

LOTTE SHOPPING CO., LTD.

Condensed Separate Interim Financial Statements

**September 30, 2016 and 2015**

(Unaudited)

(With Independent Auditors' Review Report Thereon)

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# Independent Auditors' Review Report

Based on a report originally issued in Korean

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

## **Reviewed financial statements**

We have reviewed the accompanying condensed separate interim financial statements of Lotte Shopping Co., Ltd. (the "Company"), which comprise the condensed separate interim statement of financial position as of September 30, 2016, the condensed separate interim statements of comprehensive income for the three-month and nine-month periods ended September 30, 2016 and 2015, the condensed separate interim statements of changes in equity and cash flows for the nine-month periods ended September 30, 2016 and 2015 and notes, comprising a summary of significant accounting policies and other explanatory information.

## **Management's responsibility**

Management is responsible for the preparation and fair presentation of these condensed separate interim financial statements in accordance with Korean International Financial Reporting Standards ("K-IFRS") No.1034 *Interim Financial Reporting*, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

## **Auditors' review responsibility**

Our responsibility is to issue a report on these condensed separate interim financial statements based on our reviews.

We conducted our reviews in accordance with the Review Standards for Quarterly and Semiannual Financial Statements established by the Securities and Futures Commission of the Republic of Korea. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Korean Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## **Conclusion**

Based on our reviews, nothing has come to our attention that causes us to believe that the accompanying condensed separate interim financial statements referred to above are not prepared, in all material respects, in accordance with K-IFRS No.1034, 'Interim Financial Reporting'.

**Other matters**

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

The separate statement of financial position of the Company as of December 31, 2015, and the related separate statements of comprehensive income, changes in equity and cash flows for the year then ended, which are not accompanying this report, were audited by us in accordance with Korean Standards on Auditing and our report thereon, dated March 9, 2016, expressed an unqualified opinion. The accompanying condensed separate statement of financial position of the Company as of December 31, 2015 presented for comparative purposes, is consistent, in all material respects, with the audited separate financial statements from which it has been derived.

KPMG Samjong Accounting Corp.  
Seoul, Korea  
November 14, 2016

<p>This report is effective as of November 14, 2016, the review report date. Certain subsequent events or circumstances, which may occur between the review report date and the time of reading this report, could have a material impact on the accompanying condensed separate interim financial statements and notes thereto. Accordingly, the readers of the review report should understand that the above review report has not been updated to reflect the impact of such subsequent events or circumstances, if any.</p>
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LOTTE SHOPPING CO., LTD.  
Condensed Separate Interim Statements of Financial Position

As of September 30, 2016 and December 31, 2015

(Unaudited)

		Korean won (millions)	
	Notes	September 30, 2016	December 31, 2015
Assets			
Cash and cash equivalents	6,34,37 ₩	403,018	578,618
Trade and other receivables	4,6,36,37	505,658	563,375
Other financial assets	5,6,37	495,759	811,586
Income tax refund receivable		406	-
Inventories	7	2,103,857	2,036,792
Other non-financial assets	8	98,969	99,291
Total current assets		3,607,667	4,089,662
Investments in associates and joint ventures, subsidiaries			
	9,10,11,36	5,315,295	5,266,106
Other financial assets	5,6,21,37	1,249,395	1,226,294
Property and equipment, net	12,36	13,610,067	13,471,597
Investment property, net	13	300,424	289,454
Goodwill	14	485,878	484,277
Intangible assets, net	14,36	385,500	410,621
Other non-financial assets	8	816,250	782,695
Total non-current assets		22,162,809	21,931,044
Total assets	₩	25,770,476	26,020,706

See accompanying notes to the condensed separate interim financial statements.

LOTTE SHOPPING CO., LTD.

Condensed Separate Interim Statements of Financial Position, Continued

As of September 30, 2016 and December 31, 2015

(Unaudited)

		Korean won (millions)	
	Notes	September 30, 2016	December 31, 2015
<b>Liabilities</b>			
Borrowings and debentures, net of issuance costs	6,16,37 ₩	1,180,847	1,082,579
Trade and other payables	6,15,36,37	3,516,248	3,719,808
Other financial liabilities	6,21,37	382,223	309,762
Income taxes payable		-	75,504
Unearned revenues	17	53,924	56,478
Provisions	18	6,799	1,404
Other non-financial liabilities	19	806,849	718,526
<b>Total current liabilities</b>		<b>5,946,890</b>	<b>5,964,061</b>
Borrowings and debentures, net of issuance costs	6,16,37	2,871,701	3,351,529
Other financial liabilities	6,21,37	147,736	72,672
Employee benefit liabilities	20	111,135	44,784
Deferred tax liabilities		1,050,743	1,043,023
Unearned revenues	17	5,276	3,373
Other non-financial liabilities	19	18,009	9,557
<b>Total non-current liabilities</b>		<b>4,204,600</b>	<b>4,524,938</b>
<b>Total liabilities</b>		<b>10,151,490</b>	<b>10,488,999</b>
<b>Equity</b>			
Common stock of ₩5,000 par value			
Authorized - 60,000,000 shares			
Issued and outstanding – 31,490,892 shares	1,22	157,454	157,454
Capital surplus	22	3,962,094	3,962,094
Hybrid securities	23	269,118	269,118
Capital adjustments	24	(1,806)	(1,806)
Retained earnings	25	11,174,919	11,080,393
Accumulated other comprehensive income	26	57,207	64,454
<b>Total equity</b>		<b>15,618,986</b>	<b>15,531,707</b>
<b>Total liabilities and equity</b>	₩	<b>25,770,476</b>	<b>26,020,706</b>

See accompanying notes to the condensed separate interim financial statements.

# LOTTE SHOPPING CO., LTD.

## Condensed Separate Interim Statements of Comprehensive Income

For the three and nine-month periods ended September 30, 2016 and 2015

(Unaudited)

		Korean won (millions, except for earnings per share)			
		2016		2015	
	Notes	Three-month period	Nine-month period	Three-month period	Nine-month period
Sales	28,35,36 ₩	3,957,596	11,806,989	3,995,843	11,903,984
Cost of sales	7,28,31,36	(2,656,902)	(7,917,694)	(2,719,826)	(8,070,587)
<b>Gross profit</b>		<b>1,300,694</b>	<b>3,889,295</b>	<b>1,276,017</b>	<b>3,833,397</b>
Selling, general and administrative expenses	29,31,36	(1,193,514)	(3,524,103)	(1,114,896)	(3,367,153)
<b>Operating profit</b>		<b>107,180</b>	<b>365,192</b>	<b>161,121</b>	<b>466,244</b>
Other income	30,36	5,979	45,075	6,093	24,542
Other expenses	30,36	(19,602)	(66,812)	(17,528)	(52,627)
Finance income	32	121,757	220,596	126,252	220,026
Finance costs	32	(146,265)	(321,647)	(163,303)	(274,149)
<b>Profit before income tax</b>		<b>69,049</b>	<b>242,404</b>	<b>112,635</b>	<b>384,036</b>
Income tax expense	33	(16,663)	(72,353)	(27,666)	(90,342)
<b>Profit for the period</b>		<b>52,386</b>	<b>170,051</b>	<b>84,969</b>	<b>293,694</b>
<b>Other comprehensive income (loss) :</b>	26				
<b>Items that will never be reclassified to profit or loss:</b>					
Remeasurements of net defined benefit liabilities	20	(460)	(9,069)	(9,488)	(6,944)
Income tax on items that will never be reclassified to profit or loss	26	112	2,195	2,296	1,680
<b>Total items that will never be reclassified to profit or loss</b>		<b>(348)</b>	<b>(6,874)</b>	<b>(7,192)</b>	<b>(5,264)</b>
<b>Items that are or may be reclassified subsequently to profit or loss:</b>					
Net change in unrealized fair value of available-for-sale financial assets	26	(5,244)	(10,347)	(16,568)	(162)
Effective portion of unrealized changes in fair values of cash flow hedges	21,26	14,860	785	(8,610)	(18,250)
Income tax on items that are or may be reclassified subsequently to profit or loss	26	(2,327)	2,314	6,093	4,456
<b>Total items that are or may be reclassified subsequently to profit or loss</b>		<b>7,289</b>	<b>(7,248)</b>	<b>(19,085)</b>	<b>(13,956)</b>
<b>Other comprehensive income (loss) for the period, net of tax</b>		<b>6,941</b>	<b>(14,122)</b>	<b>(26,277)</b>	<b>(19,220)</b>
<b>Total comprehensive income (loss) for the period</b>		<b>59,327</b>	<b>155,929</b>	<b>58,692</b>	<b>274,474</b>
<b>Earnings per share</b>	27				
- Basic earnings per share (in won)		1,665	5,431	2,769	9,616
- Diluted earnings per share (in won)	₩	1,665	5,425	2,769	9,616

See accompanying notes to the condensed separate interim financial statements.

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

For the nine-month periods ended September 30, 2016 and 2015

(Unaudited)

		Korean won (millions)						
		Capital stock	Capital surplus	Hybrid securities	Capital adjustments	Retained earnings	Accumulated other comprehensive income	Total equity
Balance at January 1, 2015	₩	157,454	3,962,094	269,118	(1,806)	11,464,811	113,093	15,964,764
Total comprehensive income (loss) for the period								
Profit for the period		-	-	-	-	293,694	-	293,694
Other comprehensive income (loss):								
Net change in unrealized fair value of available-for-sale financial assets		-	-	-	-	-	(123)	(123)
Effective portion of unrealized changes in fair values of cash flow hedges		-	-	-	-	-	(13,833)	(13,833)
Remeasurements of net defined benefit liabilities		-	-	-	-	(5,264)	-	(5,264)
Subtotal		-	-	-	-	(5,264)	(13,956)	(19,220)
Total comprehensive income (loss) for the period								
		-	-	-	-	288,430	(13,956)	274,474
Transactions with owners of the Company, recognized directly in equity:								
Interest payment of hybrid securities		-	-	-	-	(9,511)	-	(9,511)
Dividends		-	-	-	-	(59,104)	-	(59,104)
Subtotal		-	-	-	-	(68,615)	-	(68,615)
Balance at September 30, 2015	₩	157,454	3,962,094	269,118	(1,806)	11,684,626	99,137	16,170,623

See accompanying notes to the condensed separate interim financial statements.



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

For the nine-month periods ended September 30, 2016 and 2015

(Unaudited)

Korean won (millions)

		Capital stock	Capital surplus	Hybrid securities	Capital adjustments	Retained earnings	Accumulated other comprehensive income	Total equity
<b>Balance at January 1, 2016</b>	₩	157,454	3,962,094	269,118	(1,806)	11,080,393	64,454	15,531,707
<b>Total comprehensive income (loss) for the period</b>								
Profit for the period		-	-	-	-	170,051	-	170,051
<b>Other comprehensive income (loss):</b>								
Net change in unrealized fair value of available-for-sale financial assets		-	-	-	-	-	(7,842)	(7,842)
Effective portion of unrealized changes in fair values of cash flow hedges		-	-	-	-	-	595	595
Remeasurements of net defined benefit liabilities		-	-	-	-	(6,875)	-	(6,875)
Subtotal		-	-	-	-	(6,875)	(7,247)	(14,122)
Total comprehensive income (loss) for the period		-	-	-	-	163,176	(7,247)	155,929
<b>Transactions with owners of the Company, recognized directly in equity:</b>								
Interest payment of hybrid securities		-	-	-	-	(9,546)	-	(9,546)
Dividends		-	-	-	-	(59,104)	-	(59,104)
Subtotal		-	-	-	-	(68,650)	-	(68,650)
<b>Balance at September 30, 2016</b>	₩	<u>157,454</u>	<u>3,962,094</u>	<u>269,118</u>	<u>(1,806)</u>	<u>11,174,919</u>	<u>57,207</u>	<u>15,618,986</u>

See accompanying notes to the condensed separate interim financial statements.

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

For the nine-month periods ended September 30, 2016 and 2015

(Unaudited)

		Korean won (millions)	
		2016	2015
<b>Cash flows from operating activities</b>			
Profit for the period	₩	170,051	293,694
Income tax expense		72,353	90,342
Post-employment benefits expense		56,628	53,670
Long-term employee benefits expense		5,697	2,301
Depreciation		398,510	403,530
Amortization		54,415	69,755
Loss on foreign currency translation		11,665	136,030
Loss on foreign currency transactions		741	12,124
Loss on disposal of property and equipment		1,680	5,260
Loss on disposal of intangible assets		4	2
Loss on valuation of financial liabilities at fair value through profit or loss		-	10,585
Loss on valuation of derivative instruments		108,013	12,210
Loss on transaction of derivative instruments		17,532	-
Loss on redemption of debentures		20,060	-
Rental expenses (Amortization of discount on deposit, etc.)		47,458	41,723
Loss on disposal of investments in subsidiaries, associates and joint ventures		59	351
Impairment loss of investments in subsidiaries, associates and joint ventures		75,255	-
Loss on disposal of available-for-sale financial assets		420	792
Impairment loss of available-for-sale financial assets		43	-
Impairment loss of other non-current assets		-	437
Interest expense		89,071	102,097
Miscellaneous losses		13,000	-
Bad debt expenses		27	53
Other bad debt expenses		429	9
Gain on foreign currency translation		(104,051)	(496)
Gain on foreign currency transactions		(10,622)	(57)
Gain on disposal of property and equipment		(2,158)	(1,390)
Gain on valuation of derivative instruments		(15,764)	(141,535)
Gain on transaction of derivative instruments		(13,362)	-
Gain on disposal of investments in subsidiaries, associates and joint ventures		(1,982)	-
Gain on disposal of available-for-sale financial assets		(8)	(152)
Rental income		(1,497)	(1,686)
Interest income		(38,494)	(39,849)
Dividend income		(37,240)	(38,433)
Reversal of impairment of other non-financial assets		(9)	(5)
Trade receivables		83,910	(216,474)
Other receivables		(37,458)	(29,163)
Other financial assets		(2,635)	34,215
Inventories		(67,065)	43,303
Other non-financial assets		(50,433)	(48,154)
Trade payables		(116,232)	(129,711)
Other payables		(62,307)	(189,916)
Other financial liabilities		68,680	(14,436)
Other non-financial liabilities		88,332	146,197
Unearned revenues		(1,182)	(5,540)
Provisions		5,394	18,786

See accompanying notes to the condensed separate interim financial statements.

LOTTE SHOPPING CO., LTD.

Condensed Separate Interim Statements of Cash Flows, Continued

For the nine-month periods ended September 30, 2016 and 2015

(Unaudited)

		Korean won (millions)	
		2016	2015
<b>Cash flows from operating activities, continued</b>			
Payment of post-employment benefits and long-term employee benefits		(30,292)	(32,186)
Plan assets		20,887	21,182
Income tax paid		(107,508)	(186,894)
<b>Net cash provided by operating activities</b>	₩	<b>710,015</b>	<b>422,571</b>

See accompanying notes to the condensed separate interim financial statements.

