012					
		Korean won (millions)					
		Accumulated depreciation as of January 1, 2012	Disposals	Addition from merger of subsidiary	Depreciation	Others	Accumulated depreciation as of December 31, 2012
Buildings	₩	1,365,516	(4,259)	25,884	134,126	18,391	1,539,658
Structures		54,480	(129)	16	12,042	142	66,551
Machinery		21,784	(247)	-	5,415	4	26,956
Vehicles		2,010	(172)	2	470	11	2,321
Display fixtures		124,459	(825)	502	12,127	-	136,263
Furniture and fixtures		1,057,492	(33,043)	7,301	205,153	217	1,237,120
Total	₩	<u>2,625,741</u>	<u>(38,675)</u>	<u>33,705</u>	<u>369,333</u>	<u>18,765</u>	<u>3,008,869</u>
		2011					
		Korean won (millions)					
		Accumulated depreciation as of January 1, 2011	Disposals	Depreciation	Others		Accumulated depreciation as of December 31, 2011
Buildings	₩	1,249,470	(12,377)	124,802		3,621	1,365,516
Structures		43,322	(441)	11,567		32	54,480
Machinery		17,603	(620)	4,801		-	21,784
Vehicles		1,575	(78)	499		14	2,010
Display fixtures		179,029	(64,009)	9,439		-	124,459
Furniture and fixtures		1,087,945	(182,808)	152,612		(257)	1,057,492
Total	₩	<u>2,578,944</u>	<u>(260,333)</u>	<u>303,720</u>		<u>3,410</u>	<u>2,625,741</u>

(c) There are no impairment losses and reversals of impairment losses for the years ended December 31, 2012 and 2011.

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements

December 31, 2012 and 2011

11. Property and Equipment, Continued

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

		Korean won (millions)			
		Book value	Guaranteed amount	Amount of deposits	Guarantee recipient
Buildings	₩	95,000	62,420	48,217	Shinhan Bank and etc.

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

		Korean won (millions)	
		2012	2011
Capitalized borrowing costs	₩	-	673
Capitalization interest rates (%)		-	4.73%

12. Investment Property

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

		2012 Korean won (millions)			
		Acquisition cost as of January 1, 2012	Acquisitions	Others (*)	Acquisition cost as of December 31, 2012
Land	₩	293,620	-	(38,042)	255,578
Buildings		181,787	-	(35,292)	146,495
Total	₩	475,407	-	(73,334)	402,073

(*) Others include reclassification between property and equipment and investment property.

		2011 Korean won (millions)			
		Acquisition cost as of January 1, 2011	Acquisitions	Others (*)	Acquisition cost as of December 31, 2011
Land	₩	315,771	665	(22,816)	293,620
Buildings		185,318	1,000	(4,531)	181,787
Total	₩	501,089	1,665	(27,347)	475,407

(*) Others include reclassification between property and equipment and investment property.

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12. Investment Property, Continued

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

		2012			
		Korean won (millions)			
		Accumulated depreciation as of January 1, 2012	Depreciation	Others	Accumulated depreciation as of December 31, 2012
Buildings	₩	61,563	5,103	(18,167)	48,499

		2011			
		Korean won (millions)			
		Accumulated depreciation as of January 1, 2011	Depreciation	Others	Accumulated depreciation as of December 31, 2011
Buildings	₩	59,777	4,821	(3,035)	61,563

- (c) 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	₩ 31,754	38,875
Direct operating expense (including maintenance and repair expenses)	9,409	10,432

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

Description	Korean won (millions)	
	Book value	Fair value
Land and buildings	₩ 353,574	569,233

- (e) During 2012 and 2011, there was no recognition of impairment loss or reversal of impairment loss.

LOTTE SHOPPING CO., LTD.
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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	Acquisitions	Addition from merger of subsidiary	Amortization	Impairment	Disposals	Others (*1)	Book value as of December 31, 2012
Goodwill	₩	384,913	4	217,128	-	(271)	-	3,889	605,663
Industrial property rights		1,159	989	-	(586)	-	-	-	1,562
Rights to use facility		486,396	8,595	4,268	(27,948)	-	(48,745)	59,399	481,965
Membership		9,925	4,672	-	-	-	-	-	14,597
Other intangible assets (*2)		8,675	78,899	13	(75,648)	-	-	(11)	11,928
Total	₩	891,068	93,159	221,409	(104,182)	(271)	(48,745)	63,277	1,115,715

(*1) Others include reclassification of construction-in-progress to intangible assets.

(*2) Other intangible assets are primarily related to movie distribution rights.

(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	Acquisitions	Amortization	Impairment	Disposals	Others (*1)	Book value as of December 31, 2011
Goodwill	₩	380,285	-	-	(609)	-	5,237	384,913
Industrial property rights		991	618	(450)	-	-	-	1,159
Rights to use facility		78,945	-	(7,975)	-	(199)	415,625	486,396
Membership		9,900	25	-	-	-	-	9,925
Other intangible assets (*2)		8,234	57,670	(57,103)	-	-	(126)	8,675
Total	₩	478,355	58,313	(65,528)	(609)	(199)	420,736	891,068

(*1) Others include reclassification of construction-in-progress to intangible assets.

(*2) Other intangible assets are primarily related to movie distribution rights.

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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 of the lowest level at which the goodwill may be monitored in terms of internal management of the Company and cannot be higher than any of the operating segments of the Company.

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

Cash-generating units	Korean won (millions)	
	December 31, 2012	December 31, 2011
Department stores	₩ 217,128	-
Discount store	338,043	338,043
Supermarket	50,492	46,870
Total	₩ 605,663	384,913

The value in use of the Company's cash-generating units was determined by discounting the estimated future cash flows from the continuing use of the cash-generating units. The approach used to determine value in use as of December 31, 2012 was consistent 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 results of operations and the Company's five-year business plan.
- The annual revenue growth rate included in the estimated future cash flows was estimated based on analysis of past revenue growth rates. The revenues after the five-year period were assumed to grow constantly at zero to three percent.
- The Company's weighted average capital cost was applied as the discount rate in determining the recoverable amount of cash-generating units.

As of December 31, 2012, the recoverable amount of the cash-generating units in others was less than the book value of the cash-generating units, including goodwill, therefore an impairment loss of ₩271 million was recognized. Total impairment loss was distributed to goodwill and recognized as intangible asset impairment loss.

As a result of the Company's impairment testing, value in use exceeded the carrying amount for the department stores and discount store cash-generating units.

LOTTE SHOPPING CO., LTD.
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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 December 31, 2011 are as follows:

Cash-generating units		Korean won (millions)	
		December 31, 2012	December 31, 2011
Department stores	₩	10,307	6,379
Discount store		1,976	1,531
Supermarket		1,193	894
Others		1,121	1,121
Total	₩	14,597	9,925

As a result of the impairment test on indefinite intangible assets, value in use exceeded the carrying amounts for all cash-generating units.

