

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Condensed Consolidated Interim Financial Statements

**June 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 consolidated interim financial statements of Lotte Shopping Co., Ltd. and its subsidiaries (the "Group"), which comprise the condensed consolidated statement of financial position as of June 30, 2016, the condensed consolidated statements of comprehensive income for the three-month and six-month periods ended June 30, 2016 and 2015, the condensed consolidated statements of changes in equity and cash flows for the six-month periods ended June 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 consolidated 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 consolidated 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 consolidated 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 consolidated interim financial statements may differ from those generally accepted and applied in other countries.

The statement of financial position of the Group as of December 31, 2015, and the related consolidated 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 consolidated statement of financial position of the Group as of December 31, 2015 presented for comparative purposes, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

KPMG Samjong Accounting Corp.  
Seoul, Korea  
August 16, 2016

This report is effective as of August 16, 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 consolidated 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.

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

As of June 30, 2016 and December 31, 2015

(Unaudited)

	<i>Notes</i>	Korean won (millions)	
		<b>June 30, 2016</b>	<b>December 31, 2015</b>
<b>Assets</b>			
Cash and cash equivalents	6,34,39 ₩	1,538,117	1,751,268
Trade and other receivables	4,6,38,39	845,324	918,851
Other financial assets	5,6,21,39	9,492,156	9,672,512
Inventories	7	3,288,603	3,265,997
Income tax refund receivable		4,356	2,828
Other non-financial assets	8	391,151	385,396
Non-current assets held for sale	9	-	447
<b>Total current assets</b>		<b>15,559,707</b>	<b>15,997,299</b>
Investments in associates and joint ventures	10,11	1,267,071	1,274,851
Other financial assets	5,6,21,39	2,135,443	2,089,193
Property, plant and equipment, net	12,38	15,809,515	15,759,107
Investment property, net	13	658,000	520,982
Goodwill	14	2,716,463	2,715,569
Other intangible assets, net	14	839,888	862,820
Other non-financial assets	8	1,303,970	1,413,805
Deferred tax assets		60,098	59,740
<b>Total non-current assets</b>		<b>24,790,448</b>	<b>24,696,067</b>
<b>Total assets</b>	₩	<b>40,350,155</b>	<b>40,693,366</b>

See accompanying notes to the condensed consolidated interim financial statements.

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

As of June 30, 2016 and December 31, 2015

(Unaudited)

	Notes	Korean won (millions)	
		June 30, 2016	December 31, 2015
<b>Liabilities</b>			
Borrowings and debentures, net of issuance costs	6,16,36,38,39	₩ 4,164,266	4,267,139
Trade and other payables	6,15,38,39	4,951,470	5,465,907
Other financial liabilities	6,21,39	622,586	533,789
Income tax payables		111,148	134,348
Unearned revenues	17	215,031	217,574
Provisions	18	79,947	60,359
Other non-financial liabilities	19	1,306,939	1,239,537
<b>Total current liabilities</b>		<b>11,451,387</b>	<b>11,918,653</b>
Borrowings and debentures, net of issuance costs	6,16,36,38,39	9,789,053	9,816,438
Other financial liabilities	6,21,39	330,640	279,552
Employee benefit liabilities	20	148,342	81,291
Deferred tax liabilities		1,361,308	1,365,668
Unearned revenues	17	9,810	8,086
Provisions	18	37,728	32,458
Other non-financial liabilities	19	123,828	103,378
<b>Total non-current liabilities</b>		<b>11,800,709</b>	<b>11,686,871</b>
<b>Total liabilities</b>		<b>23,252,096</b>	<b>23,605,524</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	3,910,752	3,910,752
Hybrid securities	23	269,118	269,118
Capital adjustments	24	(79,075)	(79,039)
Retained earnings	25	11,943,302	11,893,663
Accumulated other comprehensive income	26	51,503	95,502
<b>Stockholders' equity attributable to owners of the Company</b>		<b>16,253,054</b>	<b>16,247,450</b>
<b>Non-controlling interests</b>		<b>845,005</b>	<b>840,392</b>
<b>Total equity</b>		<b>17,098,059</b>	<b>17,087,842</b>
<b>Total liabilities and equity</b>	₩	<b>40,350,155</b>	<b>40,693,366</b>

See accompanying notes to the condensed consolidated interim financial statements.