# LOTTE SHOPPING CO., LTD.

## Condensed Separate Interim Statements of Cash Flows, Continued

For the nine-month periods ended September 30, 2016 and 2015

(Unaudited)

		Korean won (millions)	
		2016	2015
<b>Cash flows from investing activities</b>			
Proceeds from sale of short-term financial assets	₩	667,851	347,183
Decrease of short-term loans		6,500	7,426
Proceeds from sale of available-for-sale financial assets		1,334	38,716
Proceeds from sale of investments in subsidiaries, associates and joint ventures		1,923	1,941
Proceeds from disposal of property and equipment		27,784	79,245
Proceeds from disposal of other intangible assets		1	592
Cash inflows from capital distribution from subsidiaries and associates and joint ventures		3,088	5,714
Cash inflows from business combination		413	-
Purchase of short-term financial assets		(406,553)	(722,351)
Purchase of long-term financial instruments		-	(2,000)
Increase of short-term loans		(1,500)	(26)
Increase of long-term loans		(2,000)	-
Purchase of available-for-sale financial assets		(27,120)	(6,303)
Purchase of investments in subsidiaries, associates and joint ventures		(127,532)	(113,445)
Acquisition of property and equipment		(594,096)	(560,304)
Acquisition of other intangible assets		(47,544)	(46,106)
Interest received		14,972	16,519
Dividends received		37,292	33,490
<b>Net cash used in investing activities</b>	₩	<b>(445,187)</b>	<b>(919,709)</b>

See accompanying notes to the condensed separate interim financial statements.

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

For the nine-month periods ended September 30, 2016 and 2015

(Unaudited)

		Korean won (millions)	
		2016	2015
<b>Cash flows from financing activities</b>			
Proceeds from issuance of debentures	₩	578,984	1,236,356
Repayment of short-term borrowings		-	(150,000)
Redemption of current portion of debentures		(868,140)	(946,078)
Payment of hybrid securities interests		(9,546)	(9,511)
Interest paid		(82,625)	(80,953)
Dividend paid		(59,104)	(59,104)
<b>Net cash provided by financing activities</b>	₩	(440,431)	(9,290)
<b>Net decrease in cash and cash equivalents</b>		(175,603)	(506,428)
<b>Cash and cash equivalents at January 1</b>		578,618	917,846
<b>Impact of foreign currency exchange rates on cash and cash equivalents</b>		3	(1)
<b>Cash and cash equivalents at September 30</b>	₩	403,018	411,417

See accompanying notes to the condensed separate interim financial statements.

# LOTTE SHOPPING CO., LTD.

## Notes to the Condensed Separate Interim Financial Statements

**September 30, 2016 and 2015**

(Unaudited)

### 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, supermarkets and H&B stores. In addition to the retail operations, the Company's business includes, a chain of multiplex movie theaters under the brand name of Lotte Cinema and so on. The Company's stock was listed on the Korea Exchange and the London Stock Exchange through an initial public offering in February 2006.

The stockholders of the Company as of September 30, 2016 are as follows:

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

### 2. Basis of Accounting

#### (a) Statement of compliance

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

These condensed separate interim financial statements were prepared in accordance with K-IFRS No. 1034 'Interim Financial Reporting' as part of the period covered by the Company's K-IFRS annual separate financial statements. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Company since the last annual separate financial statements as at and for the year ended December 31, 2015.

These condensed interim financial statements are separate interim financial statements prepared in accordance with K-IFRS No.1027, 'Separate Financial Statements' presented by a parent, an investor in an associate or a venturer in a joint venture, 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.

# LOTTE SHOPPING CO., LTD.

## Notes to the Condensed Separate Interim Financial Statements

**September 30, 2016 and 2015**

(Unaudited)

### **2. Basis of Accounting, Continued**

#### **(b) Use of estimates and judgments**

The preparation of the condensed separate interim 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.

In preparing these condensed separate interim financial statements, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the separate financial statements as of and for the year ended December 31, 2015.

### **3. Significant Accounting Policies**

The accounting policies applied by the Company in these condensed separate interim financial statements are the same as those applied by the Company in its separate financial statements as of and for the year ended December 31, 2015.

# LOTTE SHOPPING CO., LTD.

## Notes to the Condensed Separate Interim Financial Statements

### September 30, 2016 and 2015

(Unaudited)

#### 4. Trade and Other Receivables

Trade and other receivables as of September 30, 2016 and December 31, 2015 are summarized as follows:

		Korean won (millions)	
		September 30, 2016	December 31, 2015
Trade receivables	₩	306,660	398,451
Other receivables		203,617	169,569
Allowance for doubtful accounts		(4,619)	(4,645)
Total	₩	505,658	563,375

#### 5. Restricted Deposits

Restricted deposits included in current and non-current other financial assets as of September 30, 2016 and December 31, 2015 are summarized as follows:

		Korean won (millions)	
Description	Depository	September 30, 2016	December 31, 2015
Current:			
Time deposits	Busan Bank	₩ 3,053	2,851
Special deposits	Industrial Bank of Korea and others	109,000	95,500
Non-current:			
Time deposits	Busan Bank	2,000	2,000
Special deposits	Shinhan Bank and others	15	15
Available-for-sale financial assets	Busan Metropolitan Government and others	20,806	21,408
Total		₩ 134,874	121,774



# LOTTE SHOPPING CO., LTD.

## Notes to the Condensed Separate Interim Financial Statements

### September 30, 2016 and 2015

(Unaudited)

#### 6. Fair Value of Financial Instruments

- (a) The carrying amount and the fair value of financial instruments as of September 30, 2016 and December 31, 2015 are summarized as follows:

		Korean won (millions)			
		<b>September 30, 2016</b>		<b>December 31, 2015</b>	
		Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	Cash and cash equivalents	₩ 403,018	403,018	578,618	578,618
Financial assets at fair value through profit or loss	Non-current derivative assets-trade	15,764	15,764	-	-
Loans and receivables (*1)	Current:				
	Trade and other receivables	505,658	505,658	563,375	563,375
	Short-term financial instruments	392,053	392,053	653,351	653,351
	Short-term loans	8,000	8,000	6,500	6,500
	Accrued income	2,713	2,713	3,827	3,827
	Deposits	92,186	92,186	102,663	102,663
	Non-current:				
	Long-term financial instruments	2,000	2,000	2,000	2,000
	Opening a checking account deposit	16	16	15	15
	Long-term loans	41,000	41,000	45,500	45,500
	Deposits	893,338	893,338	857,583	857,583
	Subtotal	1,936,964	1,936,964	2,234,814	2,234,814
Available-for-sale financial assets	Marketable available-for-sale equity securities (*2)	174,233	174,233	171,174	171,174
	Non-marketable available-for-sale equity securities (*3)	35,190	35,190	34,448	34,448
	Equity securities valued by acquisition cost (*4)	79,558	79,558	76,552	76,552
	Non-marketable debt securities (*5)	8,296	8,296	120	120
	Subtotal	297,277	297,277	282,294	282,294
Derivative assets held for the purpose of hedging	Current derivative assets-hedge	807	807	45,245	45,245
	Non-current derivative assets-hedge	-	-	38,902	38,902
	Subtotal	807	807	84,147	84,147
	Total	₩ 2,653,830	2,653,830	3,179,873	3,179,873

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

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(Unaudited)

**6. Fair Value of Financial Instruments, Continued**

- (a) The carrying amount and the fair value of financial instruments as of September 30, 2016 and December 31, 2015 are summarized as follows:, continued

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

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

(\*3) Some of non-marketable available-for-sale equity securities that do not have a quoted market price in an active market are measured at fair value based on valuation from external valuation agencies.

(\*4) Others are recorded at acquisition cost because fair value cannot be reliably measured and 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 September 30, 2016 and December 31, 2015 are summarized as follows:

Account	Korean won (millions)	
	September 30, 2016	December 31, 2015
Current:		
Short-term financial instruments	₩ 392,053	653,351
Short-term loans	8,000	6,500
Accrued income	2,713	3,827
Deposits	92,186	102,663
Derivative assets held for the purpose of hedging	807	45,245
Subtotal	495,759	811,586
Non-current:		
Long-term financial instruments	2,000	2,000
Opening a checking account deposit	16	15
Available-for-sale financial assets	297,277	282,294
Long-term loans	41,000	45,500
Deposits	893,338	857,583
Derivative assets held for the purpose of hedging	-	38,902
Derivative assets held for the purpose of trading	15,764	-
Subtotal	1,249,395	1,226,294
Total	₩ 1,745,154	2,037,880

# LOTTE SHOPPING CO., LTD.

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(Unaudited)

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

(c) Available-for-sale financial assets as of September 30, 2016 and December 31, 2015 are summarized as follows:

Description	Korean won (millions)				December 31,
	September 30, 2016				2015
	Number of shares	Percentage of ownership	Acquisition cost	Carrying amount	Carrying amount
<b>Marketable available-for-sale financial assets:</b>					
BNK Financial Group Inc.	8,543,826	2.62%	₩ 56,179	73,306	55,248
Shinhan Financial Group Co., Ltd.	311,118	0.07%	2,247	12,491	12,305
LOTTE FOOD CO., LTD.	47,180	3.45%	10,167	32,413	44,774
momo.com Inc.	7,319,420	5.15%	35,956	53,803	55,491
Others			2,736	2,220	3,356
Subtotal			107,285	174,233	171,174
<b>Non-marketable available-for-sale financial assets:</b>					
LOTTE LOGISTICS CORP.	66,308	4.64%	4,000	15,555	13,865
SPARX Asset Management Korea Co., Ltd. (Formerly, Cosmo Asset Management Co., Ltd.)	65,680	7.76%	22,012	15,064	15,107
Lotte Properties (Shenyang) Limited	29,928,756	17.93%	41,919	41,919	41,919
Government and public bonds			8,353	8,296	120
Others			44,660	42,210	40,109
Subtotal			120,944	123,044	111,120
Total			₩ 228,229	297,277	282,294

# LOTTE SHOPPING CO., LTD.

## Notes to the Condensed Separate Interim Financial Statements

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(Unaudited)

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

- (d) The carrying amount and the fair value of financial liabilities as of September 30, 2016 and December 31, 2015 are summarized as follows:

		Korean won (millions)			
		September 30, 2016		December 31, 2015	
		Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities at fair value through profit or loss	Overseas convertible bonds	₩ -	-	113,440	113,440
	Current derivative liabilities held for the purpose of trading	2,047	2,047	13,362	13,362
	Non-current derivative liabilities held for the purpose of trading	26,564	26,564	24,608	24,608
	Subtotal	28,611	28,611	151,410	151,410
Financial liabilities based on amortized cost (*)	Current:				
	Trade and other payables	3,516,248	3,516,248	3,719,808	3,719,808
	Short-term borrowings	200,000	200,000	200,000	200,000
	Current portion of long-term borrowings	99,827	99,827	-	-
	Current portion of debentures	881,020	881,020	769,139	769,139
	Financial guarantee liabilities	7,967	7,967	6,778	6,778
	Accrued expenses	161,634	161,634	84,921	84,921
	Current portion of deposits received	202,240	202,240	204,427	204,427
	Non-current:				
	Long-term borrowings	108,368	108,368	196,820	196,820
	Debentures	2,763,333	2,763,333	3,154,709	3,154,709
	Deposits received	42,469	42,469	44,283	44,283
	Other liabilities	11,700	11,700	-	-
	Subtotal	7,994,806	7,994,806	8,380,885	8,380,885
Derivative liabilities held for the purpose of hedging	Current derivative liabilities-hedge	8,335	8,335	274	274
	Non-current derivative liabilities-hedge	67,003	67,003	3,781	3,781
	Subtotal	75,338	75,338	4,055	4,055
Total		₩ 8,098,755	8,098,755	8,536,350	8,536,350

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

LOTTE SHOPPING CO., LTD.

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(Unaudited)

6. Fair Value of Financial Instruments, Continued

(e) Other financial liabilities as of September 30, 2016 and December 31, 2015 are summarized as follows:

		Korean won (millions)	
		September 30, 2016	December 31, 2015
Current:			
Derivative liabilities held for the purpose of trading	₩	2,047	13,362
Derivative liabilities held for the purpose of hedging		8,335	274
Financial guarantee liabilities		7,967	6,778
Accrued expenses		161,634	84,921
Deposits received		202,240	204,427
Subtotal		382,223	309,762
Non-current:			
Derivative liabilities held for the purpose of trading		26,564	24,608
Derivative liabilities held for the purpose of hedging		67,003	3,781
Deposit received		42,469	44,283
Other liabilities		11,700	-
Subtotal		147,736	72,672
Total	₩	529,959	382,434

LOTTE SHOPPING CO., LTD.  
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(Unaudited)

**6. Fair Value of Financial Instruments, Continued**

(f) The fair value hierarchy

The fair value measurements classified by fair value hierarchy as of September 30, 2016 are as follows:

Description		Korean won (millions)			Total
		Level I	Level II	Level III	
Available-for-sale financial assets	₩	174,233	8,296	35,191	217,720
Derivative assets		-	807	15,764	16,571
Total financial assets		<u>174,233</u>	<u>9,103</u>	<u>50,955</u>	<u>234,291</u>
Derivative liabilities		-	75,338	28,611	103,949
Total financial liabilities	₩	<u>-</u>	<u>75,338</u>	<u>28,611</u>	<u>103,949</u>

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

Description		Korean won (millions)			Total
		Level I	Level II	Level III	
Available-for-sale financial assets	₩	171,174	120	34,448	205,742
Derivative assets		-	84,147	-	84,147
Total financial assets		<u>171,174</u>	<u>84,267</u>	<u>34,448</u>	<u>289,889</u>
Overseas convertible bonds		-	113,440	-	113,440
Derivative liabilities		-	4,055	37,970	42,025
Total financial liabilities	₩	<u>-</u>	<u>117,495</u>	<u>37,970</u>	<u>155,465</u>

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

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

LOTTE SHOPPING CO., LTD.  
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**September 30, 2016 and 2015**

(Unaudited)

**6. Fair Value of Financial Instruments, Continued**

(g) Level 3 fair values

Changes in Level 3 fair values for the nine-month period ended September 30, 2016 and for the year ended December 31, 2015 are as follows:

Description	Korean won (millions)	
	September 30, 2016	December 31, 2015
Beginning of the period	₩ (3,522)	90,739
Transfer into Level 3	-	(15,554)
Loss included in finance costs		
Loss on valuation of derivative instruments	25,080	11,126
Gain (loss) included in OCI		
Net change in unrealized fair value of available-for-sale financial assets	786	(5,834)
Disposal	-	(83,999)
End of the period	₩ 22,344	(3,522)

(h) Sensitivity analysis

For the fair values of available-for-sale financial assets and stock options, reasonably possible changes as of September 30, 2016 to one of the significant unobservable inputs, holding other inputs constant, would have the following effects on fair values.