14. Trade and Other Payables

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

		Korean won (millions)	
		December 31, 2012	December 31, 2011
Trade payables	₩	2,492,827	2,311,167
Other payables		700,592	737,483
Total	₩	3,193,419	3,048,650

LOTTE SHOPPING CO., LTD.
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15. Borrowings and Debentures

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

		Korean won (millions)	
		December 31, 2012	December 31, 2011
Current:			
Short-term borrowings	₩	300,000	300,000
Current portion of long-term borrowings		-	560,878
Discount on long-term borrowings		-	(307)
Long-term debentures		307,110	348,516
Discount on debentures		(101)	(76)
Subtotal		607,009	1,209,011
Non-current:			
Long-term borrowings		374,250	-
Long-term debentures		3,811,078	3,002,633
Discount on debentures		(11,711)	(9,319)
Subtotal		4,173,617	2,993,314
Total	₩	4,780,626	4,202,325

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

Lender	Annual interest rate (%)		Korean won (millions)	
	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
Samsung Securities Co., Ltd.	-	3.60	₩ -	100,000
ING Bank	-	4.08	-	100,000
Korea Exchange Bank	3.62	4.34	100,000	100,000
Shinhan Bank	3.05	-	200,000	-
Total			₩ 300,000	300,000

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15. Borrowings and Debentures, Continued

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

Lender	Annual interest rate (%)	Maturity	Korean won (millions)	
			December 31, 2012	December 31, 2011
Lotte Co., Ltd. (Japan)	2.30	Aug. 31, 2015	₩ 124,750	148,516
		Sep. 30, 2015	249,500	297,032
BNP Paribas Bank	3M USD Libor+1.20	-	-	115,330
Present value discount			-	(307)
Subtotal			374,250	560,571
Current portion of long term borrowings			-	560,878
Present value discount			-	(307)
Total			₩ 374,250	-

(*) Maturity date of long-term borrowings from Lotte Co., Ltd. (Japan) has been extended from 2012 to 2015.

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

15. Borrowings and Debentures, Continued

(d) Debentures as of December 31, 2012 and December 31, 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
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	-
59-2nd placed	Aug. 07, 2017	3.20	230,000	-
59-3rd placed	Aug. 07, 2019	3.33	200,000	-
60th placed (foreign currency)	Dec. 13, 2015	3M USD Libor+0.68	107,110	-
1st placed (Global bond)	Apr. 07, 2016	3.88	428,440	461,320
2nd placed (Global bond)	May 09, 2017	3.38	428,440	-
USD convertible bonds (*)	Jul. 05, 2016	-	515,644	539,614
JPY convertible bonds (*)	Jul. 05, 2016	-	392,989	467,605
Subtotal			4,118,188	3,351,149
Less: Discount on debentures			(11,812)	(9,395)
Total book value			4,106,376	3,341,754
Less: Current portion of debentures, net of discount			307,009	348,440
Total			₩ 3,799,367	2,993,314

LOTTE SHOPPING CO., LTD.
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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 Company 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 are 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.
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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)		
		Borrowings	Debentures	Total
Within 1 year	₩	-	307,110	307,110
1 ~ 2 years		-	758,455	758,455
2 ~ 3 years		374,250	857,110	1,231,360
3 ~ 4 years		-	1,337,073	1,337,073
More than 4 years		-	858,440	858,440
Total	₩	<u>374,250</u>	<u>4,118,188</u>	<u>4,492,438</u>

16. Unearned Revenues

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

		Korean won (millions)	
		December 31, 2012	December 31, 2011
Current:			
Membership points	₩	30,882	28,137
Other points (*)		57,663	50,585
Unearned rental income		2,229	2,550
Others		2,911	336
Subtotal		<u>93,685</u>	<u>81,608</u>
Non-current:			
Unearned rental income		<u>3,380</u>	<u>2,017</u>
Total	₩	<u><u>97,065</u></u>	<u><u>83,625</u></u>

(*) Other points are primarily related to promotional gift certificates issued upon sales.

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17. Provisions

Changes in provisions for the years ended December 31, 2012 and 2011 are as follows:

		2012			
		Korean won (millions)			
	Book value as of January 1, 2012	Increase	Utilization	Book value as of December 31, 2012	
Current:					
Provision for bonus points reward program	₩ 1,643	21,162	(21,418)	1,387	
Provision for sales return	1,800	1,836	(1,800)	1,836	
Total	₩ 3,443	22,998	(23,218)	3,223	
		2011			
		Korean won (millions)			
	Book value as of January 1, 2011	Increase	Utilization	Book value as of December 31, 2011	
Current:					
Provision for bonus points reward program	₩ 2,145	1,625	(2,127)	1,643	
Provision for sales return	1,613	1,800	(1,613)	1,800	
Total	₩ 3,758	3,425	(3,740)	3,443	

18. Other Non-financial Liabilities

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

		Korean won (millions)	
		December 31, 2012	December 31, 2011
Current:			
Withholdings	₩	55,224	48,307
Withholdings of value added tax		68,310	43,421
Advances received(*)		472,039	436,563
Advance receipt construction		12,036	-
Total	₩	607,609	528,291

(*) Advances received primarily related to amount received for purchased gift certificates.

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19. Employee Benefits

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

		Korean won (millions)	
		<u>December 31, 2012</u>	<u>December 31, 2011</u>
Present value of defined benefit obligations	₩	324,616	237,301
Fair value of plan assets		<u>(241,958)</u>	<u>(150,114)</u>
Total	₩	<u>82,658</u>	<u>87,187</u>

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

		Korean won (millions)	
		<u>December 31, 2012</u>	<u>December 31, 2011</u>
Present value of other long-term employee benefits	₩	40,221	40,839

- (c) Changes in the present value of defined benefit obligations for the years ended December 31, 2012 and 2011 are as follows:

		Korean won (millions)	
		<u>2012</u>	<u>2011</u>
Beginning of year	₩	237,301	182,073
Current service costs		59,366	52,570
Interest costs		13,722	12,739
Defined benefit plan actuarial losses		34,223	9,529
Payments		(35,787)	(25,209)
Others		<u>15,791</u>	<u>5,599</u>
End of year	₩	<u>324,616</u>	<u>237,301</u>

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

19. Employee Benefits, Continued

(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 year	₩	150,114	112,084
Expected return on plan assets		9,647	5,660
Actuarial gain (loss)		(4,251)	(692)
Employer contribution		109,810	45,171
Payments		(25,461)	(12,486)
Others		2,099	377
End of year	₩	241,958	150,114

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

		Korean won (millions)	
		December 31, 2012	December 31, 2011
Principal guarantee insurance policy	₩	241,912	150,059
Others		46	55
Total	₩	241,958	150,114