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

For the three and six-month periods ended June 30, 2016 and 2015

(Unaudited)

		Korean won (millions, except for earnings per share)			
		2016		2015	
<i>Notes</i>		Three-month period	Six-month period	Three-month period	Six-month period
Sales	28,35,36,38 W	7,230,389	14,409,266	7,227,975	14,163,349
Cost of sales	7,28,31,38	<u>(4,950,039)</u>	<u>(9,907,913)</u>	<u>(4,970,278)</u>	<u>(9,735,308)</u>
<b>Gross profit</b>		2,280,350	4,501,353	2,257,697	4,428,041
Selling, general and administrative expenses	29,31,38	<u>(2,109,319)</u>	<u>(4,122,192)</u>	<u>(2,055,478)</u>	<u>(3,958,641)</u>
<b>Operating profit</b>		171,031	379,161	202,219	469,400
Other income	30,38	114,942	130,739	11,133	27,823
Other expenses	30,38	(119,612)	(147,319)	(27,647)	(75,652)
Finance income	32	92,414	133,131	57,739	101,238
Finance costs	32	(118,341)	(221,856)	(90,258)	(177,913)
Equity method income on investments in associates	10,11	9,001	5,753	21,214	21,411
<b>Profit before income tax</b>		149,435	279,609	174,400	366,307
Income tax expense	33	<u>(67,123)</u>	<u>(131,270)</u>	<u>(78,734)</u>	<u>(155,205)</u>
<b>Profit for the period</b>		<u>82,312</u>	<u>148,339</u>	<u>95,666</u>	<u>211,102</u>
<b>Other comprehensive income (loss): Items that will never be reclassified to profit or loss:</b>	26				
Remeasurements of net defined benefit liabilities	20	4,015	(6,812)	1,046	847
Net change in equity of equity method investments		(279)	(2,094)	337	(374)
Income tax on items that will never be reclassified to profit or loss		<u>(1,538)</u>	<u>1,685</u>	<u>(31)</u>	<u>255</u>
<b>Total items that will never be reclassified to profit or loss</b>		<u>2,198</u>	<u>(7,221)</u>	<u>1,352</u>	<u>728</u>
<b>Items that are or may be reclassified to profit or loss:</b>					
Net change in unrealized fair value of available-for-sale financial assets		(20,893)	(12,105)	45,357	4,027
Exchange rate differences on translating foreign operations		1,514	4,104	11,069	5,289
Effective portion of unrealized changes in fair values of cash flow hedges	21	(6,696)	(29,295)	(23,247)	(19,652)
Net change in equity of equity method investments		(29,018)	(27,556)	(8,386)	(16,287)
Income tax on items that are or may be reclassified to profit or loss		<u>14,408</u>	<u>16,262</u>	<u>(7,457)</u>	<u>8,458</u>
<b>Total items that are or may be reclassified subsequently to profit or loss</b>		<u>(40,685)</u>	<u>(48,590)</u>	<u>17,336</u>	<u>(18,165)</u>
<b>Other comprehensive income (loss) for the period, net of tax</b>		<u>(38,487)</u>	<u>(55,811)</u>	<u>18,688</u>	<u>(17,437)</u>
<b>Total comprehensive income for the period</b>	W	<u>43,825</u>	<u>92,528</u>	<u>114,354</u>	<u>193,665</u>

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

For the three and six-month periods ended June 30, 2016 and 2015

(Unaudited)

		Korean won (millions, except for earnings per share)			
		2016		2015	
<i>Notes</i>		Three-month period	Six-month period	Three-month period	Six-month period
<b>Profit attributable to:</b>					
	₩	64,804	122,779	64,569	170,758
- Owners of the Company		17,508	25,560	31,097	40,344
- Non-controlling interests		<u>82,312</u>	<u>148,339</u>	<u>95,666</u>	<u>211,102</u>
<b>Total comprehensive income attributable to:</b>					
		29,210	71,107	75,266	158,564
- Owners of the Company		14,615	21,421	39,088	35,101
- Non-controlling interests		<u>43,825</u>	<u>92,528</u>	<u>114,354</u>	<u>193,665</u>
<b>Earnings per share</b>					
	27				
- Basic earnings per share (in won)		2,088	3,939	2,077	5,563
- Diluted earnings per share (in won)	₩	2,078	3,931	1,999	5,438

See accompanying notes to the condensed consolidated interim financial statements.