(i) Equity securities

Description	Korean won (millions)			
	Discount rate		Terminal growth rate	
	1% Decrease	1% Increase	0.5% Increase	1% Increase
Available-for-sale financial assets	2,967	(2,421)	889	1,885

(ii) Stock options

Description	Korean won (millions)			
	Stock price		Stock price volatility	
	10% Decrease	10% Increase	1% Decrease	1% Increase
Stock options	(5,378)	5,393	(3)	5

(iii) Embedded derivatives

Description	Korean won (millions)	
	Stock price volatility	
	1% Decrease	1% Increase
Exchange rights	0	0

# LOTTE SHOPPING CO., LTD.

## Notes to the Condensed Separate Interim Financial Statements

### September 30, 2016 and 2015

(Unaudited)

#### 7. Inventories

(a) Inventories as of September 30, 2016 and December 31, 2015 are summarized as follows:

Korean won (millions)							
September 30, 2016				December 31, 2015			
	Acquisition cost	Allowance for valuation	Book value	Acquisition cost	Allowance for valuation	Book value	
Merchandise	₩ 2,120,764	(21,418)	2,099,346	2,047,850	(16,279)	2,031,571	
Finished goods	308	(174)	134	3,918	(1,033)	2,885	
Goods in process	-	-	-	213	-	213	
Raw materials	-	-	-	183	-	183	
Subsidiary materials	-	-	-	23	-	23	
Supplies	77	-	77	98	-	98	
Materials-in-transit	4,300	-	4,300	1,819	-	1,819	
Total	₩ 2,125,449	(21,592)	2,103,857	2,054,104	(17,312)	2,036,792	

(b) During the three-month and nine-month periods ended September 30, 2016 and 2015, the amount of inventories recognized as cost of goods sold and changes of allowance for valuation losses of inventories are summarized as follows:

Korean won (millions)				
		2016	2015	
		Three-month period	Nine-month period	Three-month period
				Nine-month period
Cost of goods sold:				
- Amount of inventories recognized as cost of goods sold	₩	2,557,987	7,709,092	2,614,290
- Changes of allowance for valuation losses of inventories		11	4,280	1,410
				9,072



LOTTE SHOPPING CO., LTD.  
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**September 30, 2016 and 2015**

(Unaudited)

**8. Other Non-financial Assets**

Other non-financial assets as of September 30, 2016 and December 31, 2015 are summarized as follows:

		Korean won (millions)	
		<b>September 30, 2016</b>	<b>December 31, 2015</b>
Current:			
Advance payments	₩	11,197	36,229
Prepaid expenses		87,772	63,062
	Subtotal	98,969	99,291
Non-current:			
Long-term advance payments		236,372	183,696
Long-term prepaid expenses		579,878	598,999
	Subtotal	816,250	782,695
	Total	₩ 915,219	881,986

LOTTE SHOPPING CO., LTD.  
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September 30, 2016 and 2015

(Unaudited)

9. Investments in Associates

The details of investments in associates as of September 30, 2016 and December 31, 2015 are summarized as follows:

September 30, 2016				Korean won (millions) Balance at September 30, 2016
Company	Location	Principal business	Ownership (%)	
Lotte Station Building Co., Ltd.	Korea	Distribution	25.00	₩ 157,380
Daehong Communications Co., Ltd.	Korea	Advertisement agency	34.00	28,785
Lotte Capital Co., Ltd.	Korea	Capital	22.36	77,413
Lotteria Co., Ltd.	Korea	Restaurant chain	38.68	112,864
FRL Korea Co., Ltd.	Korea	Retail	49.00	24,827
Lotte Asset Development Co., Ltd.	Korea	Real estate development	39.14	72,890
Zara Retail Korea Co., Ltd.	Korea	Retail	20.00	16,106
LOTTE Giants Co., Ltd.	Korea	Baseball club	30.00	9,823
Lotte Europe Holdings B.V.	Netherlands	Holding company	26.98	87,504
Coralis S.A.	Luxembourg	Holding company	45.00	59,605
S.M.CONTENTES INVESTMENT	Korea	Film producing company	25.00	1,750
Capital One Diversity Cinema Fund	Korea	Film producing company	20.00	364
UNION INVESTMENT PARTNERS	Korea	Film producing company	26.67	4,000
Capital One Middle-Low Budget Cinema Fund	Korea	Film producing company	25.00	1,650
Hubei XL Cinema Co., Ltd.	China	Cinema	49.00	9,423
Hemisphere Film Investors II LLC (*1)	America	Film producing company	100.00	17,989
TW 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	49.00	8,057
Lotte Incheon Development Co., Ltd.	Korea	Real estate lease	37.50	15,000
Lotte Trading Co., Ltd.	Korea	Product brokerage	27.68	92,782
Eunpyeong PFV	Korea	Real estate development	20.11	3,500
Lotte Incheon Town Co., Ltd.	Korea	Real estate lease	35.00	3,500
LOTTE Town Dongtan Co.,LTD	Korea	Real estate development	50.00	35,000
LOTTE Accelerator Corporation (*2)	Korea	Management consulting	16.67	2,500
BUSAN-LOTTE CREATIVE FILM FUND	Korea	Film producing company	47.62	6,000
IBK-ISU Culture Contents Association	Korea	Film producing company	35.00	1,750
Total				₩ 860,462

(\*1) 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.

(\*2) The investment is classified as an associate because LOTTE.COM INC., a subsidiary of the Company, holds 16.67% of the common stocks.

LOTTE SHOPPING CO., LTD.  
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September 30, 2016 and 2015

(Unaudited)

9. Investments in Associates, Continued

The details of investments in associates as of September 30, 2016 and December 31, 2015 are summarized as follows; continued

December 31, 2015				Korean won (millions)
Company	Location	Principal business	Ownership (%)	Balance at December 31, 2015
Lotte Station Building Co., Ltd.	Korea	Distribution	25.00	₩ 157,380
Daehong Communications Co., Ltd.	Korea	Advertisement agency	34.00	28,785
Lotte Capital Co., Ltd.	Korea	Capital	22.36	77,413
Lotteria Co., Ltd.	Korea	Restaurant chain	38.68	112,864
FRL Korea Co., Ltd.	Korea	Retail	49.00	24,827
Lotte Asset Development Co., Ltd.	Korea	Real estate development	39.14	72,890
Zara Retail Korea Co., Ltd.	Korea	Retail	20.00	16,106
LOTTE Giants Co., Ltd.	Korea	Baseball club	30.00	823
Lotte Europe Holdings B.V. (*1)	Netherlands	Holding company	26.98	87,504
Coralis S.A.	Luxembourg	Holding company	45.00	55,131
S.M.CONTENTS INVESTMENT	Korea	Film producing company	25.00	1,750
Capital One Diversity Cinema Fund	Korea	Film producing company	20.00	364
UNION INVESTMENT PARTNERS	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	9,423
Hemisphere Film Investors II LLC (*2)	America	Film producing company	100.00	19,727
TW 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	49.00	7,173
Lotte Incheon Development Co., Ltd.	Korea	Real estate lease	37.50	15,000
Lotte Trading Co., Ltd.	Korea	Product brokerage	27.68	92,782
Eunpyeong PFV	Korea	Real estate development	20.11	3,500
Lotte Incheon Town Co., Ltd. (*3)	Korea	Real estate lease	35.00	3,500
LOTTE Town Dongtan Co.,LTD	Korea	Real estate development	50.00	35,000
Total				₩ 838,942

(\*1) The Company performed an impairment test for the investee company using recoverable amount based on external valuation agency, as a result of an impairment test, the Company recognized an impairment loss of ₩12,168 million during 2015.

(\*2) 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.

(\*3) During 2015, the investment was reclassified from subsidiary to associate due to the decrease in percentage of ownership.

# LOTTE SHOPPING CO., LTD.

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### September 30, 2016 and 2015

(Unaudited)

#### 10. Joint Ventures

When the Company has rights to the net assets of the joint venture entity, the Company classifies the investment as a joint venture. The details of joint ventures as of September 30, 2016 and December 31, 2015 are summarized as follows:

September 30, 2016				
Company	Location	Principal business	Ownership (%)	Korean won (millions) Balance at September 30, 2016
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	4,000
Total				₩ 5,496

  

December 31, 2015				
Company	Location	Principal business	Ownership (%)	Korean won (millions) Balance at December 31, 2015
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	4,000
Total				₩ 5,496

LOTTE SHOPPING CO., LTD.  
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11. Investments in Subsidiaries

(a) The details of subsidiaries of the Company as of September 30, 2016 and December 31, 2015 are as follows:

Subsidiaries	Location	Products or services	Fiscal year	Ownership (%)(*1)	September 30, 2016	
						Korean won (millions) Balance at September 30, 2016
Lotte Card Co., Ltd.	Korea	Credit card, financing	Dec. 31	93.78	₩	1,000,089
Woori Home Shopping & Television Co., Ltd.	Korea	TV Home Shopping	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		94,810
Lotte Songdo Shopping Town Co., Ltd.	Korea	Real estate development	Dec. 31	56.30		60,000
NCF Co., Ltd.	Korea	Apparel manufacturing	Dec. 31	99.80		20,059
CS Mart Co., Ltd.	Korea	Distribution	Dec. 31	99.95		255,826
LOTTE Himart Co., Ltd. (*2)	Korea	Consumer electronics retail	Dec. 31	65.25		1,248,068
Lotte Department Store Masan Co., LTD.	Korea	Distribution	Dec. 31	100.00		16,500
Lotte Members Co., Ltd (*3)	Korea	Business support service	Dec. 31	93.78		12,065
LOTTE.COM INC (*4)	Korea	E-commerce business	Dec. 31	50.01		23,178
Lotte Shopping Holdings (Hong Kong) Co., Ltd. (*5)	Hong Kong	Holding company	Dec. 31	100.00		370,182
LOTTE SHOPPING HOLDINGS (SINGAPORE) PTE. LTD.	Singapore	Holding company	Dec. 31	100.00		638,270
Qingdao LOTTE Mart Commercial Co., Ltd. (*5)	China	Distribution	Dec. 31	24.80		-
LOTTE CINEMA VIETNAM CO., LTD.	Vietnam	Cinema	Dec. 31	90.00		29,596
LOTTE PROPERTIES (CHENGDU) HK LIMITED	Hong Kong	Holding company	Dec. 31	73.46		160,391
Lotte (China) Management Co., Ltd.	China	Managing company	Dec. 31	70.00		6,232
LOTTE HOTEL & RETAIL VIETNAM PTE. LTD.	Singapore	Holding company	Dec. 31	20.00		14,185
LHSC Limited	Cayman Islands	Holding company	Dec. 31	16.02		-
Lotte Ulsan Development Co., Ltd.	Korea	Real estate development	Dec. 31	95.98		23,900
					₩	<u>4,449,337</u>

LOTTE SHOPPING CO., LTD.  
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11. Investments in Subsidiaries, Continued

- (a) The details of subsidiaries of the Company as of September 30, 2016 and December 31, 2015 are as follows, continued

Subsidiaries	Location	Products or services	Fiscal year	Ownership (%)(*1)	December 31, 2015	
						Korean won (millions) Balance at December 31, 2015
Lotte Card Co., Ltd.	Korea	Credit card, financing	Dec. 31	93.78	₩	1,000,089
Woori Home Shopping & Television Co., Ltd.	Korea	TV Home Shopping	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		94,810
Lotte Songdo Shopping Town Co., Ltd.	Korea	Real estate development	Dec. 31	56.30		60,000
NCF Co., Ltd.	Korea	Apparel manufacturing	Dec. 31	99.80		20,059
CS Mart Co., Ltd.	Korea	Distribution	Dec. 31	99.95		255,826
LOTTE Himart Co., Ltd. (*2)	Korea	Consumer electronics retail	Dec. 31	65.25		1,248,068
Lotte Department Store Masan Co., LTD.	Korea	Distribution	Dec. 31	100.00		16,500
Lotte Members Co., Ltd (*3)	Korea	Business support service	Dec. 31	93.78		12,065
LOTTE.COM INC (*4)	Korea	E-commerce business	Dec. 31	50.01		23,178
Lotte Shopping Holdings (Hong Kong) Co., Ltd. (*5)	Hong Kong	Holding company	Dec. 31	100.00		376,712
LOTTE SHOPPING HOLDINGS (SINGAPORE) PTE. LTD.	Singapore	Holding company	Dec. 31	100.00		298,959
Lotte Vietnam Shopping Co., Ltd. (*7)	Vietnam	Distribution	Dec. 31	100.00		125,243
Qingdao LOTTE Mart Commercial Co., Ltd. (*5)	China	Distribution	Dec. 31	36.79		-
LOTTE MART COMPANY LIMITED (*6)	China	Distribution	Dec. 31	100.00		-
Liaoning LOTTE Mart Co., Ltd. (*6)	China	Distribution	Dec. 31	40.00		-
PT. LOTTE SHOPPING INDONESIA (*7)	Indonesia	Distribution	Dec. 31	55.00		214,068
LOTTE CINEMA VIETNAM CO., LTD.	Vietnam	Cinema	Dec. 31	90.00		19,297
LOTTE PROPERTIES (CHENGDU) HK LIMITED	Hong Kong	Holding company	Dec. 31	73.46		160,391
Lotte (China) Management Co., Ltd.	China	Managing company	Dec. 31	70.00		6,232
LOTTE HOTEL & RETAIL VIETNAM PTE. LTD.	Singapore	Holding company	Dec. 31	20.00		14,185
LHSC Limited	Cayman Islands	Holding company	Dec. 31	16.02		-
					₩	4,421,668

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**11. Investments in Subsidiaries, Continued**

- (a) The details of subsidiaries of the Company as of September 30, 2016 and December 31, 2015 are as follows; continued

(\*1) 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.

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

(\*3) During 2015, Lotte Members Co., Ltd split off from Lotte Card Co., Ltd.

(\*4) During 2015, the investment was reclassified from investment in subsidiaries upon uneven capital increase.

(\*5) Our Board of Directors decided to increase capital a total of USD 185 million until 2017 for Qingdao LOTTE Mart Commercial Co., Ltd. in September 2015 and the company increased capital to USD 38 million and USD 58 million during 2015 and 2016, respectively. Recoverable amounts of investments were less than its book value, therefore impairment losses were recognized totally.

(\*6) For the nine-month period ended September 30, 2016, these were reclassified to subsidiaries of Lotte Shopping Holdings (Hong Kong) Co., Limited.

(\*7) For the nine-month period ended September 30, 2016, these were reclassified to subsidiaries of LOTTE SHOPPING HOLDINGS (SINGAPORE) PTE and LTD.

- (b) The fair value of marketable securities of the Company's investments in subsidiaries as of September 30, 2016 and December 31, 2015 are summarized as follows:

Description		Korean won (millions)	
		September 30, 2016	December 31, 2015
LOTTE Himart Co., Ltd.	₩	682,365	908,793

# LOTTE SHOPPING CO., LTD.

## Notes to the Condensed Separate Interim Financial Statements

**September 30, 2016 and 2015**

(Unaudited)

### 12. Property and Equipment

(a) Property and equipment as of September 30, 2016 and December 31, 2015 are summarized as follows:

		Korean won (millions)							
		September 30, 2016			December 31, 2015				
		Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Book value	Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Book value
Land	₩	7,614,925	-	-	7,614,925	7,608,263	-	-	7,608,263
Buildings		6,217,935	(2,017,318)	-	4,200,617	6,063,967	(1,888,832)	-	4,175,135
Structures		337,235	(108,231)	-	229,004	336,533	(97,454)	-	239,079
Machinery		92,636	(48,130)	(380)	44,126	90,195	(42,792)	(380)	47,023
Vehicles		4,984	(3,640)	(50)	1,294	5,296	(3,335)	(50)	1,911
Display fixtures		227,911	(164,408)	-	63,503	217,236	(147,490)	-	69,746
Furniture and fixtures		2,977,138	(2,235,207)	(5,265)	736,666	2,844,578	(2,032,972)	(5,265)	806,341
Tools and equipment		484	(484)	-	-	484	(484)	-	-
Construction-in-progress		719,932	-	-	719,932	524,099	-	-	524,099
Total	₩	18,193,180	(4,577,418)	(5,695)	13,610,067	17,690,651	(4,213,359)	(5,695)	13,471,597

(b) Changes in property and equipment for the nine-month period ended September 30, 2016 are as follows:

Korean won (millions)						
2016						
	Book value as of January 1, 2016	Acquisitions	Depreciation	Disposals	Others (*)	Book value as of September 30, 2016
Land	₩ 7,608,263	6,974	-	(3,006)	2,694	7,614,925
Buildings	4,175,135	633	(120,748)	(3,799)	149,396	4,200,617
Structures	239,079	102	(10,625)	-	448	229,004
Machinery	47,023	2,919	(5,942)	-	126	44,126
Vehicles	1,911	54	(502)	(169)	-	1,294
Display fixtures	69,746	12,385	(18,377)	(733)	482	63,503
Furniture and fixtures	806,341	93,112	(240,126)	(4,165)	81,504	736,666
Tools and equipment	-	-	-	-	-	-
Construction-in-progress	524,099	424,269	-	-	(228,436)	719,932
Total	₩ 13,471,597	540,448	(396,320)	(11,872)	6,214	13,610,067

(\*) Others include reclassifications of construction-in-progress to intangible assets, reclassification to investment property, increase from business combination.