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

		Korean won (millions)	
		2012	2011
Current service costs	₩	59,366	52,570
Interest costs		13,722	12,739
Expected return on plan assets		(9,647)	(5,660)
Long-term employee benefits		3,181	6,221
Total	₩	66,622	65,870

(g) The principal actuarial assumptions used as of December 31, 2012 and December 31, 2011 are summarized as follows:

	December 31, 2012	December 31, 2011
Discount rate	3.31% ~ 4.41%	5.09% ~ 5.37%
Expected rate of return on plan assets	4.09% ~ 5.27%	4.51% ~ 4.80%
Expected rate of promotion	2.21% ~ 3.57%	1.89% ~ 3.36%
Expected rate of increase in salaries	1.50% ~ 5.00%	3.50% ~ 5.00%

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19. Employee Benefits, Continued

- (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)			
		<u>December 31, 2012</u>	<u>December 31, 2011</u>	<u>December 31, 2010</u>	<u>January 1, 2010</u>
Defined benefit obligation	₩	(324,616)	(237,301)	(182,073)	(149,473)
Plan assets		241,958	150,114	112,084	104,332
Deficit		(82,658)	(87,187)	(69,989)	(45,141)
Experience adjustments on plan liabilities		(20,345)	3,761	15,469	-
Experience adjustments on plan assets		(4,251)	(692)	5,421	-

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20. Derivative Instruments and Hedge Accounting

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

Description	Type	Description
Cash flow hedge	Currency swap	At the maturity of the swap, the interest payments for debentures in USD and JPY based on floating rates are exchanged back with fixed interest rate payments.
	Interest rate swap	Sell fixed interest to buy floating rate in KRW short-term borrowings.

(b) Details of currency swaps, as of December 31, 2012 are as follows:

Description	Principal amount		Fixed exchange rate (won)	Variable rate	Swap rate	Maturity
	Korean won (millions)	Foreign currency (thousands)				
55th placed (foreign currency)	USD	100,000	1,117.00	3M USD Libor+0.80	3.98%	May 20, 2013
57th placed (foreign currency)	USD	200,000	1,125.00	3M USD Libor+0.80	4.05%	March 17, 2014
58-1st placed (foreign currency)	JPY	15,000,000	14.8800	3M JPY Libor+0.60	3.42%	December 05, 2014
58-2nd placed (foreign currency)	USD	100,000	1,137.00	3M USD Libor+1.50	3.03%	November 28, 2014
60th placed (foreign currency)	USD	100,000	1,087.00	3M USD Libor+0.68	2.50%	December 13, 2015
2nd placed (Global bond)	USD	100,000	1,135.70	3.38%	3.75%	May 09, 2017
	USD	100,000		3.70%		
Short term borrowings	KRW	200,000	-	91days CD rate+0.15%	3.05%	September 27, 2013

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

Description	Type of derivatives	Related accounts	Korean won (millions)
Cash flow hedge	Currency swap	Loss on valuation of derivative instruments	₩ (83,039)
		Unrealized gain on valuation of derivative instruments, net of tax effect	2,855
	Interest rate swap	Unrealized gain on valuation of derivative instruments, net of tax effect	(101)

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

	Korean won (millions)	
	<u>December 31, 2012</u>	<u>December 31, 2011</u>
Additional paid-in capital	₩ 3,605,117	3,605,117
Other	48,648	17,066
	<u>₩ 3,653,765</u>	<u>3,622,183</u>

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22. Retained Earnings

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

		Korean won (millions)	
		December 31, 2012	December 31, 2011
Legal reserve	₩	175,306	170,950
Voluntary reserve		9,160,052	5,420,052
Unappropriated retained earnings		1,015,996	3,814,866
	₩	10,351,354	9,405,868

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

		Korean won (millions)	
		2012	2011
Beginning of year	₩	9,405,868	8,713,656
Profit for the year		1,018,215	742,937
Dividends		(43,566)	(43,566)
Actuarial losses on defined benefit pension plans		(29,163)	(7,159)
End of year	₩	10,351,354	9,405,868

(c) Details of appropriation of retained earnings for the years ended December 31, 2012 and 2011 are as follows:

		Korean won (millions)	
		2012	2011
I. Unappropriated retained earnings:	₩	1,015,996	3,814,866
Balance at beginning of year		26,944	3,079,088
Actuarial gains and losses on defined benefit pension plans		(29,163)	(7,159)
Profit for the year		1,018,215	742,937
II. Appropriation of retained earnings:		987,922	3,787,922
Regal reserve		4,356	4,356
Voluntary reserve		940,000	3,740,000
Cash dividends		43,566	43,566
III. Unappropriated retained earnings to be carried over to subsequent year		28,074	26,944

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements

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23. Accumulated Other Comprehensive Income

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

		2012			
		Korean won (millions)			
		Beginning balance	Changes for the period	Tax effects for the period	Balance as of December 31, 2012
Net change in unrealized fair value of available-for-sale financial assets	₩	51,380	(5,495)	1,330	47,215
Effective portion of net changes in unrealized fair value of cash flow hedges		(9,540)	3,633	(879)	(6,786)
Total	₩	<u>41,840</u>	<u>(1,862)</u>	<u>451</u>	<u>40,429</u>
		2011			
		Korean won (millions)			
		Beginning balance	Changes for the period	Tax effects for the period	Balance as of December 31, 2011
Net change in unrealized fair value of available-for-sale financial assets	₩	99,528	(59,817)	11,669	51,380
Effective portion of net changes in unrealized fair value of cash flow hedges		(16,349)	8,768	(1,959)	(9,540)
Total	₩	<u>83,179</u>	<u>(51,049)</u>	<u>9,710</u>	<u>41,840</u>

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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	₩	1,018,215	742,937
Weighted-average number of common shares outstanding		29,043,374	29,043,374
Earnings per share	₩	35,058	25,580

(*) 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:

		USD Bonds	JPY Bonds
Principal amount(*) (in millions of won)	₩	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 the fixed exchange rate of 1,083.50/USD and 13.4529/JPY, respectively.