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

For the six-month periods ended June 30, 2016 and 2015

(Unaudited)

	Korean won (millions)								
	Capital stock	Capital surplus	Hybrid securities	Capital adjustments	Retained earnings	Accumulated other comprehensive income	Stockholders' equity attributable to owners of the Company	Non-controlling interests	Total equity
<b>Balance at January 1, 2015</b>	₩ 157,454	3,910,752	269,118	(78,452)	12,360,095	106,836	16,725,803	818,074	17,543,877
<b>Total comprehensive income (loss) for the period:</b>									
Profit for the period	-	-	-	-	170,758	-	170,758	40,344	211,102
<b>Other comprehensive income (loss):</b>									
Net change in unrealized fair value of available-for-sale financial assets	-	-	-	-	-	8,936	8,936	(4,766)	4,170
Exchange differences on translating foreign operations	-	-	-	-	-	4,994	4,994	341	5,335
Effective portion of unrealized changes in fair values of cash flow hedges	-	-	-	-	-	(14,980)	(14,980)	(191)	(15,171)
Remeasurements of net defined benefit liabilities	-	-	-	-	1,578	-	1,578	(627)	951
Change in equity of equity method investments	-	-	-	-	(223)	(12,499)	(12,722)	-	(12,722)
Subtotal	-	-	-	-	1,355	(13,549)	(12,194)	(5,243)	(17,437)
Total comprehensive income (loss) for the period	-	-	-	-	172,113	(13,549)	158,564	35,101	193,665
<b>Transactions with owners of the Company, recognized directly in equity:</b>									
Dividends to owners of the Company	-	-	-	-	(59,105)	-	(59,105)	(14,809)	(73,914)
Interests of hybrid securities	-	-	-	-	(6,359)	-	(6,359)	-	(6,359)
Changes in ownership interests in subsidiaries	-	-	-	(129)	-	-	(129)	(256)	(385)
Changes in subsidiaries	-	-	-	-	-	-	-	15,100	15,100
Other	-	-	-	(57)	-	-	(57)	(446)	(503)
Subtotal	-	-	-	(186)	(65,464)	-	(65,650)	(411)	(66,061)
<b>Balance at June 30, 2015</b>	₩ 157,454	3,910,752	269,118	(78,638)	12,466,744	93,287	16,818,717	852,764	17,671,481

See accompanying notes to the condensed consolidated interim financial statements.

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

For the six-month periods ended June 30, 2016 and 2015

(Unaudited)

	Korean won (millions)								
	Capital stock	Capital surplus	Hybrid securities	Capital adjustments	Retained earnings	Accumulated other comprehensive income	Stockholders' equity attributable to owners of the Company	Non-controlling interests	Total equity
<b>Balance at January 1, 2016</b>	₩ 157,454	3,910,752	269,118	(79,039)	11,893,663	95,502	16,247,450	840,392	17,087,842
<b>Total comprehensive income (loss) for the period:</b>									
Profit for the period	-	-	-	-	122,779	-	122,779	25,560	148,339
<b>Other comprehensive income (loss):</b>									
Net change in unrealized fair value of available-for-sale financial assets	-	-	-	-	-	(6,180)	(6,180)	(2,258)	(8,438)
Exchange differences on translating foreign operations	-	-	-	-	-	6,158	6,158	(2,031)	4,127
Effective portion of unrealized changes in fair values of cash flow hedges	-	-	-	-	-	(22,369)	(22,369)	(258)	(22,627)
Remeasurements of net defined benefit liabilities	-	-	-	-	(5,816)	-	(5,816)	452	(5,364)
Change in equity of equity method investments	-	-	-	-	(1,857)	(21,608)	(23,465)	(44)	(23,509)
Subtotal	-	-	-	-	(7,673)	(43,999)	(51,672)	(4,139)	(55,811)
Total comprehensive income (loss) for the period	-	-	-	-	115,106	(43,999)	71,107	21,421	92,528
<b>Transactions with owners of the Company, recognized directly in equity:</b>									
Dividends to owners of the Company	-	-	-	-	(59,105)	-	(59,105)	(18,449)	(77,554)
Interests of hybrid securities	-	-	-	-	(6,362)	-	(6,362)	-	(6,362)
Changes in ownership interests in subsidiaries	-	-	-	(230)	-	-	(230)	1,448	1,218
Changes in subsidiaries	-	-	-	-	-	-	-	177	177
Other	-	-	-	194	-	-	194	16	210
Subtotal	-	-	-	(36)	(65,467)	-	(65,503)	(16,808)	(82,311)
<b>Balance at June 30, 2016</b>	₩ 157,454	3,910,752	269,118	(79,075)	11,943,302	51,503	16,253,054	845,005	17,098,059

See accompanying notes to the condensed consolidated interim financial statements.