LOTTE SHOPPING CO., LTD.

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September 30, 2016 and 2015

(Unaudited)

**12. Property and Equipment, Continued**

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

		Korean won (millions)						
		<b>2015</b>						
		Book value as of January 1, 2015	Acquisitions	Depreciation	Impairment	Disposals	Others (*)	Book value as of December 31, 2015
Land	₩	7,564,061	4,081	-	-	(37,346)	77,467	7,608,263
Buildings		4,311,931	11,618	(164,640)	-	(152,265)	168,491	4,175,135
Structures		244,972	83	(14,078)	-	-	8,102	239,079
Machinery		48,996	2,647	(7,275)	(380)	(4)	3,039	47,023
Vehicles		2,204	496	(739)	(50)	(1)	1	1,911
Display fixtures		70,503	12,085	(23,670)	-	(246)	11,074	69,746
Furniture and fixtures		850,333	138,479	(325,178)	(5,265)	(3,370)	151,342	806,341
Tools and equipment		-	-	-	-	-	-	-
Construction- in-progress		530,200	457,108	-	-	(72,090)	(391,119)	524,099
Total	₩	13,623,200	626,597	(535,580)	(5,695)	(265,322)	28,397	13,471,597

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

(d) As a result of impairment testing to discount stores which had indications of impairment as of December 31, 2015, the recoverable amounts in discount stores were less than its book value. The Company recognized impairment losses on property plant and equipment of ₩5,695 million, impairment losses on intangible assets of ₩2 million, impairment losses on other non-current assets of ₩12,985 million during 2015.

# LOTTE SHOPPING CO., LTD.

## Notes to the Condensed Separate Interim Financial Statements

### September 30, 2016 and 2015

(Unaudited)

#### 13. Investment Property

(a) Investment property as of September 30, 2016 and December 31, 2015 are summarized as follows:

Korean won (millions)						
September 30, 2016			December 31, 2015			
	Acquisition cost	Accumulated depreciation	Book value	Acquisition cost	Accumulated depreciation	Book value
Land	₩ 231,242	-	231,242	208,942	-	208,942
Buildings	116,370	(47,188)	69,182	133,698	(53,186)	80,512
Total	₩ 347,612	(47,188)	300,424	342,640	(53,186)	289,454

(b) Changes in investment property for the nine-month period ended September 30, 2016 are as follows:

Korean won (millions)				
2016				
	Book value as of January 1, 2016	Depreciation	Others (*)	Book value as of September 30, 2016
Land	₩ 208,942	-	22,300	231,242
Buildings	80,512	(2,190)	(9,140)	69,182
Total	₩ 289,454	(2,190)	13,160	300,424

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

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

Korean won (millions)				
2015				
	Book value as of January 1, 2015	Depreciation	Others (*)	Book value as of December 31, 2015
Land	₩ 221,515	-	(12,573)	208,942
Buildings	103,230	(3,627)	(19,091)	80,512
Total	₩ 324,745	(3,627)	(31,664)	289,454

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

(d) There are no impairment losses and reversals of impairment losses for the nine-month period ended September 30, 2016 and for the year ended December 31, 2015.

# LOTTE SHOPPING CO., LTD.

## Notes to the Condensed Separate Interim Financial Statements

September 30, 2016 and 2015

(Unaudited)

### 14. Intangible Assets and Goodwill

(a) Intangible assets and goodwill as of September 30, 2016 and December 31, 2015 are summarized as follows:

		Korean won (millions)							
		September 30, 2016				December 31, 2015			
		Acquisition cost	Accumulated amortization	Accumulated impairment losses	Book value	Acquisition cost	Accumulated amortization	Accumulated impairment losses	Book value
Goodwill	₩	640,184	-	(154,306)	485,878	640,261	-	(155,984)	484,277
Industrial property rights		6,293	(4,863)	-	1,430	5,375	(4,404)	-	971
Rights to use facility		525,043	(164,328)	(2)	360,713	524,395	(144,427)	(2)	379,966
Membership		16,260	-	-	16,260	16,260	-	-	16,260
Other intangible assets (*)		226,748	(219,491)	(160)	7,097	199,020	(185,436)	(160)	13,424
Total	₩	1,414,528	(388,682)	(154,468)	871,378	1,385,311	(334,267)	(156,146)	894,898

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

(b) Changes in intangible assets and goodwill for the nine-month period ended September 30, 2016 are as follows:

		Korean won (millions)					
		2016					
		Book value as of January 1, 2016	Acquisitions	Amortization	Disposals	Others (*)	Book value as of September 30, 2016
Goodwill	₩	484,277	-	-	(5)	1,606	485,878
Industrial property rights		971	919	(460)	-	-	1,430
Rights to use facility		379,966	485	(19,902)	-	164	360,713
Membership		16,260	-	-	-	-	16,260
Other intangible assets		13,424	27,726	(34,053)	-	-	7,097
Total	₩	894,898	29,130	(54,415)	(5)	1,770	871,378

(\*) Others include reclassification of construction-in-progress to intangible assets , increase from business combination

# LOTTE SHOPPING CO., LTD.

## Notes to the Condensed Separate Interim Financial Statements

September 30, 2016 and 2015

(Unaudited)

### 14. Intangible Assets and Goodwill, Continued

(c) Changes in intangible assets and goodwill for the year ended December 31, 2015 are as follows:

		Korean won (millions)						
		<b>2015</b>						
		Book value as of January 1, 2015	Acquisitions	Amortization	Impairment	Disposals	Others (*)	Book value as of December 31, 2015
Goodwill	₩	634,401	290	-	(149,319)	(1,323)	228	484,277
Industrial property rights		1,169	194	(629)	-	-	237	971
Rights to use facility		406,493	-	(26,541)	(2)	(14)	30	379,966
Membership		15,889	536	-	-	(165)	-	16,260
Other intangible assets		15,738	30,575	(59,893)	-	-	27,004	13,424
Total	₩	1,073,690	31,595	(87,063)	(149,321)	(1,502)	27,499	894,898

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

### 15. Trade and Other Payables

Trade and other payables as of September 30, 2016 and December 31, 2015 are summarized as follows:

		Korean won (millions)	
		<b>September 30, 2016</b>	<b>December 31, 2015</b>
Trade payables	₩	2,697,174	2,813,445
Other payables		819,074	906,363
Total	₩	3,516,248	3,719,808

# LOTTE SHOPPING CO., LTD.

## Notes to the Condensed Separate Interim Financial Statements

### September 30, 2016 and 2015

(Unaudited)

#### 16. Borrowings and Debentures

(a) Borrowings and debentures as of September 30, 2016 and December 31, 2015 are summarized as follows:

		Korean won (millions)	
		September 30, 2016	December 31, 2015
Current:			
Short-term borrowings	₩	200,000	200,000
Current portion of long-term borrowings		100,000	-
Discount on current portion of long-term borrowings		(173)	-
Current portion of long-term debentures		882,320	903,440
Discount on debentures		(762)	(1,418)
Exchange rights adjustment		(538)	(19,443)
Subtotal		1,180,847	1,082,579
Non-current:			
Long-term borrowings		108,368	197,201
Discount on long-term borrowings		-	(381)
Long-term debentures		2,766,670	3,159,200
Discount on debentures		(3,337)	(4,491)
Subtotal		2,871,701	3,351,529
Total	₩	4,052,548	4,434,108

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

**September 30, 2016 and 2015**

(Unaudited)

**16. Borrowings and Debentures, Continued**

(b) Short-term borrowings as of September 30, 2016 and December 31, 2015 are summarized as follows:

Lender	Annual interest rate (%)		Korean won (millions)	
			September 30, 2016	December 31, 2015
Shinhan Bank	91days CD rate+0.3%/0.15%	₩	200,000	200,000

(c) Long-term borrowings as of September 30, 2016 and December 31, 2015 are summarized as follows:

Lender	Annual interest rate (%)	Maturity		Korean won (millions)	
				September 30, 2016	December 31, 2015
Lotte Co., Ltd. (Japan)	3M Tibor+1.129	Aug. 31, 2018	₩	108,368	97,201
Mizuho Bank, Ltd.	2.67	Mar. 17, 2017		100,000	100,000
	Subtotal			208,368	197,201
	Less: Discount on borrowings			(173)	(381)
	Subtotal			208,195	196,820
	Less: Current portion of long-term borrowings			(99,827)	-
	Total		₩	108,368	196,820

# LOTTE SHOPPING CO., LTD.

## Notes to the Condensed Separate Interim Financial Statements

### September 30, 2016 and 2015

(Unaudited)

#### 16. Borrowings and Debentures, Continued

(d) Debentures as of September 30, 2016 and December 31, 2015 are summarized as follows:

Description	Maturity	Interest rate (%)	Korean won (millions)	
			September 30, 2016	December 31, 2015
59-2nd placed	Aug. 07, 2017	3.20	230,000	230,000
59-3rd placed	Aug. 07, 2019	3.33	200,000	200,000
61st placed	Mar. 21, 2018	3.05	100,000	100,000
62nd placed	Jun. 21, 2018	2.80	110,000	110,000
63-1st placed	Jul. 02, 2017	2.79	200,000	200,000
63-2nd placed	Jul. 02, 2019	3.08	200,000	200,000
64-1st placed (foreign currency)	May 25, 2018	3M USD Libor+0.50	164,445	175,800
64-2nd placed (foreign currency)	May 25, 2018	3M USD Libor	109,630	117,200
64-3rd placed (foreign currency)	May 25, 2018	3M USD Libor+0.02	109,630	117,200
65-1st placed	Mar. 03, 2020	2.26	160,000	160,000
65-2nd placed	Mar. 03, 2022	2.45	240,000	240,000
66-1st placed	Jun. 23, 2020	2.40	130,000	130,000
66-2nd placed	Jun. 23, 2022	2.64	50,000	50,000
66-3rd placed	Jun. 23, 2025	2.98	140,000	140,000
67-1st placed (foreign currency)	Aug.17, 2018	3M USD Libor+0.60	164,445	175,800
67-2nd placed (foreign currency)	Aug.17, 2018	3M USD Libor+0.02	109,630	117,200
67-3rd placed (foreign currency)	Aug. 06, 2018	3M USD Libor+0.60	109,630	117,200
68th placed	Jul. 31, 2020	2.40	110,000	110,000
69-1st placed (foreign currency)	Jan. 29, 2019	3M USD Libor+0.55	109,630	-
69-2nd placed (foreign currency)	Jan. 29, 2019	3M USD Libor+0.02	109,630	-
70-1st placed	April. 04, 2019	1.77	100,000	-
70-2nd placed	April. 04, 2021	2.02	170,000	-
70-3rd placed	April. 04, 2026	2.48	70,000	-
1st placed (Global bond)	Apr. 07, 2016	-	-	468,800
2nd placed (Global bond)	May 09, 2017	3.38	438,520	468,800
USD convertible bonds	Jul. 05, 2016	-	-	22,340
JPY convertible bonds	Jul. 05, 2016	-	-	91,100
Exchangeable bonds (*1)	Jan. 24, 2018	-	13,800	321,200
Subtotal			3,648,990	4,062,640
Less: Discount on debentures			(4,099)	(5,909)
Less: Exchange rights adjustment			(538)	(19,443)
Total book value			3,644,353	4,037,288
Less: Current portion of debentures, net of discount			(881,020)	(882,579)
Total			₩ 2,763,333	3,154,709

# LOTTE SHOPPING CO., LTD.

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September 30, 2016 and 2015

(Unaudited)

### 16. Borrowings and Debentures, Continued

(\*1) The Company issued five-year bonds in 2013 which are exchangeable to shares of LOTTE Himart Co., Ltd. Due to the exercise of the put option, the Company redeemed ₩307,400 million of the issued bonds on January 25, 2016. The terms and conditions are summarized as follows:

(a) Type of bonds:	Registered overseas unsecured exchangeable bonds
(b) Total face value of bonds (KRW):	13,800,000,000
(c) Bond interest rate	
Coupon rate (%):	-
Yield to maturity (%):	-
(d) Date of bond maturity:	January 24, 2018
(e) Principal redemption method:	
i. Redemption on maturity date: Redemption in lump sum on the maturity date for the principal amount of bonds for which a condition for early redemption has not occurred and the exchange right has not been exercised. Early redemption: The Company has a call option, whereas bond holders have a put option.	
ii. Early redemption: Lotte Shopping Co., Ltd. ("Lotte Shopping") has a call option, whereas bond holders have a put option.	
(f) Put option by bondholders:	
The put option can be exercised if any of the following conditions occurs:	
i. On the third anniversary of the date of payment (January 24, 2016);	
ii. If any change of control occurs in the LOTTE Himart; or	
iii. The issued stocks of the Company are delisted from the stock exchange or their transaction is suspended for 30 consecutive transaction days or longer.	
(g) Call option by the Company:	
The call option can be exercised if any of the following conditions occurs:	
i. If the closing price of LOTTE Himart Co., Ltd for 20 transactional days in 30 consecutive transaction days reaches 130% or more of the exchange price between 3 years from the issuance date (January 24, 2016) and 30 business days to the maturity date;	
ii. If the balance of bonds that has not been redeemed reaches less than 10% of the sum of the total issued amount (clean up call); or	
iii. Any additional tax burden arises due to the amendments of the related laws and regulations.	
(h) Matters relating to exchange:	
i. Exchange ratio (%):	100
ii. Exchange price (KRW per share):	90,780
iii. Type of shares to be issued following exchange:	Common shares of LOTTE Himart Co., Ltd.
iv. Period to apply for exchange:	
Start date:	March 5, 2013
End date:	January 15, 2018
v. Matters for the adjustment of exchange price:	
In case when a condition for re-adjustment of the exchange price has occurred, such as a stock dividend, the exchange price will be adjusted in accordance with the provisions in the relevant bonds purchase agreement.	