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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-merchandise	₩	16,001,072	15,221,094
Sales-merchandise in direct management		15,171,582	14,444,987
Specific sales-merchandise		829,490	776,107
Discount store sales - merchandise		(1,175,640)	(1,090,532)
Sales allowance and discount		(281,647)	(268,619)
Reserve for returned goods unsold and deferred sales		(230,277)	(199,786)
Cost of specific merchandise sold		(663,716)	(622,127)
Sales-finished goods		11,738	3,890
Others		1,284,668	1,047,270
Total	₩	<u>16,121,838</u>	<u>15,181,722</u>

(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	₩	11,120,042	10,567,834
Cost of products sold		6,647	1,401
Cost of other operating revenue		121,838	78,331
Total	₩	<u>11,248,527</u>	<u>10,647,566</u>

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26. Selling, general and administrative expenses

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

		Korean won (millions)	
		2012	2011
Salaries	₩	714,156	662,937
Retirement and termination benefits		63,344	59,601
Long-term employee benefits		3,178	6,217
Employee welfare		144,576	133,257
Education and training		10,391	12,211
Travel		18,342	18,861
Maintenance fee for car		1,089	955
Insurance premium		7,077	6,799
Taxes and dues		89,555	82,475
Entertainment expense		3,028	3,186
Supplies and stationery		60,393	55,117
Publication expense		1,216	1,887
Communications		11,603	11,188
Utilities		193,868	169,720
Maintenance		22,563	20,928
Rent		385,161	298,556
Depreciation		374,436	308,540
Amortization of intangible assets		30,011	10,194
Commissions and fees		397,201	364,876
Service commission expenses		611,345	546,913
Advertising		220,125	192,873
Samples expenses		20	49
Sales commission		190,183	152,591
Sales promotion expenses		147,067	131,438
Decoration		18,497	12,755
Bad debt expenses (Reversal of bad debt expenses)		(417)	44
Transportation		14,075	12,850
Research and development expenses		215	170
Compensation expenses		1,256	1,395
Others		2,195	2,490
Total	₩	3,735,749	3,281,073

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27. Other incomes and expenses

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

		Korean won (millions)	
		2012	2011
Other income:			
Gain on foreign currency transactions	₩	449	314
Gain on foreign currency translation		14	7
Gain on disposal of property and equipment		1,344	9,095
Gain on disposal of intangible assets		-	35
Others (*1)		34,987	32,867
Total	₩	36,794	42,318
Other expense:			
Loss on foreign currency transactions	₩	219	808
Loss on foreign currency translation		-	2
Loss on disposal of property and equipment		6,092	17,179
Impairment of intangible assets		271	609
Impairment of other non-current assets		149	204
Donation		14,839	13,525
Other bad debt expenses		1,227	394
Taxes and dues		198	67
Others (*2)		31,362	33,101
Total	₩	54,357	65,889

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

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

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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	₩ 11,207,870	10,756,100
Changes in inventories	(126,821)	(242,931)
Employee benefits expense	926,356	862,672
Rent	385,161	298,556
Depreciation and amortization	478,619	374,069
Commissions	190,183	152,591
Sales promotion expenses	147,067	131,438
Commission expenses	397,223	364,902
Service contract expenses	611,345	546,913
Advertising expenses	220,125	192,873
Decoration	18,497	12,755
Transportation	14,075	12,850
Others(*)	514,576	465,851
Total	₩ 14,984,276	13,928,639

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

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29. Finance Income and Finance Costs

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

		Korean won (millions)	
		2012	2011
Finance income:			
Interest income	₩	66,906	69,942
Dividend income		86,530	21,474
Gain on foreign currency transactions		4,643	33,084
Gain on foreign currency translation		200,137	555
Gain on valuation of financial liabilities at fair value through profit or loss		98,586	-
Gain on disposal of available-for-sale financial assets		-	62,777
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		374	204
Total	₩	457,226	233,506
Finance costs:			
Interest expense	₩	141,534	149,757
Loss on foreign currency transactions		571	25,895
Loss on foreign currency translation		602	72,522
Loss on valuation of financial liabilities at fair value through profit or loss		-	54,544
Loss on disposal of available-for-sale financial assets		1,003	6
Impairment of available-for-sale financial assets		4,010	-
Loss on valuation of derivative instruments held for the purpose of hedging		83,039	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
Other bad debt losses (Reversal of other bad debt losses)		1,949	(16,895)
Loss on disposal of investments in associates		7,554	-
Total	₩	243,050	341,038

LOTTE SHOPPING CO., LTD.
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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	₩ 29,621	29,424
Loans and receivables:	Short-term financial instruments:		
	Interest income	4,915	9,915
	Loans:		
	Interest income	2,247	3,409
	Guarantee deposits:		
	Interest income	28,794	25,995
Available-for-sale financial assets:	Available-for-sale financial assets:		
	Interest income	1,329	1,199
	Dividend income	4,857	1,726
	Loss on valuation of available-for-sale financial assets	(5,495)	(59,816)
	Gain (loss) on disposal of available-for-sale financial assets	(1,003)	62,771
	Impairment	4,010	-
Investments in associates and subsidiaries:	Investments in associates and subsidiaries:		
	Dividend income	81,673	19,748
	Gain (loss) on disposal	(7,180)	204
Financial liabilities based on amortized cost:	Borrowings:		
	Interest expense	28,629	32,196
	Debentures:		
	Interest expense	109,797	114,638
	Rental guarantee deposits:		
	Interest expense	3,108	2,923
Financial assets and liabilities at fair value through profit or loss:	Derivatives:		
	Gain (loss) on valuation	-	(34,879)
	Gain 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	(83,039)	18,552
	Gain (loss) on transaction	(2,738)	9,413
	Gain (loss) on valuation (other comprehensive income(loss))	3,633	8,768

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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 expense	₩	296,095	255,827
Deferred tax expense		10,104	110,444
Income taxes directly recorded in equity		9,761	12,772
Income tax expense	₩	315,960	379,043

(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	₩	1,330	11,668
Effective portion of changes in fair value of cash flow hedges		(879)	(1,959)
Defined benefit plan actuarial losses		9,310	3,063
Income tax directly recorded in equity	₩	9,761	12,772

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 and losses (gains) on valuation of derivatives are recognized in other comprehensive income.

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

30. Income Taxes, Continued

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

		Korean won (millions)	
		2012	2011
Profit before income tax	₩	1,334,175	1,121,980
Income tax using statutory tax rates		322,408	271,493
Adjustment:		(6,448)	107,550
Tax effects on non-taxable income		(6,037)	(1,614)
Tax effects on non-deductible income		572	1,573
Tax credit		(1,521)	(1,925)
Adjustments for prior periods		57	(451)
Effect of change in tax rate		-	109,388
Others		481	579
Income tax expenses	₩	315,960	379,043
Effective tax rate (%)		23.68%	33.78%

(d) As of December 31, 2012, the tax effects of temporary difference were calculated by expected tax rate of the fiscal period when the temporary differences were reversed. The tax rates in 2012 and 2013 were expected to be 24.2 %, respectively.