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

For the six-month periods ended June 30, 2016 and 2015

(Unaudited)

	Korean won (millions)	
	2016	2015
<b>Cash flows from operating activities</b>		
Profit for the period	₩ 148,339	211,102
Income tax expense	131,270	155,205
Post-employment benefits	59,057	55,056
Long-term employee benefits	5,556	2,785
Depreciation	413,798	419,721
Amortization	68,216	60,937
Loss on foreign currency translation	31,308	39,483
Loss on foreign currency transactions	706	144
Loss on disposal of property, plant and equipment	3,814	6,646
Impairment loss on property, plant and equipment	4	-
Impairment loss on intangible assets	30,573	29
Loss on valuation of financial liabilities at fair value through profit or loss	15,713	1,544
Loss on valuation of derivative instruments	16,790	11,567
Loss on transactions of derivative instruments	18,060	239
Loss on redemption of debentures	19,226	-
Equity method loss of investments in subsidiaries, associates and joint ventures	29,042	20,912
Loss on disposal of investments in subsidiaries, associates and joint ventures	59	825
Rental expenses (amortization of discount on deposit, etc.)	49,937	44,491
Miscellaneous losses	13,000	-
Other expenses	464	1,440
Cost of card business	226,814	224,504
Interest expense	121,034	122,511
Gain on foreign currency translation	(31,398)	(2,217)
Gain on foreign currency transactions	(12,410)	(53)
Gain on disposal of property, plant and equipment	(1,775)	(1,124)
Gain on disposal of investment property	-	(699)
Gain on valuation of derivative instruments	(32,996)	(34,105)
Equity method gain of investments in subsidiaries, associates and joint ventures	(34,795)	(42,323)
Gain on disposal of investments in subsidiaries, associates and joint ventures	(5,642)	(12,592)
Bad debt expenses (Reversal of allowance for bad debts)	(29,483)	1,337
Other income	(1,379)	(2,050)
Income of card business	(375,398)	(382,306)
Interest income	(43,886)	(43,737)
Dividend income	(7,070)	(8,218)
Trade receivables	117,141	(65,109)
Other receivables	(24,649)	(16,379)
Other financial assets	(70,382)	43,897

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

For the six-month periods ended June 30, 2016 and 2015

(Unaudited)

	Korean won (millions)	
	<b>2016</b>	<b>2015</b>
<b>Cash flows from operating activities, continued</b>		
Inventories	(13,387)	40,969
Other non-financial assets	(46,759)	(84,460)
Trade payables	(256,482)	(466,733)
Other payables	(295,381)	(251,100)
Other financial liabilities	109,354	47,087
Unearned revenues	(8,012)	(19,898)
Provisions	11,109	9,837
Other non-financial liabilities	80,213	9,534
Payment of post-employment benefits	(26,507)	(30,073)
Plan assets	19,769	20,548
Income tax paid	(141,993)	(234,798)
Interest received	348,359	362,914
Interest paid	(91,458)	(81,641)
Dividends received	45	83
<b>Net cash provided by operating activities</b>	<b>₩ 537,528</b>	<b>135,732</b>

See accompanying notes to the condensed consolidated interim financial statements.

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

For the six-month periods ended June 30, 2016 and 2015

(Unaudited)

	Korean won (millions)	
	2016	2015
<b>Cash flows from investing activities</b>		
Proceeds from sale of financial assets	₩ 1,113,076	543,216
Collection of loans	6,284	33,267
Proceeds from sale of available-for-sale financial assets	91	4,018
Proceeds from sale of investments in associates and joint ventures	2,330	636
Proceeds from capital distribution from associates	2,004	4,899
Proceeds from disposal of property, plant and equipment	13,533	45,885
Proceeds from disposal of investment property	-	3,400
Proceeds from disposal of intangible assets	337	451
Decrease of other assets	-	3
Purchase of financial assets	(910,337)	(698,431)
Increase of loans	(4,200)	(2,652)
Purchase of available-for-sale financial assets	(45,203)	(139,990)
Purchase of investments in associates and joint ventures	(33,749)	(93,371)
Acquisition of property, plant and equipment	(567,055)	(599,132)
Acquisition of investment property	(1,234)	(7,067)
Acquisition of intangible assets	(47,179)	(36,665)
Acquisition of other investments	(726)	(542)
Business combination, net of cash acquired	(200)	1,431
Cash outflows from disposal of subsidiaries, net of proceeds received	-	(37)
Interest received	22,320	22,627
Dividends received	21,898	22,100
<b>Net cash used in investing activities</b>	<b>₩ (428,010)</b>	<b>(895,954)</b>