# LOTTE SHOPPING CO., LTD.

## Notes to the Condensed Separate Interim Financial Statements

**September 30, 2016 and 2015**

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### 16. Borrowings and Debentures, Continued

(e) Maturities of long-term borrowings and debentures as of September 30, 2016 are scheduled as follows:

		Korean won (millions)		
		Borrowings	Debentures	Total
Within 1 year	₩	100,000	882,320	982,320
1 ~ 2 years		108,368	977,410	1,085,778
2 ~ 3 years		-	719,260	719,260
3 ~ 4 years		-	400,000	400,000
More than 4 years		-	670,000	670,000
Total	₩	208,368	3,648,990	3,857,358

### 17. Unearned Revenues

The details of unearned revenues as of September 30, 2016 and December 31, 2015 are as follows:

		Korean won (millions)	
		September 30, 2016	December 31, 2015
Current:			
Other points	₩	47,538	51,218
Unearned rental income		1,809	1,660
Others		4,577	3,600
Subtotal		53,924	56,478
Non-current:			
Unearned rental income		5,276	3,373
Total	₩	59,200	59,851

# LOTTE SHOPPING CO., LTD.

## Notes to the Condensed Separate Interim Financial Statements

### September 30, 2016 and 2015

(Unaudited)

#### 18. Provisions

Changes in provisions for the nine-month period ended September 30, 2016 and for the year ended December 31, 2015 are as follows:

		Korean won (millions)			
		<b>2016</b>			
		Book value as of January 1, 2016	Increase	Utilization	Book value as of September 30, 2016
Current:					
Provision for bonus payable	₩	-	44,583	(38,688)	5,895
Provision for sales return		1,404	904	(1,404)	904
Total	₩	1,404	45,487	(40,092)	6,799
		Korean won (millions)			
		<b>2015</b>			
		Book value as of January 1, 2015	Increase	Utilization	Book value as of December 31, 2015
Current:					
Provision for bonus points reward program (*)	₩	496	-	(496)	-
Provision for bonus payable		-	36,823	(36,823)	-
Provision for sales return		1,410	1,404	(1,410)	1,404
Total	₩	1,906	38,227	(38,729)	1,404

(\*) On January 1, 2015, Lotte Members Co., Ltd split off from Lotte Card Co., Ltd. After the split off, the settlement method for membership points was changed and on a periodic basis, the Company has the obligations to make cash payments to Lotte Members Co., Ltd for membership points which were earned by customers who purchased the Company's products and services but not redeemed yet. Therefore, the balance in provisions was reclassified to other payables in the separate financial statements upon the split off.

LOTTE SHOPPING CO., LTD.

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**September 30, 2016 and 2015**

(Unaudited)

**19. Other Non-financial Liabilities**

Other non-financial liabilities as of September 30, 2016 and December 31, 2015 are summarized as follows:

		Korean won (millions)	
		<b>September 30, 2016</b>	<b>December 31, 2015</b>
Current:			
Withholdings	₩	35,669	30,982
Withholdings of value added tax		28,679	77,427
Advances received (*)		742,501	610,117
Subtotal		806,849	718,526
Non-current:			
Others		18,009	9,557
Total	₩	824,858	728,083

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

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

**September 30, 2016 and 2015**

(Unaudited)

**20. Employee Benefits**

- (a) Details of defined benefit liabilities as of September 30, 2016 and December 31, 2015 are summarized as follows:

		Korean won (millions)	
		<b>September 30, 2016</b>	<b>December 31, 2015</b>
Present value of defined benefit obligations	₩	483,601	435,201
Fair value of plan assets		(411,581)	(425,742)
Total	₩	72,020	9,459

- (b) Details of present value of other long-term employee benefits as of September 30, 2016 and December 31, 2015 are summarized as follows:

		Korean won (millions)	
		<b>September 30, 2016</b>	<b>December 31, 2015</b>
Present value of other long-term employee benefits	₩	39,115	35,325

- (c) Changes in the present value of defined benefit obligations for the nine-month period ended September 30, 2016 and for the year ended December 31, 2015 are as follows:

		Korean won (millions)	
		<b>2016</b>	<b>2015</b>
Beginning of the period	₩	435,201	373,496
Current service costs		55,700	70,413
Interest costs		10,142	13,792
Remeasurements:			
- Gain from change in demographic assumptions		-	(1,712)
- Gain from change in financial assumptions		-	7,285
- Loss (gain) from experience adjustments		6,264	1,936
Payments		(28,313)	(35,739)
Others		4,607	5,730
End of the period	₩	483,601	435,201

# LOTTE SHOPPING CO., LTD.

## Notes to the Condensed Separate Interim Financial Statements

### September 30, 2016 and 2015

(Unaudited)

#### 20. Employee Benefits, Continued

- (d) Changes in plan assets of an employee benefit plan for the nine-month period ended September 30, 2016 and for the year ended December 31, 2015 are as follows:

		Korean won (millions)	
		2016	2015
Beginning of the period	₩	425,742	350,514
Return on plan assets		9,215	11,402
Actuarial loss		(2,804)	(3,284)
Employer contribution		-	94,007
Payments		(20,887)	(27,404)
Others		315	507
End of the period	₩	411,581	425,742

- (e) The components of plan assets as of September 30, 2016 and December 31, 2015 are summarized as follows:

		Korean won (millions)	
		September 30, 2016	December 31, 2015
Principal-guaranteed insurance policies	₩	411,550	425,704
Others		31	38
Total	₩	411,581	425,742

- (f) Expenses recognized for the three-month and nine-month periods ended September 30, 2016 and 2015 are as follows:

		Korean won (millions)			
		2016		2015	
		Three-month period	Nine-month period	Three-month period	Nine-month period
Current service costs	₩	19,031	55,700	17,782	52,268
Interest costs		3,563	10,142	3,549	9,991
Return on plan assets		(3,010)	(9,215)	(2,836)	(8,589)
Contributions to defined contribution plans		24	70	6	43
Long-term employee benefits		833	5,697	600	2,301
Total	₩	20,441	62,394	19,101	56,014

September 30, 2016 and 2015

(Unaudited)

**21. Derivative Instruments and Hedge Accounting**

(a) Details of derivatives outstanding as of September 30, 2016 are as follows:

Description	Type	Description
Cash flow hedge	Currency swaps	At the maturity of the swap, the principal and the interest payments for debentures and borrowings in foreign currency based on floating rates are exchanged back with the principal and fixed interest rate payments in local currency.
	Interest swaps	Pays fixed interest to receive floating rate
	Currency forward	At the maturity of the contract, purchase dollars at the fixed exchange rate
Purpose of trading	Embedded derivatives	The embedded option to exchange the bond for the common stocks of LOTTE Himart Co., Ltd.
	Total Return Swap	Exchanges beneficiary certificate of investor's total profit to constant flow of cash
	Stock options	Holds the right to buy preferred stocks or grants the right to sell stocks of related companies

LOTTE SHOPPING CO., LTD.

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**21. Derivative Instruments and Hedge Accounting, Continued**

(b) Details of currency swaps, as of September 30, 2016 are as follows:

Type	Description	Principal amount (thousands)		Fixed exchange rate (won)	Variable rate	Swap rate	Maturity
Currency swap	64-1st placed (foreign currency)	USD	150,000	1,105.90	3M USD Libor+0.50	2.24%	May 25, 2018
	64-2nd placed (foreign currency)	USD	100,000	1,105.90	3M USD Libor	2.25%	May 25, 2018
	64-3rd placed (foreign currency)	USD	100,000	1,109.80	3M USD Libor+0.02	2.25%	May 25, 2018
	67-1st placed (foreign currency)	USD	150,000	1,165.80	3M USD Libor+0.60	2.07%	Aug. 17, 2018
	67-2nd placed (foreign currency)	USD	100,000	1,169.00	3M USD Libor+0.02	2.05%	Aug. 17, 2018
	67-3rd placed (foreign currency)	USD	100,000	1,171.00	3M USD Libor+0.60	1.90%	Aug. 06, 2018
	69-1st placed (foreign currency)	USD	100,000	1,199.50	3M USD Libor+0.55	1.96%	Jan. 29, 2019
	69-2nd placed (foreign currency)	USD	100,000	1,200.50	3M USD Libor+0.02	1.94%	Jan. 29, 2019
	2nd placed (Global bond)	USD	100,000	1,135.70	3.38%	3.75%	May 09, 2017
		USD	100,000			3.70%	
Currency forward	2nd placed (Global bond)	USD	100,000	1,095.66	Not applicable	Not applicable	May 04, 2017
		USD	60,000	1,093.80			
		USD	40,000	1,094.12			
Interest rate swap	Short term borrowings	KRW	150,000	Not applicable	91days CD rate+0.18%	1.95%	May 29, 2017
		KRW	200,000		91days CD rate+0.30%	1.63%	Sep. 22, 2017
		KRW	100,000		91days CD rate+0.42%	1.93%	Apr. 19, 2019

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

September 30, 2016 and 2015

(Unaudited)

**21. Derivative Instruments and Hedge Accounting, Continued**

- (c) Changes in the fair value of derivative instruments for the nine-month period ended September 30, 2016 are as follows:

Description	Type of derivatives	Related accounts	Korean won (millions)
Cash flow hedge	Currency swap	Loss on valuation of derivative instruments	₩ (88,870)
		Unrealized loss on valuation of derivative instruments (*)	(4,807)
	Interest rate swap	Unrealized loss on valuation of derivative instruments (*)	(686)
		Loss on valuation of derivative instruments	(15,140)
	Currency forward	Unrealized gain on valuation of derivative instruments (*)	6,278
		Loss on valuation of derivative instruments	-
Purpose of trading	Embedded derivatives	Loss on valuation of derivative instruments	(4,003)
	Stock options	Gain on valuation of derivative instruments	15,764
	Total Return Swap		

(\*) The aggregate amount of loss on valuation derivative instruments incurred ₩17,335 million, until the September 30, 2016. The Company recognized accumulated other comprehensive loss ₩13,140 million (less tax effects ₩4,195 million).

**22. 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. The Company has not issued any preferred stock and 31,490,892 shares of common stock were issued and outstanding as of September 30, 2016.
- (b) Capital surplus as of September 30, 2016 and December 31, 2015 consists of the following:

		Korean won (millions)	
		September 30, 2016	December 31, 2015
Additional paid-in capital	₩	3,786,431	3,786,431
Others		175,663	175,663
	₩	3,962,094	3,962,094



# LOTTE SHOPPING CO., LTD.

## Notes to the Condensed Separate Interim Financial Statements

### September 30, 2016 and 2015

(Unaudited)

#### 23. Hybrid securities classified as equity

Hybrid securities classified as equity as of September 30, 2016 and December 31, 2015 are as follows:

	Date of issue	Date of maturity	Interest rate (%)	Korean won (millions)	
				September 30, 2016	December 31, 2015
Hybrid security 1-1 (*)	Nov. 15, 2013	Nov. 15, 2043	4.723	₩ 240,000	240,000
Hybrid security 1-2 (*)	Nov. 15, 2013	Nov. 15, 2043	4.723	30,000	30,000
Issuance cost				(882)	(882)
Total				₩ 269,118	269,118

(\*) Details of hybrid securities are as follows:

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

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

# LOTTE SHOPPING CO., LTD.

## Notes to the Condensed Separate Interim Financial Statements

### September 30, 2016 and 2015

(Unaudited)

#### 24. Capital Adjustments

As of January 1, 2013, the Company merged with Lotte Midopa Co., Ltd. In connection with the merger, the Company issued 1,933,873 shares of common stocks in exchange for 51,475,843 shares of Lotte Midopa Co., Ltd. which the Company had held and 228 shares of treasury stocks of Lotte Midopa Co., Ltd. The Company recognized the acquisition cost of the treasury stocks as zero ("0"). In addition, the Company acquired 4,815 shares of fractional shares for ₩1,806 million and, as a result, the Company holds 1,938,688 shares of treasury stocks as of September 30, 2016.

#### 25. Retained Earnings

Details of retained earnings as of September 30, 2016 and December 31, 2015 are as follows:

		Korean won (millions)	
		September 30, 2016	December 31, 2015
Legal reserve	₩	195,917	190,007
Voluntary reserve		10,810,052	11,190,052
Unappropriated retained earnings		168,950	(299,666)
Total	₩	11,174,919	11,080,393

# LOTTE SHOPPING CO., LTD.

## Notes to the Condensed Separate Interim Financial Statements

September 30, 2016 and 2015

(Unaudited)

### 26. Accumulated Other Comprehensive Income

Changes in accumulated other comprehensive income (loss) for the nine-month period ended September 30, 2016 and for the year ended December 31, 2015 are as follows:

		Korean won (millions)				
		<b>2016</b>				
		Beginning balance	Changes for the period	Reclassification adjustments	Tax effects for the period	Balance as of September 30
Net change in unrealized fair value of available-for-sale financial assets	₩	78,189	(10,347)	-	2,505	70,347
Effective portion of unrealized changes in fair values of cash flow hedges		(13,735)	(5,642)	6,427	(190)	(13,140)
Total	₩	64,454	(15,989)	6,427	2,315	57,207

  

		Korean won (millions)				
		<b>2015</b>				
		Beginning balance	Changes for the year	Reclassification adjustments	Tax effects for the year	Balance as of December 31
Net change in unrealized fair value of available-for-sale financial assets	₩	122,717	(37,184)	(21,560)	14,216	78,189
Effective portion of unrealized changes in fair values of cash flow hedges		(9,624)	(6,322)	900	1,311	(13,735)
Total	₩	113,093	(43,506)	(20,660)	15,527	64,454

# LOTTE SHOPPING CO., LTD.

## Notes to the Condensed Separate Interim Financial Statements

**September 30, 2016 and 2015**

(Unaudited)

### 27. Earnings per Share

(a) Basic earnings per share

(i) Basic earnings per share for the three-month and nine-month periods ended September 30, 2016 and 2015 are as follows:

Korean won (millions, except per share amount)				
		<b>2016</b>	<b>2015</b>	
		Three-month period	Nine-month period	Three-month period
				Nine-month period
Profit for the period	₩	52,386	170,051	84,969
Interests of hybrid securities		(3,183)	(9,546)	(3,152)
Weighted average number of common shares outstanding		29,552,204	29,552,204	29,552,204
Basic earnings per share	₩	<u>1,665</u>	<u>5,431</u>	<u>2,769</u>
				<u>9,616</u>

(ii) Weighted average number of ordinary shares

Number of shares				
		<b>2016</b>	<b>2015</b>	
		Three-month period	Nine-month period	Three-month period
				Nine-month period
Issued ordinary shares at January 1		31,490,892	31,490,892	31,490,892
Effect of treasury shares		(1,938,688)	(1,938,688)	(1,938,688)
Weighted average number of ordinary shares		<u>29,552,204</u>	<u>29,552,204</u>	<u>29,552,204</u>

# LOTTE SHOPPING CO., LTD.

## Notes to the Condensed Separate Interim Financial Statements

**September 30, 2016 and 2015**

(Unaudited)

### 27. Earnings per Share, Continued

(b) Diluted earnings per share

(i) Diluted earnings per share for the three-month and nine-month periods ended September 30, 2016 and 2015 are as follows:

		Korean won (millions, except per share amount)			
		<b>2016</b>		<b>2015</b>	
		Three-month period	Nine-month period	Three-month period	Nine-month period
Profit for the period	₩	52,386	170,051	84,969	293,694
Interests of hybrid securities		(3,183)	(9,545)	(3,152)	(9,511)
Effect of conversion of convertible bonds (*)		-	510	-	-
Diluted profit attributable to ordinary shareholders		49,203	161,015	81,817	284,183
Diluted weighted average number of ordinary shares		<u>29,552,204</u>	<u>29,679,961</u>	<u>29,552,204</u>	<u>29,552,204</u>
Diluted earnings per share	₩	<u>1,665</u>	<u>5,425</u>	<u>2,769</u>	<u>9,616</u>

(\*) For the nine-month period ended September 30, 2016, the shares related to USD convertible bonds were excluded from diluted earnings per share calculation as their effect would have been anti-dilutive. And for the nine-month period ended September 30, 2015 the shares related to USD convertible bonds and JPY convertible bonds were excluded from diluted earnings per share calculation as their effect would have been anti-dilutive.