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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	Merger	Profit or loss	Other comprehensive income	Balance as of December 31, 2012
Impairment loss on available-for-sale financial assets	₩ 18	-	970	-	988
Investments in subsidiaries and associates	(259,949)	-	323	-	(259,626)
Depreciation	30,683	2,323	(10,877)	-	22,129
Allowance for doubtful accounts	1,866	-	41	-	1,906
Accrued revenues	(2,492)	(105)	1,487	-	(1,110)
Unearned revenue	2,487	-	298	-	2,784
Losses on valuation of inventories	1,372	-	238	-	1,609
Provision for sales return	436	5	4	-	444
Property, plant and equipment (capitalization of borrowing costs)	(13,288)	-	407	-	(12,881)
Land (asset revaluation)	(975,396)	-	12	-	(975,384)
Provision for mileage program	7,207	153	449	-	7,809
Accrued expense	11,343	-	544	-	11,887
Foreign currency translation gains (losses)	6,245	-	54	-	6,298
Losses on valuation of convertible bonds	(11,502)	-	3,672	-	(7,830)
Construction-in-progress	443	-	(24)	-	419
Other intangible assets	6,814	-	3,968	-	10,782
Rental guarantee deposits	9,025	-	788	-	9,812
Goodwill	(13,962)	(7,282)	(12,531)	-	(33,775)
Losses (gains) on valuation of available- for-sale financial assets	(16,404)	-	-	1,330	(15,074)
Losses (gains) on valuation of derivatives	2,492	-	24	(879)	1,637
Salaries and retirement benefits	21,055	127	(10,913)	9,310	19,584
Others	1,164	-	1,201	-	2,367
Total	₩ (1,190,343)	(4,779)	(19,865)	9,761	(1,205,225)

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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

		2011			
		Korean won (millions)			
		Beginning balance	Profit or loss	Other comprehensive income	Balance as of December 31, 2011
Impairment loss on available-for-sale financial assets	₩	16	2	-	18
Investments in subsidiaries and associates		(236,317)	(23,632)	-	(259,949)
Depreciation		34,431	(3,748)	-	30,683
Allowance for doubtful accounts		6,056	(4,190)	-	1,866
Accrued revenues		(2,011)	(481)	-	(2,492)
Unearned revenue		-	2,487	-	2,487
Losses on valuation of inventories		2,068	(697)	-	1,372
Provision for sales return		390	45	-	436
Property, plant and equipment (capitalization of borrowing costs)		(12,976)	(312)	-	(13,288)
Land (asset revaluation)		(902,185)	(73,212)	-	(975,396)
Provision for mileage program		9,647	(2,440)	-	7,207
Accrued expense		10,634	709	-	11,343
Foreign currency translation gains (losses)		38,081	(31,837)	-	6,245
Losses on valuation of convertible bonds		-	(11,502)	-	(11,502)
Construction-in-progress		403	40	-	443
Other intangible assets		3,409	3,405	-	6,814
Rental guarantee deposits		7,293	1,732	-	9,025
Goodwill		(4,514)	(9,448)	-	(13,962)
Losses (gains) on valuation of available- for-sale financial assets		(28,072)	-	11,668	(16,404)
Losses (gains) on valuation of derivatives		(24,615)	29,066	(1,959)	2,492
Salaries and retirement benefits		17,632	360	3,063	21,055
Others		732	436	-	1,164
Total	₩	<u>(1,079,898)</u>	<u>(123,217)</u>	<u>12,772</u>	<u>(1,190,343)</u>

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

30. Income Taxes, Continued

- (f) Temporary differences not recognized as deferred tax assets related to investments in associates and subsidiaries as of December 31, 2012 and December 31, 2011 are as follows:

		Korean won (millions)	
		<u>December 31, 2012</u>	<u>December 31, 2011</u>
Investments in associates and subsidiaries	₩	281,865	281,865

- (g) The aggregate amount of deferred tax liabilities, deferred tax assets, current tax liabilities and tax assets are as follows:

		Korean won (millions)	
		<u>2012</u>	
Deferred tax assets	₩		208,759
Deferred tax liabilities			1,413,984
Current tax assets			119,966
Current tax liabilities			294,467

31. Separate Statements of Cash Flows

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

		Korean won (millions)	
		<u>December 31, 2012</u>	<u>December 31, 2011</u>
Cash	₩	19,742	25,582
Deposits		12,729	12,330
Other cash equivalents		184,999	1,298,999
Total	₩	<u>217,470</u>	<u>1,336,911</u>

- (b) During 2012 and 2011, the details of the significant transactions without cash inflows and outflows in investing activities and financing activities are as follows:

		Korean won (millions)	
		<u>2012</u>	<u>2011</u>
Change in fair value of available-for-sale financial assets	₩	(5,495)	(59,816)
Reclassification of construction-in-process		1,143,486	959,605

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December 31, 2012 and 2011

32. Operating Leases

(a) Lessee

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

		Korean won (millions)	
		2012	2011
Within 1 year	₩	276,454	171,019
1 ~ 5 years		918,412	613,726
Thereafter		1,777,149	649,237
Total	₩	2,972,015	1,433,982

2) Lease payments for fixed rental and contingent rental recognized as expenses for the year ended December 31, 2012 were ₩171,019 million and ₩214,141 million, respectively.

(b) Lessor

1) The Company has entered into the operating leases of its certain of properties and equipment. 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	₩	60,986	44,898
1 ~ 5 years		12,472	17,126
Thereafter		2,880	310
Total	₩	76,338	62,334

2) Lease collection from fixed rental and contingent rental recognized as income for the year ended December 31, 2012 were ₩44,898 million and ₩570,717 million, respectively.

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33. Operating Segments

- (a) The Company's major reportable segments consist of department stores (retail), discount store (retail), supermarkets and others as follows:

Description	Department stores	Discount Stores	Supermarkets	Others
Main business	Retail stores for middle and higher-end merchandise	Retail and wholesale stores for middle and discounted price merchandise	Retail stores for middle and discounted price merchandise	Others
Major products or services	Sales of merchandise and leasing			Sales of merchandise, leasing and others
Major customers	General consumers			General consumers

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

		Korean won (millions)			
		2012			
		Sales	Operating Profit	Depreciation and Amortization	Profit for the year
Department stores	₩	7,565,555	720,333	201,960	855,579
Discount stores		6,351,483	359,779	142,948	142,305
Supermarkets		1,740,019	40,767	34,427	13,437
Others		464,779	16,683	99,283	6,894
Total	₩	16,121,838	1,137,562	478,618	1,018,215

		Korean won (millions)			
		2011			
		Sales	Operating Profit	Depreciation and Amortization	Profit for the year
Department stores	₩	7,053,850	816,387	140,970	566,839
Discount stores		6,238,986	373,093	132,039	142,881
Supermarkets		1,534,513	44,479	28,163	20,687
Others		354,373	19,124	72,897	12,530
Total	₩	15,181,722	1,253,083	374,069	742,937

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December 31, 2012 and 2011

33. Operating Segments, Continued

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

		Korean won (millions)			
		Assets		Liabilities	
		2012	2011	2012	2011
Department stores	₩	13,812,433	13,972,524	9,432,299	8,497,246
Discount stores		9,273,593	7,572,034	838,082	803,927
Supermarkets		1,151,535	835,270	197,086	205,155
Others		565,030	462,502	144,360	120,894
Total	₩	24,802,591	22,842,330	10,611,827	9,627,222