See accompanying notes to the condensed consolidated interim financial statements.

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

For the six-month periods ended June 30, 2016 and 2015

(Unaudited)

		Korean won (millions)	
		<b>2016</b>	<b>2015</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings	₩	1,444,735	1,420,977
Proceeds from issuance of debentures		1,347,509	1,444,583
Proceeds related to sale and lease back transactions		20,389	1,769
Cash inflows from settlement of derivative instruments		2,226	-
Repayment of borrowings		(1,622,897)	(1,545,670)
Redemption of debentures		(1,298,343)	(1,071,231)
Cash outflows from settlement of derivative instruments		-	(11,962)
Payment of hybrid securities interests		(6,362)	(6,359)
Cash outflows from other financing activities		(8,585)	(5,678)
Interest paid		(123,785)	(115,917)
Dividends paid		(77,554)	(73,914)
<b>Net cash provided by financing activities</b>	₩	<b>(322,667)</b>	<b>36,598</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(213,149)</b>	<b>(723,624)</b>
<b>Cash and cash equivalents at beginning of the period</b>		<b>1,751,268</b>	<b>1,928,136</b>
<b>Impact of foreign currency exchange rates on cash and cash equivalents</b>		<b>(763)</b>	<b>170</b>
<b>Exchange differences on translating foreign operations</b>		<b>761</b>	<b>4,206</b>
<b>Cash and cash equivalents at end of the period</b>	₩	<b>1,538,117</b>	<b>1,208,888</b>

See accompanying notes to the condensed consolidated interim financial statements.

# LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

## Notes to the Condensed Consolidated Interim Financial Statements

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

The stockholders of the Company as of June 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 share	1,938,688	6.16
Others	9,521,302	30.24
Total	<u>31,490,892</u>	<u>100.00</u>

#### (b) Description of Subsidiaries

The consolidated financial statements of the Company comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities") and the Group's interest in associates and joint ventures. A summary of the subsidiaries of the Company as of June 30, 2016 and December 31, 2015 is as follows:

Subsidiaries	June 30, 2016			
	Location	Products or services	Fiscal year	Percentage of ownership (%)
Lotte Card Co., Ltd.	Korea	Credit card, financing	Dec. 31	93.78
eB Card Co., Ltd.	Korea	Electronic banking business	Dec. 31	95.00
Gyeonggi Smartcard Co., Ltd.	Korea	Electronic banking business	Dec. 31	100.00
Inchon Smartcard Co., Ltd.	Korea	Electronic banking business	Dec. 31	100.00
The 6th Supreme (*1)	Korea	SPC	Dec. 31	0.90
The 7th Supreme (*1)	Korea	SPC	Dec. 31	0.90
The 8th Supreme (*1)	Korea	SPC	Dec. 31	0.90
The 9th Supreme (*1)	Korea	SPC	Dec. 31	0.90
PT. Lotte Members Indonesia	Indonesia	Business support service	Dec. 31	100.00
LOTTE Members China	China	Business support service	Dec. 31	100.00
Lotte Members Vietnam Co., Ltd.	Vietnam	Business support service	Dec. 31	100.00
Woori Home Shopping & Television Co., Ltd.	Korea	TV Home Shopping	Dec. 31	53.03

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

June 30, 2016 and 2015

(Unaudited)