(ii) Weighted average number of ordinary shares

		Number of shares			
		<b>2016</b>		<b>2015</b>	
		Three-month period	Nine-month period	Three-month period	Nine-month period
Basic weighted average number of ordinary shares		29,552,204	29,552,204	29,552,204	29,552,204
Effect of conversion of convertible bonds		<u>-</u>	<u>127,757</u>	<u>-</u>	<u>-</u>
Diluted weighted average number of ordinary shares		<u>29,552,204</u>	<u>29,679,961</u>	<u>29,552,204</u>	<u>29,552,204</u>

# LOTTE SHOPPING CO., LTD.

## Notes to the Condensed Separate Interim Financial Statements

**September 30, 2016 and 2015**

(Unaudited)

### 28. Sales and Cost of Sales

(a) Details of sales for the three-month and nine-month periods ended September 30, 2016 and 2015 are as follows:

		Korean won (millions)			
		<b>2016</b>		<b>2015</b>	
		Three-month period	Nine-month period	Three-month period	Nine-month period
Sales-merchandise	₩	3,914,329	11,751,768	3,884,314	11,632,038
Sales-merchandise in direct management		3,564,812	10,738,478	3,601,948	10,799,579
Specific sales-merchandise		349,517	1,013,290	282,366	832,459
Discount store sales – merchandise		479,318	1,419,010	413,316	1,194,709
Sales allowance and discount		150,876	463,031	138,643	375,332
Reserve for returned goods unsold and deferred sales		47,909	143,553	50,624	157,868
Cost of specific merchandise sold		280,533	812,426	224,049	661,509
Sales-finished goods		1,943	6,517	2,625	7,609
Others		520,642	1,467,714	522,220	1,459,046
Total	₩	<u>3,957,596</u>	<u>11,806,989</u>	<u>3,995,843</u>	<u>11,903,984</u>

(b) Details of cost of sales for the three-month and nine-month periods ended September 30, 2016 and 2015 are as follows:

		Korean won (millions)			
		<b>2016</b>		<b>2015</b>	
		Three-month period	Nine-month period	Three-month period	Nine-month period
Cost of merchandise sold	₩	2,599,106	7,766,199	2,636,074	7,854,617
Cost of products sold		904	3,621	1,521	3,883
Cost of other operating revenue		56,892	147,874	82,231	212,087
Total	₩	<u>2,656,902</u>	<u>7,917,694</u>	<u>2,719,826</u>	<u>8,070,587</u>

# LOTTE SHOPPING CO., LTD.

## Notes to the Condensed Separate Interim Financial Statements

### September 30, 2016 and 2015

(Unaudited)

#### 29. Selling, general and administrative expenses

Details of selling, general and administrative expenses for the three-month and nine-month periods ended September 30, 2016 and 2015 are as follows:

		Korean won (millions)			
		<b>2016</b>		<b>2015</b>	
		Three-month period	Nine-month period	Three-month period	Nine-month period
Salaries	₩	245,548	676,105	216,836	631,125
Retirement and termination benefits		19,608	56,697	18,478	53,650
Long-term employee benefits		833	5,697	600	2,301
Employee welfare		48,248	132,564	42,308	125,378
Education and training		2,942	8,145	2,783	7,778
Travel		5,030	15,106	4,526	14,378
Maintenance fee for car		425	907	230	727
Insurance premium		2,387	7,611	2,320	6,917
Taxes and dues		10,602	126,004	7,244	122,557
Entertainment expense		1,131	2,682	964	2,390
Supplies and stationery		13,544	40,158	14,476	41,869
Publication expense		279	754	273	780
Communications		2,645	7,860	2,547	7,619
Utilities		79,444	191,688	78,069	192,718
Maintenance		5,657	18,763	5,425	19,746
Rent		176,349	516,889	161,986	471,602
Depreciation		134,260	398,510	134,155	403,530
Amortization of intangible assets		7,353	22,022	7,336	22,084
Commissions and fees		122,503	352,369	113,603	335,069
Service commission expenses		184,044	540,849	172,243	512,004
Advertising		35,389	102,214	33,754	108,946
Samples expenses		25	58	20	48
Sales commission		42,425	151,165	49,516	149,094
Sales promotion expenses		42,233	121,277	35,932	107,073
Decoration		3,851	8,924	2,189	8,299
Bad debt expenses (Reversal of bad debt expenses)		27	27	59	53
Transportation		5,948	16,694	5,831	15,971
Research and development expenses		36	181	89	196
Compensation expenses		459	1,257	649	1,538
Others		289	926	455	1,713
Total	₩	<u>1,193,514</u>	<u>3,524,103</u>	<u>1,114,896</u>	<u>3,367,153</u>

LOTTE SHOPPING CO., LTD.  
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**September 30, 2016 and 2015**

(Unaudited)

**30. Other incomes and expenses**

Details of other income and expenses for the three-month and nine-month periods ended September 30, 2016 and 2015 are as follows:

		Korean won (millions)			
		<b>2016</b>		<b>2015</b>	
		Three-month period	Nine-month period	Three-month period	Nine-month period
<b>Other income:</b>					
Gain on foreign currency transactions	₩	432	886	215	736
Gain on foreign currency translation		-	41	332	496
Gain on disposal of property and equipment		526	2,158	782	1,390
Reversal of impairment loss of other non-current assets		5	9	4	5
Others (*1)		5,016	41,981	4,760	21,915
Total	₩	5,979	45,075	6,093	24,542
<b>Other expenses:</b>					
Loss on foreign currency transactions	₩	107	715	487	773
Loss on foreign currency translation		510	498	24	35
Loss on disposal of property and equipment		742	1,680	337	5,260
Loss on disposal of intangible assets		3	4	-	2
Impairment loss of non-current assets		-	-	-	437
Donation		6,587	10,243	1,525	8,627
Other bad debt expenses (Reversal of other bad debt expenses)		435	429	-7	9
Taxes and dues		42	128	1,507	1,647
Others (*2)		11,176	53,115	13,655	35,837
Total	₩	19,602	66,812	17,528	52,627

(\*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.



**September 30, 2016 and 2015**

(Unaudited)

**31. Nature of Expenses**

Details of nature of expenses for the three-month and nine-month periods ended September 30, 2016 and 2015 are as follows:

		Korean won (millions)			
		<b>2016</b>		<b>2015</b>	
		Three-month period	Nine-month period	Three-month period	Nine-month period
Purchase of inventories	₩	2,790,929	7,784,538	2,776,737	7,766,004
Changes in inventories		(212,763)	(64,605)	(171,470)	44,612
Employee benefits expense		314,237	871,063	278,517	813,260
Rent		176,349	516,889	161,986	471,602
Depreciation and amortization		153,888	452,925	169,264	473,285
Sales commissions		42,425	151,165	49,516	149,094
Sales promotion expenses		42,233	121,277	35,932	107,073
Commissions		122,503	352,369	113,605	335,077
Service commission expenses		184,044	540,849	172,243	512,004
Advertising expenses		44,954	120,138	44,049	130,631
Utilities		79,444	191,688	78,069	192,718
Taxes and dues		10,602	132,004	7,244	122,557
Others		101,572	271,497	119,030	319,823
Total	₩	<u>3,850,417</u>	<u>11,441,797</u>	<u>3,834,722</u>	<u>11,437,740</u>

# LOTTE SHOPPING CO., LTD.

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### 32. Finance Income and Finance Costs

Details of finance income and finance costs for the three-month and Nine-month periods ended September 30, 2016 and 2015 are as follows:

Korean won (millions)				
	2016		2015	
	Three-month period	Nine-month period	Three-month period	Nine-month period
<b>Finance income:</b>				
Interest income	₩ 12,269	38,494	13,827	39,849
Dividend income	-	37,240	5,000	38,433
Gain on foreign currency transactions	-	9,736	56	57
Gain on foreign currency translation	93,767	104,010	-	-
Gain on disposal of available-for-sale financial assets	8	8	152	152
Gain on valuation of financial liabilities at fair value through profit or loss	15,713	-	-	-
Gain on valuation of derivative instruments held for the purpose of hedging	-	-	106,077	138,651
Gain on valuation of derivative instruments held for the purpose of trading	-	15,764	1,140	2,884
Gain on transaction of derivative instruments held for the purpose of trading	-	13,362	-	-
Gain on disposal of investments in associates, joint ventures and subsidiaries	-	1,982	-	-
Total	₩ 121,757	220,596	126,252	220,026
<b>Finance expenses:</b>				
Interest expense	₩ 28,512	89,071	35,481	102,097
Loss on foreign currency transactions	-	27	12,050	12,119
Loss on foreign currency translation	-	11,167	105,767	135,995
Loss on valuation of financial liability at fair value through profit or loss	-	-	9,041	10,585
Impairment loss on available-for-sale financial assets	-	43	-	-
Loss on disposal of available-for-sale financial assets	-	420	-	792
Loss on valuation of derivative instruments held for the purpose of hedging	104,040	104,010	-	-
Loss on valuation of derivative instruments held for the purpose of trading	4,414	4,003	964	12,210
Loss on transaction of derivative instruments held for the purpose of hedging	1,935	17,532	-	-
Loss on redemption of debentures	834	20,060	-	-
Loss on disposal of investments in associates, joint ventures and subsidiaries	-	59	-	351
Impairment loss on investments in associates, joint ventures and subsidiaries	6,530	75,255	-	-
Total	₩ 146,265	321,647	163,303	274,149

# LOTTE SHOPPING CO., LTD.

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### September 30, 2016 and 2015

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#### 33. Income Taxes

Income tax expense was recognized as current tax expense adjusted to current adjustments for prior periods, deferred tax income/expenses by origination and reversal of deferred assets/liabilities and temporary differences, and income tax recognized in other comprehensive income. The Company's effective tax rate for the nine-month period ended September 30, 2016 was 29.85% (for the nine-month period ended September 30, 2015: 23.52%). The increase in effective tax rate was primarily due to the unawareness of deferred tax assets by impairment loss on investments in subsidiaries.

#### 34. Statements of Cash Flows

As of September 30, 2016 and December 31, 2015, the details of cash and cash equivalents are as follows:

		Korean won (millions)	
		September 30, 2016	December 31, 2015
Cash	₩	12,802	15,377
Deposits		50,217	24,242
Other cash equivalents		339,999	538,999
Total	₩	403,018	578,618

LOTTE SHOPPING CO., LTD.  
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(Unaudited)

**35. Contingent Liabilities and Financial Commitments**

- (a) As of September 30, 2016, 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 (thousands)		Korean won (millions),
				Foreign currency (thousands)
General loan	KRW	100,000	KRW	100,000
Discount of bill	KRW	450,000	KRW	200,000
Buyer's credit	KRW	200,000	KRW	4,294
Bank overdraft	KRW	60,000	KRW	-
Guarantees	USD	1,200	USD	300
Letter of credit	USD	25,000	USD	5,205

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

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

- (c) As of September 30, 2016, the Company is the plaintiff in various lawsuits claiming damages totaling ₩50,383 million and the Company is the defendant in various lawsuits with damage claims totaling ₩57,718 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.
- (d) The Company has the right to purchase 5.1% of the Hyundai Logistics Co., Ltd. shares held by IGIS I Corporation and in the event the Company does not exercise the call option, IGIS I Corporation has the right to require the Company to purchase 5.1% of Hyundai Logistics Co., Ltd. shares held by IGIS I Corporation. In connection with IGIS I Corporation's borrowings, all IGIS I Corporation shares (book value of ₩4,572million) held by the Company have been in pledge in Mizuho Corporate Bank.
- (e) The Company provides joint guarantee for debentures ₩16,000 millions issued by Hi-Lotte Movie Co., Ltd.

# LOTTE SHOPPING CO., LTD.

## Notes to the Condensed Separate Interim Financial Statements

**September 30, 2016 and 2015**

(Unaudited)

### 36. Transactions and Balances with Related Companies

(a) Details of control and subsidiary relationships with the Company as of September 30, 2016 are as follows:

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

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

Subsidiaries	Location	September 30, 2016		
		Products or services	Fiscal year	Percentage of ownership (%)
Lotte Card Co., Ltd.	Korea	Credit card, financing	Dec. 31	93.78
eB Card Co., Ltd.	Korea	Electronic banking business	Dec. 31	95.00
Gyeonggi Smartcard Co., Ltd.	Korea	Electronic banking business	Dec. 31	100.00
Inchon Smartcard Co., Ltd.	Korea	Electronic banking business	Dec. 31	100.00
The 6th Supreme	Korea	SPC	Dec. 31	0.90
The 7th Supreme	Korea	SPC	Dec. 31	0.90
The 8th Supreme	Korea	SPC	Dec. 31	0.90
The 9th Supreme	Korea	SPC	Dec. 31	0.90
The 10th Supreme	Korea	SPC	Dec. 31	0.50
PT. Lotte Members Indonesia	Indonesia	Business support services	Dec. 31	100.00
Lotte Members China	China	Business support services	Dec. 31	100.00
Lotte Members Vietnam Co., Ltd.	Vietnam	Business support service	Dec. 31	100.00
Woori Home Shopping & Television Co., Ltd.	Korea	TV Home Shopping	Dec. 31	53.03
Lotte DatViet Homeshopping Co., Ltd.	Vietnam	TV Home Shopping	Dec. 31	90.02
Korea Seven Co., Ltd.	Korea	Distribution	Dec. 31	51.14
Buy the way Inc.	Korea	Distribution	Dec. 31	100.00
NCF Co., Ltd.	Korea	Apparel manufacturing	Dec. 31	99.80
Lotte Gimhae Development Co., Ltd.	Korea	Service company	Dec. 31	100.00
Lotte Suwon Station Shopping Town Co., Ltd.	Korea	Real estate development	Dec. 31	95.00
Lotte Songdo Shopping Town Co., Ltd.	Korea	Real estate development	Dec. 31	56.30
CS Mart Co., Ltd.	Korea	Distribution	Dec. 31	99.95

# LOTTE SHOPPING CO., LTD.

## Notes to the Condensed Separate Interim Financial Statements

September 30, 2016 and 2015

(Unaudited)

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

- (a) Details of control and subsidiary relationships with the Company as of September 30, 2016 are as follows:, continued