34. Contingent Liabilities and Financial Commitments

(a) As of December 31, 2012, the Company has various forms of credit facility commitments with financial institutions as follows:

		Credit line		Amount used	
		Korean won (millions),		under credit facility	
		Foreign currency		Korean won (millions),	
		(thousands)		Foreign currency (thousands)	
General loan	KRW		100,000	KRW	-
Discount of bill	KRW		400,000	KRW	300,000
Buyer's credit	KRW		200,000	KRW	4,948
Bank overdraft	KRW		65,000	KRW	-
Payment guarantees	KRW		43,755	KRW	43,755
Letter of credit	USD		14,700	USD	3,301

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

Contractor	Description of contract
Lotte Midopa Co., Ltd. and Lotte Station Building Co., Ltd.	Providing management services

(c) As of December 31, 2012, the Company is the plaintiff in various lawsuits claiming damages totaling ₩9,935 million and the Company is the defendant in various lawsuits with damage claims totaling ₩8,998 million. The management believes that the ultimate resolutions of other legal actions will not have a material effect on the financial position or operations of the Company.

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35. 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 Company
Korea Fuji Film Co., Ltd.	8.52	Affiliate of Lotte Company
Lotte Confectionery Co., Ltd.	8.52	Affiliate of Lotte Company
Lotte Data Communication Company	5.22	Affiliate of Lotte Company
Lotte Chilsung Beverage Co., Ltd.	4.26	Affiliate of Lotte Company
Lotte Engineering & Construction Co., Ltd.	1.03	Affiliate of Lotte Company
Hotel Lotte Pusan Co., Ltd.	0.85	Affiliate of Lotte Company

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

Subsidiaries	Location	Products or services	December 31, 2012	
			Fiscal year	Percentage of ownership (%)
Lotte Midopa Co., Ltd.	Korea	Distribution	Dec. 31	79.01
Lotte Card Co., Ltd.	Korea	Credit card, capital Electronic banking	Dec. 31	92.54
eB Card Co., Ltd.	Korea	business banking	Dec. 31	95.00
Gyeonggi Smartcard Co., Ltd.	Korea	business banking	Dec. 31	100.00
Inchon Smartcard Co., Ltd.	Korea	business banking	Dec. 31	100.00
Chungnam Smartcard Co., Ltd.	Korea	business banking	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 Apparel	Dec. 31	90.54
NCF Co., Ltd.	Korea	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 Consumer	Dec. 31	99.94
LOTTE Himart Co., Ltd.	Korea	electronics retail	Dec. 31	65.25
Himart Logitech Co., Ltd.	Korea	Freight transport agency Electronic	Dec. 31	100.00
Himart Shopping Mall Co., Ltd.	Korea	commerce	Dec. 31	100.00
HiMart 1st ABS Specialty Co., Ltd.	Korea	SPC	Dec. 31	0.10

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

35. Transactions and Balances with Related Companies, Continued

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

Subsidiaries	December 31, 2012			
	Location	Products or services	Fiscal year	Percentage of ownership (%)
Lotte Vietnam Shopping Co., Ltd.	Vietnam	Distribution	Dec. 31	100.00
Qingdao Lotte Mart Commercial Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Mart Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Shopping Holdings (Singapore) Co., Ltd.	Singapore	Holding company	Dec. 31	100.00
PT. Lotte Shopping Indonesia	Indonesia	Distribution	Dec. 31	80.00
PT. Lotte Mart Indonesia	Indonesia	Distribution	Dec. 31	100.00
Lotte Shopping India Pvt., Ltd.	India	Distribution	Dec. 31	100.00
Lotte Hotel & Retail Vietnam Pte. Ltd.	Singapore	Holding company	Dec. 31	60.00
Kotobuki Holding (HK) Ltd.	Vietnam	Holding company	Dec. 31	100.00
Hai Thanh - Kotobuki Joint Venture Company	Vietnam	Hotel	Dec. 31	70.00
Lotte Shopping Holdings (Hong Kong) Co., Ltd.	Hong Kong	Holding company	Dec. 31	100.00
Lotte Mart China Co., Ltd. and its subsidiaries	China	Distribution	Dec. 31	100.00
Lotte Home Shopping Company Limited	Cayman	Holding company	Dec. 31	89.91
Lucky Pai Ltd. and its subsidiaries	China	Distribution	Dec. 31	89.21
Lotte Business Management (Tianjin) Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Mart Global Sourcing Center Co., Ltd.	China	Trading company	Dec. 31	100.00
Liaoning Lotte Mart Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Cinema Vietnam Co., Ltd.	Vietnam	Cinema	Dec. 31	90.00
Jilin Lotte Mart Co., Ltd.	China	Distribution	Dec. 31	100.00
LOTTE SHOPPING AVENUE INDONESIA	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
Lottemart C&C India Pvt. Ltd.	India	Distribution	Dec. 31	100.00
LOTTE DEPARTMENT STORE (TIANJIN) CO., LTD.	China	Distribution	Dec. 31	100.00
Lotte Shopping Business Management (Hong Kong) Limited	Hong Kong	SPC	Dec. 31	100.00

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December 31, 2012 and 2011

35. Transactions and Balances with Related Companies, Continued

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

Subsidiaries	Location	Products or services	December 31, 2012	
			Fiscal year	Percentage of ownership (%)
LOTTE PROPERTIES (CHENGDU) HK LIMITED	Hong Kong	Holding company	Dec. 31	73.46
Lotte Properties (Chengdu) Limited	China	Distribution	Dec. 31	100.00
Lotte (China) Company Management Co., Ltd.	China	management	Dec. 31	70.00
LOTTE DEPARTMENT STORE (CHENGDU) CO., LTD.	China	Distribution	Dec. 31	100.00
Lottemart (ChongQing) Commercial Company Limited	China	Distribution	Dec. 31	100.00
The 2nd Supreme	Korea	SPC	Dec. 31	0.90
The 3rd Supreme	Korea	SPC	Dec. 31	0.90
The 4th Supreme	Korea	SPC	Dec. 31	0.90
The 5th Supreme	Korea	SPC	Dec. 31	0.90

(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.	₩ 26,563	86,968	25,578	72,830
Lotte Confectionery Co., Ltd.	21,266	116,331	11,519	116,821
Lotte Chilsung Beverage Co., Ltd.	13,485	70,275	9,347	60,730
Lotte Engineering & Construction Co., Ltd.	3,408	544,709	3,093	529,275
Hotel Lotte Pusan Co., Ltd.	5,948	20,879	6,046	14,603
Lotte Data Communication Co., Ltd.	14,938	80,095	8,768	74,594
Lotte Midopa Co., Ltd.	7,833	8,024	8,901	7,791
Lotte Card Co., Ltd.	6,120	170,110	3,533	165,987
Lotte Vietnam Shopping Co., Ltd.	-	9	1,386	14
Lotte.Com Inc.	363	110,108	429	92,044
Daehong Communications Co., Ltd.	22,673	80,440	16,522	67,188
Lotteria Co., Ltd.	14,886	3,314	11,074	2,791
Lotte Station Building Co., Ltd.	14,070	6,402	15,809	5,959
Lotte Samkang Co., Ltd.	3,568	24,521	2,563	17,271
Lotte Ham Co., Ltd.	8,813	52,843	5,546	55,721
Lotte Trading Co., Ltd.	12,716	263,642	9,209	237,340
Lotte Aluminium Co., Ltd.	2,228	55,746	1,649	52,069
Others	75,279	318,393	56,061	300,480
Total	₩ 254,157	2,012,809	197,033	1,873,508