1. General Description of Reporting Entity, Continued

(b) Description of Subsidiaries, continued

June 30, 2016				
Subsidiaries	Location	Products or services	Fiscal year	Percentage of ownership (%)
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 Himart Co., Ltd. (*2)	Korea	Consumer electronics	Dec. 31	65.25
Lotte Department Store Masan Co., Ltd.	Korea	Distribution	Dec. 31	100.00
Lotte Members Co., Ltd	Korea	Business support service	Dec. 31	93.78
LOTTE.COM INC	Korea	E-commerce business	Dec. 31	50.01
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	100.00
LOTTE MART COMPANY LIMITED (*3)	China	Distribution	Dec. 31	100.00
Lotte (China) Management Co., Ltd.	China	Business management	Dec. 31	70.00
Lotte Shopping Holdings (Hong Kong) Co., Limited	Hong Kong	Holding company	Dec. 31	100.00
Qingdao LOTTE Mart Commercial Co., Ltd.	China	Distribution	Dec. 31	100.00
Liaoning LOTTE Mart Co., Ltd. (*3)	China	Distribution	Dec. 31	100.00
Lotte Mart China Co., Ltd. (*4)	China	Distribution, Real estate development	Dec. 31	100.00
Swift Harvest Ltd. and its subsidiaries (*4)	Hong Kong	Distribution, Real estate development	Dec. 31	100.00
Hong Fung Ltd. and its subsidiaries (*4)	Hong Kong	Real estate development	Dec. 31	100.00
Nantong Meili Properties Limited (*4)	China	Real estate development	Dec. 31	100.00
Zhuji Decheng Properties Limited (*4)	China	Real estate development	Dec. 31	100.00
Nantong Yaodong Properties Limited (*4)	China	Real estate development	Dec. 31	100.00
Nantong Fuhua Properties Limited and its subsidiary (*4)	China	Real estate development	Dec. 31	100.00
Nantong Jinyou Properties Limited and its subsidiary (*4)	China	Real estate development	Dec. 31	100.00
Nantong Branda Properties Limited and its subsidiary (*4)	China	Real estate development	Dec. 31	100.00
Nantong Fortune Trade Properties Limited (*4)	China	Real estate development	Dec. 31	100.00
Nantong Fine Spring Properties Limited (*4)	China	Real estate development	Dec. 31	100.00
Nantong Fine Port Properties Limited and its subsidiary (*4)	China	Real estate development	Dec. 31	100.00

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

June 30, 2016 and 2015

(Unaudited)

1. General Description of the Reporting Entity, Continued

(b) Description of Subsidiaries, continued

Subsidiaries	Location	Products or services	June 30, 2016	
			Fiscal year	Percentage of ownership (%)
Huai An Full Faith Properties Limited (*4)	China	Real estate development	Dec. 31	100.00
Jilin LOTTE Mart Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Mart (Chongqing) Commercial Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Business Management (Tianjin) Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Department Store (Shenyang) Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte International Department Store (Weihai) Co., Ltd.	China	Distribution	Dec. 31	100.00
LOTTE DEPARTMENT STORE (TIANJIN) CO., LTD.	China	Distribution	Dec. 31	100.00
Lotte Department Store (Chengdu) Co., Ltd.	China	Distribution	Dec. 31	100.00
LOTTE MART (CHENGDU) COMMERCIAL COMPANY LIMITED	China	Distribution	Dec. 31	100.00
Lotte Shopping Business Management (Hong Kong) Limited	Hong Kong	SPC	Dec. 31	100.00
LHSC Limited	Cayman islands	Holding company	Dec. 31	91.14
Lucky Pai Ltd. and its subsidiaries	China	TV Home Shopping	Dec. 31	100.00
LOTTE PROPERTIES (CHENGDU) HK LIMITED	Hong Kong	Holding company	Dec. 31	73.46
Lotte Properties (Chengdu) Limited	China	Real estate lease, Apartment sales services	Dec. 31	100.00
LOTTE VIETNAM SHOPPING CO., LTD. (*5)	Vietnam	Distribution	Dec. 31	100.00
LOTTE SHOPPING HOLDINGS (SINGAPORE) PTE. LTD.	Singapore	Holding company	Dec. 31	100.00
PT. LOTTE SHOPPING INDONESIA (*5)	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	E-commerce business	Dec. 31	100.00

# LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

## Notes to the Condensed Consolidated Interim Financial Statements

**June 30, 2016 and 2015**

(Unaudited)