Subsidiaries	Location	September 30, 2016		
		Products or services	Fiscal year	Percentage of ownership (%)
LOTTE Himart Co., Ltd.	Korea	Consumer electronics	Dec. 31	65.25
Lotte Department Store Masan Co., Ltd.	Korea	Distribution	Dec. 31	100.00
Lotte Members Co., Ltd.	Korea	Business support service	Dec. 31	93.78
LOTTE.COM INC.	Korea	E-commerce business	Dec. 31	50.01
LOTTE PS NET	Korea	Financial support service	Dec. 31	63.64
Lotte Ulsan Development Co., Ltd.	Korea	Real estate business, Real estate lease	Dec. 31	95.98
Lotte (China) Management Co., Ltd.	China	Business management	Dec. 31	70.00
Lotte Shopping Holdings (Hong Kong) Co., Limited	Hong Kong	Holding company	Dec. 31	100.00
Qingdao LOTTE Mart Commercial Co., Ltd.	China	Distribution	Dec. 31	100.00
LOTTE MART COMPANY LIMITED	China	Distribution	Dec. 31	100.00
Liaoning LOTTE Mart Co., Ltd.	China	Distribution,	Dec. 31	100.00
Lotte Mart China Co., Ltd.	China	Distribution, Real estate development	Dec. 31	100.00
Swift Harvest Ltd. and its subsidiaries	Hong Kong	Distribution, Real estate development	Dec. 31	100.00
Hong Fung Ltd. and its subsidiaries	Hong Kong	Real estate development	Dec. 31	100.00
Nantong Meili Properties Limited	China	Real estate development	Dec. 31	100.00
Zhuji Decheng Properties Limited	China	Real estate development	Dec. 31	100.00
Nantong Yaodong Properties Limited	China	Real estate development	Dec. 31	100.00
Nantong Fuhua Properties Limited and its subsidiary	China	Real estate development	Dec. 31	100.00
Nantong Jinyou Properties Limited and its subsidiary	China	Real estate development	Dec. 31	100.00
Nantong Branda Properties Limited and its subsidiary	China	Real estate development	Dec. 31	100.00
Nantong Fortune Trade Properties Limited	China	Real estate development	Dec. 31	100.00
Nantong Fine Spring Properties Limited	China	Real estate development	Dec. 31	100.00
Nantong Fine Port Properties Limited and its subsidiary	China	Real estate development	Dec. 31	100.00
Huai An Full Faith Properties Limited	China	Real estate development	Dec. 31	100.00
Jilin LOTTE Mart Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Mart (Chongqing) Commercial Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Business Management (Tianjin) Co., Ltd.	China	Distribution	Dec. 31	100.00

# LOTTE SHOPPING CO., LTD.

## Notes to the Condensed Separate Interim Financial Statements

September 30, 2016 and 2015

(Unaudited)

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

- (a) Details of control and subsidiary relationships with the Company as of September 30, 2016 are as follows:, continued

Subsidiaries	September 30, 2016			
	Location	Products or Services	Fiscal year	Percentage of ownership (%)
Lotte Department Store (Shenyang) Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte International Department Store (Weihai) Co., Ltd.	China	Distribution	Dec. 31	100.00
LOTTE DEPARTMENT STORE (TIANJIN) CO., LTD.	China	Distribution	Dec. 31	100.00
Lotte Department Store (Chengdu) Co., Ltd.	China	Distribution	Dec. 31	100.00
LOTTE MART (CHENGDU) COMMERCIAL COMPANY LIMITED	China	Distribution	Dec. 31	100.00
Lotte Shopping Business Management (Hong Kong) Limited	Hong Kong	SPC	Dec. 31	100.00
LHSC Limited	Cayman	Holding company	Dec. 31	91.14
Lucky Pai Ltd. and its subsidiaries	China	TV Home Shopping	Dec. 31	100.00
LOTTE PROPERTIES (CHENGDU) HK LIMITED	Hong Kong	Holding company	Dec. 31	73.46
Lotte Properties (Chengdu) Limited	China	Real estate lease, Apartment sales services	Dec. 31	100.00
LOTTE SHOPPING HOLDINGS (SINGAPORE) PTE. LTD.	Singapore	Holding company	Dec. 31	100.00
LOTTE VIETNAM SHOPPING JOINT STOCK COMPANY (Formerly, LOTTE VIETNAM SHOPPING CO., LTD.)	Vietnam	Distribution	Dec. 31	100.00
PT. LOTTE SHOPPING INDONESIA	Indonesia	Distribution	Dec. 31	80.00
PT. LOTTE MART INDONESIA	Indonesia	Distribution	Dec. 31	100.00
PT. LOTTE Shopping Avenue Indonesia	Indonesia	Distribution	Dec. 31	100.00
Lotte Shopping India Private Limited	India	Distribution	Dec. 31	100.00
LOTTEMART C&C INDIA PRIVATE LIMITED	India	Distribution	Dec. 31	100.00
Lotte Shopping Plaza Vietnam Co., Ltd.	Vietnam	Distribution	Dec. 31	100.00
LOTTE HOTEL & RETAIL VIETNAM PTE. LTD.	Singapore	Holding company	Dec. 31	60.00
Kotobuki Holding (HK) Ltd.	Hong Kong	Holding company	Dec. 31	100.00
Hai Thanh - Kotobuki Joint Venture Company	Vietnam	Hotel	Dec. 31	70.00
LOTTE CINEMA VIETNAM CO., LTD.	Vietnam	Cinema	Dec. 31	90.00
LOTTE E-COMMERCE VIETNAM CO., LTD	Vietnam	Distribution	Dec. 31	100.00

# LOTTE SHOPPING CO., LTD.

## Notes to the Condensed Separate Interim Financial Statements

September 30, 2016 and 2015

(Unaudited)

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

- (b) Significant transactions which occurred in the normal course of business with related companies for the nine-month periods ended September 30, 2016 and 2015 are summarized as follows:

Related Company	Korean won (millions)				
	2016				
	Sales	Purchases of inventories	Purchases of fixed assets	Other revenue	Other expenses
<b>Shareholders:</b>					
Hotel Lotte Co., Ltd.	₩ 32,457	44	3	152	83,682
Lotte Confectionery Co., Ltd.	9,113	108,814	-	-	4,862
Lotte Chilsung Beverage Co., Ltd.	8,769	51,632	-	49	413
Lotte Engineering & Construction Co., Ltd.	3,942	-	199,545	1	214
Hotel Lotte Pusan Co., Ltd.	4,998	-	-	-	15,181
LOTTE DATA COMMUNICATION COMPANY	1,537	-	31,799	-	54,890
KOREA FUJI FILM CO., LTD.	965	12	-	-	-
Subtotal	61,781	160,502	231,347	202	159,242
<b>Subsidiaries:</b>					
Lotte Card Co., Ltd.	7,396	-	-	624	104,548
Woori Home Shopping & Television Co., Ltd.	449	-	-	-	23,483
Korea Seven Co., Ltd.	5,366	7	-	-	38
LOTTE Himart Co., Ltd. (*)	32,687	3,654	20	111	42
LOTTE.COM INC.	2,004	-	-	-	70,520
Others	10,832	9,139	536	8	64,045
Subtotal	58,734	12,800	556	743	262,676
<b>Associates:</b>					
Daehong Communications Co., Ltd.	28,225	3	476	-	33,138
Lotteria Co., Ltd.	12,086	4,713	75	1	303
Lotte Station Building Co., Ltd.	7,739	-	21	2	3,196
Lotte Trading Co., Ltd.	3,814	133,277	-	-	31
Others	37,889	51,134	-	-	28,008
Subtotal	89,753	189,127	572	3	64,676
<b>Others:</b>					
LOTTE FOOD CO., LTD.	9,651	110,977	-	-	5,749
Lotte Aluminum Co., Ltd.	1,827	7,415	6,061	-	9,771
Others	28,071	8,807	1,722	97	179,227
Subtotal	39,549	127,199	7,783	97	194,747
Total	₩ 249,817	489,628	240,258	1,045	681,341

(\*1) Other revenues include disposal of fixed assets.

(\*2) Gift certificates sold to LOTTE Himart Co., Ltd. for the nine-month period ended September 30, 2016 and September 30, 2015 were ₩11,674 million and ₩3,453 million, respectively.



# LOTTE SHOPPING CO., LTD.

## Notes to the Condensed Separate Interim Financial Statements

September 30, 2016 and 2015

(Unaudited)

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

- (b) Significant transactions which occurred in the normal course of business with related companies for the nine-month periods ended September 30, 2016 and 2015 are summarized as follows:, continued

Related Company	Korean won (millions)				
	2015				
	Sales	Purchases of inventories	Purchases of fixed assets	Other revenue (*)	Other expenses
<b>Shareholders:</b>					
Hotel Lotte Co., Ltd.	₩ 29,925	84	3,410	1,127	76,508
Lotte Confectionery Co., Ltd.	8,789	110,003	5	53	4,804
Lotte Chilsung Beverage Co., Ltd.	6,436	45,420	18	46	460
Lotte Engineering & Construction Co., Ltd.	4,742	-	229,779	-	116
Hotel Lotte Pusan Co., Ltd.	4,803	17	-	-	14,363
LOTTE DATA COMMUNICATION COMPANY	2,786	-	52,166	-	48,246
KOREA FUJIFILM CO., LTD.	1,025	124	-	-	-
Subtotal	58,506	155,648	285,378	1,226	144,497
<b>Subsidiaries:</b>					
Lotte Card Co., Ltd.	4,396	-	-	413	110,206
Woori Home Shopping & Television Co., Ltd.	430	-	-	-	30,601
Korea Seven Co., Ltd.	3,217	-	-	-	53
LOTTE Himart Co., Ltd.	30,663	2,826	2	482	163
LOTTE.COM INC.	779	-	-	-	64,159
Others	9,107	7,761	1,093	208	58,527
Subtotal	48,592	10,587	1,095	1,103	263,709
<b>Associates:</b>					
Daehong Communications Co., Ltd.	22,537	-	117	-	38,160
Lotteria Co., Ltd.	12,428	4,317	20	-	191
Lotte Station Building Co., Ltd.	8,930	38	16	-	3,895
Lotte Trading Co., Ltd.	3,467	151,312	-	615	41
Others	36,800	38,271	-	1,135	27,458
Subtotal	84,162	193,938	153	1,750	69,745
<b>Others:</b>					
LOTTE FOOD CO., LTD.	7,951	88,863	198	12	5,147
Lotte Aluminum Co., Ltd.	1,853	8,092	16,288	1	12,051
Others	29,069	8,377	1,696	10,405	167,687
Subtotal	38,873	105,332	18,182	10,418	184,885
Total	₩ 230,133	465,505	304,808	14,497	662,836

(\*) Other revenues include disposal of fixed assets.

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

September 30, 2016 and 2015

(Unaudited)

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

(c) Significant finance transactions with related companies for the nine-month periods ended September 30, 2016 and 2015 are summarized as follows:

Related Company	Korean won (millions)					
	2016		2015			
	Capital increase	Capital decrease	Loans	Collection	Capital increase	Capital decrease
<b>Subsidiaries:</b>						
Lotte Shopping Holdings (Hong Kong) Co., Limited ₩	68,725	-	26	(26)	53,048	-
LOTTE SHOPPING HOLDINGS (SINGAPORE) PTE. LTD.	-	-	-	-	2,173	-
LOTTE.COM INC.	-	-	-	-	11,563	-
Lotte Shopping Reit Management Singapore PTE. LTD.	-	-	-	-	-	(1,305)
Lotte Department Store Masan Co., Ltd.	-	-	-	-	12,000	-
Lotte Ulsan Development Co., Ltd.	23,900	-	-	-	-	-
LOTTE CINEMA VIETNAM CO., LTD.	10,299	-	-	-	-	-
Subtotal	102,924	-	26	(26)	78,784	(1,305)
<b>Associates:</b>						
Lotte Europe Holdings B.V.	-	-	-	-	10,855	-
Lotte Incheon Town Co., Ltd.	-	-	-	-	3,450	-
Shandong Longzhile Cinema Co., Ltd.	884	-	-	-	437	-
Lotte Asset Development Co., Ltd.	-	-	-	-	19,571	-
Capital One Diversity Cinema Fund	-	-	-	-	-	(636)
Hemisphere Film Investors II LLC	-	(1,738)	-	-	-	(5,714)
LOTTE Accelerator Corporation	2,500	-	-	-	-	-
BUSAN-LOTTE CREATIVE FILM FUND	6,000	-	-	-	-	-
Coralis S.A.	4,474	-	-	-	-	-
LOTTE Giants Co., Ltd.	9,000	-	-	-	-	-
Capital One Middle-Low Budget Cinema Fund	-	(1,350)	-	-	-	-
Others	1,750	-	-	-	-	-
Subtotal	24,608	(3,088)	-	-	34,313	(6,350)
Total ₩	127,532	(3,088)	26	(26)	113,097	(7,655)

# LOTTE SHOPPING CO., LTD.

## Notes to the Condensed Separate Interim Financial Statements

September 30, 2016 and 2015

(Unaudited)

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

- (d) Account balances with related companies as of September 30, 2016 and December 31, 2015 are summarized as follows:

Related company	Korean won (millions)			
	September 30, 2016			
	Receivables		Payables	
	Trade receivables	Other receivables	Trade payables	Other payables
<b>Shareholders:</b>				
Hotel Lotte Co., Ltd.	₩ 209	49,399	-	22,193
Lotte Confectionery Co., Ltd.	261	513	24,854	1,361
Lotte Chilsung Beverage Co., Ltd.	436	343	6,167	6,179
Lotte Engineering & Construction Co., Ltd.	-	4,710	-	90,994
Hotel Lotte Pusan Co., Ltd.	-	9,618	-	3,912
LOTTE DATA COMMUNICATION COMPANY	-	104,160	-	22,922
Korea Fuji Film Co., Ltd.	4	-	1	1,447
Subtotal	910	168,743	31,022	149,008
<b>Subsidiaries:</b>				
Lotte Card Co., Ltd.	32,666	1,320	-	51,593
Woori Home Shopping & Television Co., Ltd.	15,636	114	1	3,354
Korea Seven Co., Ltd.	10	630	-	2,123
LOTTE Himart Co., Ltd.	80	3,698	100	4,481
LOTTE.COM INC.	47,228	684	-	988
Others	257	13,125	7,719	8,510
Subtotal	95,877	19,571	7,820	71,049
<b>Associates:</b>				
Daehong Communications Co., Ltd.	4,061	235	-	13,879
Lotteria Co., Ltd.	48	235	348	7,020
Lotte Station Building Co., Ltd.	5,239	13,353	-	8,063
Lotte Trading Co., Ltd.	154	809	8,646	-
Others	6	4,159	5,821	19,508
Subtotal	9,508	18,791	14,815	48,470
<b>Others:</b>				
LOTTE FOOD CO., LTD.	289	3,843	10,712	8,157
Lotte Aluminum Co., Ltd.	56	104	780	4,822
Others	118	3,408	902	34,849
Subtotal	463	7,355	12,394	47,828
Total	₩ 106,758	214,460	66,051	316,355

# LOTTE SHOPPING CO., LTD.

## Notes to the Condensed Separate Interim Financial Statements

September 30, 2016 and 2015

(Unaudited)

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

- (d) Account balances with related companies as of September 30, 2016 and December 31, 2015 are summarized as follows:, continued