LOTTE SHOPPING CO., LTD.
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35. Transactions and Balances with Related Companies, Continued

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

Related company	Korean won (millions)			
	December 31, 2012			
	Receivables		Payables	
	Trade and other receivables	Other assets	Trade and other payables	Other liabilities
Hotel Lotte Co., Ltd.	₩ 1,703	29,656	10,384	1,628
Lotte Confectionery Co., Ltd.	1,988	-	15,623	-
Lotte Chilsung Beverage Co., Ltd.	755	-	3,484	4,112
Lotte Engineering & Construction Co., Ltd.	11,949	4,000	134,423	-
Hotel Lotte Pusan Co., Ltd.	357	6,813	2,777	-
Lotte Data Communication Co., Ltd.	1,374	-	9,227	-
Lotte Midopa Co., Ltd.	9,396	38,684	2,688	-
Lotte Card Co., Ltd.	94,077	-	69,416	2,583
Lotte Vietnam Shopping Co., Ltd.	205	7	1	-
Daehong Communications Co., Ltd.	5,650	-	10,666	-
Lotteria Co., Ltd.	878	-	3,645	4,750
Lotte Station Building Co., Ltd.	17,425	8,400	5,880	-
Intime Lotte Department Store Co., Ltd.	-	10,609	-	-
Lotte Ham Co., Ltd.	-	167	3,319	-
Lotte Trading Co., Ltd.	546	1,451	11,242	-
Others	63,958	11,844	70,034	9,268
Total	₩ 210,261	111,631	352,809	22,341

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

35. Transactions and Balances with Related Companies, Continued

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

Related company	Korean won (millions)				
	December 31, 2011				
	Receivables		Payables		
	Trade and other receivables	Other assets	Trade and other payables	Other liabilities	
Hotel Lotte Co., Ltd.	₩	1,170	25,236	11,234	752
Lotte Confectionery Co., Ltd.		1,808	-	808	14,988
Lotte Chilsung Beverage Co., Ltd.		559	-	2,948	-
Lotte Engineering & Construction Co., Ltd.		298	4,003	159,484	-
Hotel Lotte Pusan Co., Ltd.		306	-	1,954	-
Lotte Data Communication Co., Ltd.		1,203	-	9,399	-
Lotte Midopa Co., Ltd.		9,312	38,679	2,435	-
Lotte Card Co., Ltd.		61,622	-	19,147	3,138
Lotte Vietnam Shopping Co., Ltd.		-	8	4	-
Daehong Communications Co., Ltd.		3,778	-	10,460	-
Lotteria Co., Ltd.		161	-	-	601
Lotte Station Building Co., Ltd.		17,097	10,019	9,837	-
Intime Lotte Department Store Co., Ltd.		-	12,203	-	-
Lotte Ham Co., Ltd.		46	-	3,612	-
Lotte Trading Co., Ltd.		193	-	12,858	-
Others		63,457	8,362	64,461	15,002
Total	₩	161,010	98,510	308,641	34,481

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

35. Transactions and Balances with Related Companies, Continued

(d) Key management personnel compensation for the year ended December 31, 2012 and 2011 are as follows:

		Korean won (millions)	
		2012	2011
Short-term benefits	₩	18,748	18,489
Retirement benefits		11,661	8,905
Other long-term benefits		26	5
Total	₩	30,435	27,399

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

Related company	Guarantee recipient	Type of borrowings	Guaranteed amount (thousand)
Lotte Shopping Business Management (Hong Kong) Limited	HSBC, Deutsche Bank	Working capital	RMB 750,000
Lotte Cinema Vietnam Co., Ltd.	The Export-Import Bank of Korea	Working capital	USD 24,000
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	Working capital	RMB 70,000
	Shinhan Bank	Working capital	USD 8,125

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

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

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements

December 31, 2012 and 2011

36. Risk Management

(a) Management of financial risks

Objectives and Policies of the Company

Risk management activities of the Company 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 Company's competitiveness by reducing cost of finance through improving the financial structure and enhancing efficiency of capital operations.

In order to install and implement the financial risk management system, the Company 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 Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations in ordinary transaction and investment activity.

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

i) Exposure to credit risk

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

Account	Korean won (millions)	
	December 31, 2012	December 31, 2011
Cash equivalents	₩ 197,728	1,311,329
Trade and other receivables	682,362	512,422
Other financial assets (current)	263,733	279,087
Other financial assets (non-current) (*)	751,696	711,523
Total	₩ 1,895,519	2,814,361

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

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

36. Risk Management, Continued

(a) Management of financial risks, continued

ii) Impairment loss

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

		Korean won (millions)			
		December 31, 2012			
Description		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	₩	675,720	6,642	3,133	685,495
Other financial assets (current)		263,733	-	9,080	272,813
Other financial assets (non-current)		751,696	-	1,950	753,646
Total	₩	<u>1,691,149</u>	<u>6,642</u>	<u>14,163</u>	<u>1,711,954</u>

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

		Korean won (millions)			
		December 31, 2011			
Description		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	₩	505,585	6,837	2,499	514,921
Other financial assets (current)		279,087	-	9,682	288,769
Other financial assets (non-current)		711,523	-	-	711,523
Total	₩	<u>1,496,195</u>	<u>6,837</u>	<u>12,181</u>	<u>1,515,213</u>

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

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements

December 31, 2012 and 2011

36. Risk Management, Continued

(a) Management of financial risks, continued

iii) Allowance for doubtful trade and other receivables

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

		Korean won (millions)	
		2012	2011
Balance at beginning of period	₩	2,499	2,459
Impairment loss		946	47
Reversal of Impairment loss		(6)	(3)
Write-offs		(306)	(4)
Balance at end of period	₩	3,133	2,499

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

		Korean won (millions)	
		2012	2011
Balance at beginning of period	₩	9,682	26,576
Impairment loss		-	-
Reversal of Impairment loss		(602)	(16,894)
Balance at end of period	₩	9,080	9,682

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

		Korean won (millions)	
		2012	2011
Balance at beginning of period	₩	-	-
Impairment loss		1,950	-
Balance at end of period	₩	1,950	-

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements

December 31, 2012 and 2011

36. Risk Management, Continued

(a) Management of financial risks, continued

iv) 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 that are past due as at the end of the reporting period but not impaired are summarized as follows:

		Korean won (millions)				
		December 31, 2012				
Description		Carrying amount	3 months or less	3 ~ 6 months	6 ~ 12 months	More than 1 year
Trade and other receivables	₩	6,642	5,563	753	152	174

		Korean won (millions)				
		December 31, 2011				
Description		Carrying amount	3 months or less	3 ~ 6 months	6 ~ 12 months	More than 1 year
Trade and other receivables	₩	6,837	1,728	2,104	1,941	1,064

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements

December 31, 2012 and 2011

36. Risk Management, Continued

(a) Management of financial risks, continued

Liquidity Risks

Liquidity risk is the risk that the Company 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 Company predicts and corresponds to potential risks through consistently analyzing the schedule of cash flow and establishing short-term and long-term capital management plans.