### **1. General Description of the Reporting Entity, Continued**

#### **(b) Description of Subsidiaries, continued**

- (\*1) Although the Group holds less than 50% of these investees, the Group determined that the Group controlled these investees, since it was exposed, or had rights, to variable returns from its involvement with these investees and had the ability to affect those returns through its power over these investees.
- (\*2) During 2013, the Company issued exchangeable bonds which are exchangeable to common stocks of LOTTE Himart Co., Ltd. Due to the exercise of the put option, the Company redeemed ₩307,400 million of the issued bonds on January 25, 2016. Therefore, the total number of the exchangeable common stocks for the issued bond is changed from 3,538,224 shares to 152,016 shares. If all exchangeable bonds are exchanged to the common stocks of LOTTE Himart Co., Ltd., the Company's percentage of ownership on LOTTE Himart Co., Ltd. will be decreased from 65.25% to 64.60%. In addition, the Company entered into securities lending agreements to lend shares of LOTTE Himart Co., Ltd. owned by the Company up to 50% of the total exchangeable common stocks. As of December 31, 2015, the total number of the common stocks of Lotte Himart Co., Ltd. under securities lending agreements is 1,180,384 shares. On January 25, 2016, the Company collected all of them.
- (\*3) For the six-month period ended June 30, 2016, these were reclassified to subsidiaries of Lotte Shopping Holdings (Hong Kong) Co., Limited.
- (\*4) These subsidiaries were presented as Lotte Mart China Co., Ltd. and its subsidiaries until 2014. As Lotte Mart China Co., Ltd. sold the shares of these subsidiaries to Lotte Shopping Holdings (Hong Kong) Co., Limited in 2015, the Group presents these subsidiaries separately.
- (\*5) For the six-month period ended June 30, 2016, these were reclassified to subsidiaries of LOTTE SHOPPING HOLDINGS (SINGAPORE) PTE and LTD.

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

June 30, 2016 and 2015

(Unaudited)

1. General Description of the Reporting Entity, Continued

(b) Description of Subsidiaries, continued

Subsidiaries	December 31, 2015			
	Location	Products or services	Fiscal year	Percentage of ownership (%)
Lotte Card Co., Ltd.	Korea	Credit card, financing	Dec. 31	93.78
eB Card Co., Ltd.	Korea	Electronic banking business	Dec. 31	95.00
Gyeonggi Smartcard Co., Ltd.	Korea	Electronic banking business	Dec. 31	100.00
Inchon Smartcard Co., Ltd.	Korea	Electronic banking business	Dec. 31	100.00
The 6th Supreme (*1)	Korea	SPC	Dec. 31	0.90
The 7th Supreme (*1)	Korea	SPC	Dec. 31	0.90
The 8th Supreme (*1)	Korea	SPC	Dec. 31	0.90
The 9th Supreme (*1)	Korea	SPC	Dec. 31	0.90
PT. Lotte Members Indonesia	Indonesia	Business support service	Dec. 31	100.00
LOTTE Members China	China	Business support service	Dec. 31	100.00
Lotte Members Vietnam Co., Ltd.	Vietnam	Business support service	Dec. 31	100.00
Woori Home Shopping & Television Co., Ltd.	Korea	TV Home Shopping	Dec. 31	53.03
Lotte DatViet Homeshopping Co., Ltd.	Vietnam	TV Home Shopping	Dec. 31	85.58
Korea Seven Co., Ltd.	Korea	Distribution	Dec. 31	51.14
Buy the way Inc.	Korea	Distribution	Dec. 31	100.00
NCF Co., Ltd.	Korea	Apparel manufacturing	Dec. 31	99.80
Lotte Gimhae Development Co., Ltd.	Korea	Service company	Dec. 31	100.00
Lotte Suwon Station Shopping Town Co., Ltd.	Korea	Real estate development	Dec. 31	95.00
Lotte Songdo Shopping Town Co., Ltd.	Korea	Real estate development	Dec. 31	56.30
CS Mart Co., Ltd.	Korea	Distribution	Dec. 31	99.95
LOTTE Himart Co., Ltd. (*2)	Korea	Consumer electronics	Dec. 31	65.25
Lotte Department Store Masan Co., Ltd.	Korea	Distribution	Dec. 31	100.00
Lotte Members Co., Ltd	Korea	Business support service	Dec. 31	93.78
LOTTE.COM INC	Korea	E-commerce business	Dec. 31	50.01
LOTTE PS NET	Korea	Financial support service	Dec. 31	63.64
LOTTE MART COMPANY LIMITED	China	Distribution	Dec. 31	100.00
Lotte (China) Management Co., Ltd.	China	Business management	Dec. 31	70.00
Lotte Shopping Holdings (Hong Kong) Co., Limited	Hong Kong	Holding company	Dec. 31	100.00
Qingdao LOTTE Mart Commercial Co., Ltd.	China	Distribution	Dec. 31	100.00
Liaoning LOTTE Mart Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Mart China Co., Ltd. and its subsidiaries	China	Distribution, Real estate development	Dec. 31	100.00
Swift Harvest Ltd. and its subsidiaries (*3)	Hong Kong	Distribution, Real estate development	Dec. 31	100.00
Hong Fung Ltd. and its subsidiaries (*3)	Hong Kong	Real estate development	Dec. 31	100.00
Nantong Meili Properties Limited (*3)	China	Real estate development	Dec. 31	100.00
Zhuji Decheng Properties Limited (*3)	China	Real estate development	Dec. 31	100.00