Related company	Korean won (millions)			
	December 31, 2015			
	Receivables		Payables	
	Trade receivables	Other receivables	Trade payables	Other payables
<b>Shareholders:</b>				
Hotel Lotte Co., Ltd.	₩ 779	53,154	1	26,446
Lotte Confectionery Co., Ltd.	281	1,000	18,911	1,511
Lotte Chilsung Beverage Co., Ltd.	145	1,009	4,832	6,215
Lotte Engineering & Construction Co., Ltd.	-	4,922	-	93,005
Hotel Lotte Pusan Co., Ltd.	-	9,694	3	3,306
LOTTE DATA COMMUNICATION COMPANY	-	322	-	19,764
Korea Fuji Film Co., Ltd.	5	-	-	1,555
Subtotal	1,210	70,101	23,747	151,802
<b>Subsidiaries:</b>				
Lotte Card Co., Ltd.	24,565	1,672	-	37,808
Woori Home Shopping & Television Co., Ltd.	28,042	288	1	4,592
Korea Seven Co., Ltd.	-	550	106	2,043
LOTTE Himart Co., Ltd.	51	11,890	1,210	3,874
LOTTE.COM INC.	61,633	683	-	1,279
Others	35	36,068	11,242	14,710
Subtotal	114,326	51,151	12,559	64,306
<b>Associates:</b>				
Daehong Communications Co., Ltd.	4,679	255	-	6,727
Lotteria Co., Ltd.	2	467	388	8,708
Lotte Station Building Co., Ltd.	7,881	11,571	-	5,122
Lotte Trading Co., Ltd.	20	656	8,132	-
Others	37	3,206	10,068	29,085
Subtotal	12,619	16,155	18,588	49,642
<b>Others:</b>				
LOTTE FOOD CO., LTD.	92	3,059	12,542	8,205
Lotte Aluminum Co., Ltd.	-	188	769	1,507
Others	731	5,160	1,066	30,539
Subtotal	823	8,407	14,377	40,251
Total	₩ 128,978	145,814	69,271	306,001

# LOTTE SHOPPING CO., LTD.

## Notes to the Condensed Separate Interim Financial Statements

September 30, 2016 and 2015

(Unaudited)

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

- (e) Key management personnel compensation for the nine-month periods ended September 30, 2016 and 2015 are as follows:

		Korean won (millions)	
		2016	2015
Short-term benefits	₩	29,140	25,895
Retirement benefits		6,705	6,042
Other long-term benefits		(21)	8
Total	₩	35,824	31,945

- (f) The Company has provided guarantees for related companies as of September 30, 2016 as follows:

Related company	Guarantee recipient	Type of borrowings	Guaranteed amount (thousands)
<b>Subsidiaries:</b>			
PT. LOTTE Shopping Avenue Indonesia	DBS	Working capital	USD 20,000
Lotte Shopping Holdings (Hong Kong) Co., Limited	JP Morgan	Working capital	IDR 200,000,000
	Standard Chartered Bank Korea Limited.	Working capital	USD 38,136
	BNP Paribas	Working capital	USD 38,135
	Citibank N.A., Hong Kong Branch	Working capital	USD 38,135
	SMBC	Working capital	USD 38,135
	Shinhan Bank	Working capital	HKD 8,000
	HSBC	Working capital	USD 95,298
	ING	Working capital	USD 120,214
	BNP Paribas	Working capital	USD 104,818
Lotte Business Management (Tianjin) Co., Ltd.	BNP Paribas	Working capital	CNY 150,000
LOTTE DEPARTMENT STORE (TIANJIN) CO., LTD.	KEB Hana Bank	Working capital	CNY 170,000
Lotte Department Store (Shenyang) Co., Ltd.	BNP Paribas	Working capital	CNY 50,000
Jiangsu Times Supermarket Co., Ltd	DBS	Working capital	CNY 330,000
LOTTE PROPERTIES (CHENGDU) HK LIMITED	Korea Exchange Bank	Working capital	USD 140,000
	Shinhan Bank	Working capital	USD 50,000
LuckyPai (Shanghai) Trading Co., Ltd.	KEB Hana Bank	Working capital	CNY 58,000
	KEB Hana Bank	Working capital	CNY 39,900
<b>Associates:</b>			
Lotte Shopping RUS Ltd.	Korea Exchange Bank	Working capital	USD 5,000
Shandong Longzhile Cinema Co., Ltd.	Shinhan Bank	Working capital	CNY 24,000
<b>Joint ventures:</b>			
International Business Center Company Limited	The Export-Import Bank of Korea	Working capital	USD 15,000
	Standard Chartered Bank Korea Limited.	Working capital	VND 110,000,000

# LOTTE SHOPPING CO., LTD.

## Notes to the Condensed Separate Interim Financial Statements

September 30, 2016 and 2015

(Unaudited)

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

(f) The Company has provided guarantees for related companies as of September 30, 2016 as follows, continued:

Related company	Guarantee recipient	Type of borrowings	Guaranteed amount (thousands)
<b>Others:</b>			
Lotte	The Export-Import Bank of Korea	Working capital	USD 30,500
Properties(Shenyang)	Woori Bank	Working capital	USD 31,500
Limited	KDB	Working capital	USD 57,500

(g) 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.

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

(i) The Company entered into an agreement to jointly provide financial support for HND able 2nd limited ("HND able") and Invest Farmland Co., Ltd. in default of the principal and interest on the Asset Backed Commercial Paper ("ABCP", W700,000 million of par value in maturing in 57 months) issued by HND able on May 27, 2013, which is collateralized with the assets of Lotte Incheon Development Co., Ltd. and on the electronics a short-term debenture (W34,000 million of par value in maturing in 14 months) issued by Lotte Incheon Town Co., Ltd on october 26, 2015.

(j) In 2015, the Company entered into an agreement to provide financial support for Suwon Landmark the Second Co., Ltd. in default of the principal and interest on the Asset Backed Commercial Paper ("ABCP", W250,000 million of par value in maturing in 36 months) issued by Suwon Landmark the Second Co., Ltd. on May 26, 2015, which was collateralized with the assets of LOTTE Suwon Station Shopping Town CO., LTD.

(k) In 2016, the Company entered into an agreement to provide financial support for KS the First Co., Ltd. in default of the principal and interest on the Asset Backed Commercial Paper ("ABCP", W 266,000 million of par value in maturing in 27 months) issued by KS the First Co., Ltd. on August 30, 2016, which was collateralized with the assets of Lotte Ulsan Development Co., Ltd.

(l) In 2015, Lotte Incheon Town Co., Ltd., which is the Company's associate, entered into a land sale and purchase agreement with the government of Incheon city. As a result of the agreement, the Company collected a security deposit of W30.6 billion, which had been paid by the Copmany instead of Lotte Incheon Town Co., Ltd., from Lotte Incheon Town Co., Ltd.

(m) The Company has provided guarantees for Lotte Suwon Station Shopping Town Co., Ltd. to pay the rent during the term of the lease (20 years) from the beginning of the lease contract in 2014.

(n) In 2013, The Company Issued Hybrid securities, among which W20,000 million is held by Lotte Non-Life Insurance Co., Ltd.

LOTTE SHOPPING CO., LTD.  
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**37. 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 September 30, 2016 and December 31, 2015 are as follows:

Account	Korean won (millions)	
	September 30, 2016	December 31, 2015
Cash equivalents (*1)	₩ 390,216	563,241
Trade and other receivables	505,658	563,375
Other financial assets (current)	495,759	811,586
Other financial assets (non-current) (*2)	960,413	944,120
Total	₩ 2,352,046	2,882,322

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

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

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**37. 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 September 30, 2016 and December 31, 2015 are summarized as follows:

		Korean won (millions)			
		<b>September 30, 2016</b>			
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	₩	493,693	11,965	4,619	510,277
Other financial assets (current)		495,759	-	34	495,793
Other financial assets (non-current)		960,413	-	3,950	964,363
Total	₩	<u>1,949,865</u>	<u>11,965</u>	<u>8,603</u>	<u>1,970,433</u>

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

		Korean won (millions)			
		<b>December 31, 2015</b>			
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	₩	549,959	13,416	4,645	568,020
Other financial assets (current)		811,586	-	34	811,620
Other financial assets (non-current)		944,120	-	3,950	948,070
Total	₩	<u>2,305,665</u>	<u>13,416</u>	<u>8,629</u>	<u>2,327,710</u>

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



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**37. 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 nine-month period ended September 30, 2016 and for the year ended December 31, 2015 are summarized as follow:

		Korean won (millions)	
		<b>2016</b>	<b>2015</b>
Balance at beginning of the period	₩	4,645	5,799
Impairment loss		27	225
Reversal of impairment loss		(8)	(58)
Write-offs		(45)	(1,321)
Balance at end of the period	₩	<u>4,619</u>	<u>4,645</u>

The movement in the allowance for doubtful other financial assets (current) for the nine-month period ended September 30, 2016 and for the year ended December 31, 2015 are summarized as follow:

		Korean won (millions)	
		<b>2016</b>	<b>2015</b>
Balance at beginning of the period	₩	34	34
Reversal of impairment loss		-	-
Balance at end of the period	₩	<u>34</u>	<u>34</u>

The movement in the allowance for doubtful other financial assets (non-current) for the nine-month period ended September 30, 2016 and for the year ended December 31, 2015 are summarized as follow:

		Korean won (millions)	
		<b>2016</b>	<b>2015</b>
Balance at beginning of the period	₩	3,950	3,950
Impairment loss		-	-
Balance at end of the period	₩	<u>3,950</u>	<u>3,950</u>

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**37. 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 aging 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)				
		<b>September 30, 2016</b>				
Description		Carrying amount	3 months or less	3 ~ 6 months	6 ~ 12 months	More than 1 year
Trade and other receivables	₩	11,965	8,236	651	2,733	345

		Korean won (millions)				
		<b>December 31, 2015</b>				
Description		Carrying amount	3 months or less	3 ~ 6 months	6 ~ 12 months	More than 1 year
Trade and other receivables	₩	13,416	9,377	1,549	2,024	466

v) Guarantees

As of September 30, 2016 the Company has provided financial guarantees to associates and joint ventures. Should the Company be liable for payment upon defaults of the subsidiaries, associates and joint ventures, the expected amounts which the Company is liable to pay within 1 year are ₩1,059,774 million.

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**37. 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.

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 financial liabilities, including estimated interest, as of September 30, 2016 are as follows:

Account		Korean won (millions)					
		Carrying amount	Contractual cash flows	3 months or less	3 ~ 6 months	6 ~ 12 months	More than 1 year
Current portion of borrowings and debentures	₩	1,180,847	1,214,624	26,049	104,663	1,083,912	-
Trade and other payables		3,516,248	3,516,248	3,516,248	-	-	-
Other financial liabilities (current) (*)		382,223	383,821	278,800	71,508	33,513	-
Borrowings and debentures		2,871,701	3,102,857	14,924	16,039	32,764	3,039,130
Other financial liabilities (non-current)		147,736	152,502	2,533	1,409	2,063	146,497
Total	₩	8,098,755	8,370,052	3,838,554	193,619	1,152,252	3,185,627

(\*) Embedded 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.

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### 37. Risk Management, Continued

(a) Management of financial risks, continued

#### Market Risks

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the 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. As of September 30, 2016, all of the Company's borrowings except the long-term borrowing from Lotte Co., Ltd. (Japan) are hedged against currency risks.

Assets and liabilities denominated in foreign currencies other than the Company's functional currencies as of September 30, 2016 and December 31, 2015 are as follows:

		Korean won (millions)			
		<b>September 30, 2016</b>		<b>December 31, 2015</b>	
		Assets	Liabilities	Assets	Liabilities
USD	₩	7,158	1,425,253	6,641	1,780,349
EUR		93	1,567	65	2,191
JPY		-	108,368	-	188,301
IDR		271	-	181	-
HKD		8	31	12	-
CNY		613	-	440	-
VND		21	-	-	-
Total	₩	8,164	1,535,219	7,339	1,970,841

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### 37. Risk Management, Continued

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

The closing rates as of September 30, 2016 and December 31, 2015 and the average rates for the nine-month periods ended September 30, 2016 and 2015 are as follows:

		Average rate		Closing rate	
		2016	2015	September 30, 2016	December 31, 2015
USD	₩	1,161.60	1,122.42	1,096.30	1,172.00
EUR		1,295.99	1,250.87	1,230.32	1,280.53
JPY		10.7158	9.2816	10.8368	9.7201
IDR		0.0872	0.0847	0.0845	0.0850
HKD		149.61	144.77	141.35	151.21
CNY (*)		176.23	179.68	163.97	180.55
VND		0.0520	0.0516	0.0492	0.0522

(\*) The Company had translated with CNY rate calculated by arbitrating USD/KRW and USD/CNY until December 31, 2015. However, the exchange rate has not been announced any longer from January 4, 2016, the Company applies direct CNH/KRW exchange rate in translation from January 1, 2016.

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 September 30, 2016 and December 31, 2015 are summarized as follows:

		Korean won (millions)			
		September 30, 2016		December 31, 2015	
		10% increase	10% decrease	10% increase	10% decrease
USD	₩	710	(710)	663	(663)
EUR		(147)	147	(212)	212
JPY		(10,837)	10,837	(9,720)	9,720
IDR		27	(27)	18	(18)
HKD		(2)	2	1	(1)
CNY		61	(61)	44	(44)
VND		2	(2)	-	-
Total	₩	(10,186)	10,186	(9,206)	9,206

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 September 30, 2016 and December 31, 2015.

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**37. Risk Management, Continued**

(a) Management of financial risks, continued

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)	
		<b>September 30, 2016</b>	<b>December 31, 2015</b>
Variable rate instruments:			
Financial assets	₩	49,000	53,950
Financial liabilities		1,294,671	1,117,141

Sensitivity analysis of interest income and expenses from changes of interest rates as of September 30, 2016 and December 31, 2015 are as summarized as follows:

		Korean won (millions)			
		<b>September 30, 2016</b>		<b>December 31, 2015</b>	
		100bps up	100bps down	100bps up	100bps down
Interest income	₩	490	(490)	540	(540)
Interest expense		1,084	(1,084)	972	(972)

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

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**37. Risk Management, Continued**

(a) Management of financial risks, continued

iii) Price risk

The Company is exposed to fluctuations of price in available-for-sale financial assets. The book values of the marketable available-for-sale financial assets as of September 30, 2016 and December 31, 2015 are ₩174,233 million and ₩171,174 million, respectively.

The Company assumes that prices of the marketable available-for-sale financial assets fluctuate 10% at the end of reporting period, and others variables are not changed. Sensitivity analysis of other comprehensive income from changes of price as of September 30, 2016 and December 31, 2015 are as summarized as follows:

		Korean won (millions)			
		<b>September 30, 2016</b>		<b>December 31, 2015</b>	
		10% increase	10% decrease	10% increase	10% decrease
Other comprehensive income	₩	17,423	(17,423)	17,117	(17,117)

(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 September 30, 2016 and December 31, 2015 are as follows:

		Korean won (millions)	
		<b>September 30, 2016</b>	<b>December 31, 2015</b>
Liabilities (a)	₩	10,151,490	10,488,999
Equity (b)		15,618,986	15,531,707
Financial instruments (*) (c)		784,269	1,218,592
Borrowings (d)		4,052,548	4,434,108
Liabilities to equity ratio (a/b)		64.99%	67.53%
Net borrowings to equity ratio ((d-c)/b)		20.93%	20.70%

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

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**38. Business Combination**

(a) General description

The Company entered into an agreement to acquire Central Square department stores with Lotte Department Store Masan Co., Ltd. which was the Company's subsidiary on April 12, 2016 and consummated the acquisition on April 30, 2016.

(b) The following summarizes fair value of identifiable net assets.

		Korean won (millions)	
Accounts		<b>2016</b>	
Assets	₩		1,441
Liabilities			1,306
Net assets	₩		135

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

		Korean won (millions)	
		<b>2016</b>	
Total consideration transferred (*)	₩		665
Fair value of identifiable net assets			135
Goodwill	₩		530

(\*) Total consideration transferred consists of cash.