The Company has historically been able to satisfy its cash requirements from cash flows from operations and debt financing. To the extent that the Company does not generate sufficient cash flows from operations to meet its capital requirements, the Company may rely on other financing activities, such as renewal of short-term borrowings, external long-term borrowings and offerings of debt securities, and other debt securities.

Also, the Company currently deposits a considerable amount with financial institutions with high credit ratings to make proper provisions for potential liquidity risks. The Company 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 Company 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	₩	607,009	610,405	610,405	-
Trade and other payables		3,193,419	3,193,419	3,193,419	-
Other financial liabilities (current) (*)		316,318	317,189	317,189	-
Borrowings and debentures		4,173,617	4,527,311	-	4,527,311
Other financial liabilities (non-current) (*)		29,463	34,208	-	34,208
Total	₩	<u>8,319,826</u>	<u>8,682,532</u>	<u>4,121,013</u>	<u>4,561,519</u>

(*) 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.

Risks from guarantees provided for associates and subsidiaries are as follows:

		Korean won (millions)		
		Expected guarantee amounts, if occurred	Within 1 year 1~5 years	
Guaranteed amount	₩	198,437	69,527	128,910

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements

December 31, 2012 and 2011

36. 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 Company'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 return.

The Company 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 Company seeks to apply hedge accounting in order to manage volatility in profit or loss.

i) Currency risk

The Company is exposed to currency risk on borrowings and debentures that are denominated in a currency other than the respective functional currencies of the Company. 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 Company enters into currency swap transactions with financial institutions to hedge currency risks of foreign currency denominated borrowings and debentures. When the Company needs foreign currencies, the Company 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 Company's functional currencies as of December 31, 2012 and December 31, 2011 are as follows:

		Korean won (millions)			
		December 31, 2012		December 31, 2011	
		Assets	Liabilities	Assets	Liabilities
USD	₩	7,840	1,908,090	10,333	1,577,584
EUR		-	1,164	-	178
JPY		-	954,384	-	1,284,650
Total	₩	7,840	2,863,638	10,333	2,862,412

The closing rates as of December 31, 2012 and December 31, 2011 and the average rates for the year 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	12.4750	14.8516

LOTTE SHOPPING CO., LTD.
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36. Risk Management, Continued

(a) Management of financial risks, continued

The Company regularly measures exchange risks on Korean won against foreign currency fluctuations. The Company 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 December 31, 2011 are summarized as follows:

		Korean won (millions)			
		December 31, 2012		December 31, 2011	
		10% increase	10% decrease	10% increase	10% decrease
USD	₩	(64,268)	64,268	(45,943)	45,943
EUR		(116)	116	(18)	18
JPY		(37,427)	37,427	(44,575)	44,575
Total	₩	<u>(101,811)</u>	<u>101,811</u>	<u>(90,536)</u>	<u>90,536</u>

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 functional currency, as of December 31, 2012 and December 31, 2011.

ii) 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 Company 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 Company 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 Company's variable interest-bearing financial instruments was:

		Korean won (millions)	
		December 31, 2012	December 31, 2011
Variable rate instruments:			
Financial assets	₩	69,150	65,000
Financial liabilities		1,020,253	1,245,069

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

36. Risk Management, Continued

(a) Management of financial risks, continued

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

		Korean won (millions)			
		December 31, 2012		December 31, 2011	
		100bps up	100bps down	100bps up	100bps down
Interest income	₩	692	(692)	650	(650)
Interest expense		1,000	(1,000)	3,000	(3,000)

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

(b) Capital Management

The objective of the Company's capital management is maximizing shareholders' profit through maintaining a sound capital structure. The Company 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 December 31, 2011 are as follows:

		Korean won (millions)	
		December 31, 2012	December 31, 2011
Liabilities (a)	₩	10,611,826	9,627,222
Equity (b)		14,190,765	13,215,108
Financial instruments (*) (c)		389,519	1,492,922
Borrowings (d)		4,780,625	4,202,325
Liabilities to equity ratio (a/b)		74.78%	72.85%
Net borrowings to equity ratio ((d-c)/b)		30.94%	20.50%

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

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

37. Merger

- (a) According to the resolution of board of directors on May 24, 2012, the Company merged Lotte Square Co., Ltd. into the Company on August 1, 2012, which is a wholly-owned subsidiary of the Company. Since the merger is eligible for a small-scale and simplified merger under Korean Commercial Act, the resolution of board of directors substituted the approval of shareholder's meeting.
- (b) The Company didn't issue new shares since the Company's interest at the acquisition date was 100%.
- (c) The merger between the Company and the subsidiary is the one between a parent and a subsidiary and brings about only a change in their legal substance with no change in their economic substance. The book value of acquired subsidiary's assets and liability are recognized as book value of the Company's consolidated financial statements and difference between the book value of investments in subsidiaries and the recognized amounts of asset acquired and liabilities assumed at the acquisition date is recorded as capital surplus.

Description	Amount (millions)
I . Consideration transferred (book value of investments in subsidiaries before the merger)	₩ 520,042
II . The identifiable assets and liabilities	
Cash and cash equivalents	520
Trade and other receivables	10,005
Inventories	80,603
Property and equipment	467,944
Intangible assets	221,409
Other assets	8,675
Trade and other payables	152,507
Borrowings and debentures	68,300
Defined benefit liabilities, other long-term employee benefit liabilities	19
Deferred tax liabilities	4,779
Other liabilities	11,927
Total identifiable net assets	<u>551,624</u>
III . Capital surplus	₩ <u>31,582</u>

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

38. Subsequent Events

On January 1, 2013, the Company merged Lotte Midopa Co., Ltd., a subsidiary of the Company. The merger is a small scale merger in accordance with article 527, paragraph 3 of the Korean Commercial Act. The Company issue 0.0375684 of its common share for each share of Lotte Midopa Co., Ltd.

In addition, on January 24, 2013, the Company 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%.