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

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(Unaudited)

1. General Description of the Reporting Entity, Continued

(b) Description of Subsidiaries, continued

Subsidiaries	Location	Products or services	December 31, 2015	
			Fiscal year	Percentage of ownership (%)
Nantong Yaodong Properties Limited (*3)	China	Real estate development	Dec. 31	100.00
Nantong Fuhua Properties Limited and its subsidiary (*3)	China	Real estate development	Dec. 31	100.00
Nantong Jinyou Properties Limited and its subsidiary (*3)	China	Real estate development	Dec. 31	100.00
Nantong Branda Properties Limited and its subsidiary (*3)	China	Real estate development	Dec. 31	100.00
Nantong Fortune Trade Properties Limited(*3)	China	Real estate development	Dec. 31	100.00
Nantong Fine Spring Properties Limited (*3)	China	Real estate development	Dec. 31	100.00
Nantong Fine Port Properties Limited and its subsidiary (*3)	China	Real estate development	Dec. 31	100.00
Huai An Full Faith Properties Limited (*3)	China	Real estate development	Dec. 31	100.00
Jilin LOTTE Mart Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Mart (Chongqing) Commercial Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Business Management (Tianjin) Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Department Store (Shenyang) Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte International Department Store (Weihai) Co., Ltd.	China	Distribution	Dec. 31	100.00
LOTTE DEPARTMENT STORE (TIANJIN) CO., LTD.	China	Distribution	Dec. 31	100.00
Lotte Department Store (Chengdu) Co., Ltd.	China	Distribution	Dec. 31	100.00
LOTTE MART (CHENGDU) COMMERCIAL COMPANY LIMITED	China	Distribution	Dec. 31	100.00
Lotte Shopping Business Management (Hong Kong) Limited	Hong Kong	SPC	Dec. 31	100.00
LHSC Limited	Cayman islands	Holding company	Dec. 31	91.14
Lucky Pai Ltd. and its subsidiaries	China	TV Home Shopping	Dec. 31	100.00
LOTTE PROPERTIES (CHENGDU) HK LIMITED	Hong Kong	Holding company	Dec. 31	73.46
Lotte Properties (Chengdu) Limited	China	Real estate lease, Apartment sales services	Dec. 31	100.00
LOTTE VIETNAM SHOPPING CO., LTD.	Vietnam	Distribution	Dec. 31	100.00
LOTTE SHOPPING HOLDINGS (SINGAPORE) PTE. LTD.	Singapore	Holding company	Dec. 31	100.00
PT. LOTTE SHOPPING INDONESIA	Indonesia	Distribution	Dec. 31	80.00
PT. LOTTE MART INDONESIA	Indonesia	Distribution	Dec. 31	100.00
PT. LOTTE Shopping Avenue Indonesia	Indonesia	Distribution	Dec. 31	100.00
Lotte Shopping India Private Limited	India	Distribution	Dec. 31	100.00
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

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

June 30, 2016 and 2015

(Unaudited)

1. General Description of the Reporting Entity, Continued

(b) Description of Subsidiaries, continued

Subsidiaries	Location	Products or services	December 31, 2015	
			Fiscal year	Percentage of ownership (%)
Kotobuki Holding (HK) Ltd.	Hong Kong	Holding company	Dec. 31	100.00
Hai Thanh - Kotobuki Joint Venture Company	Vietnam	Hotel	Dec. 31	70.00
LOTTE CINEMA VIETNAM CO., LTD.	Vietnam	Cinema	Dec. 31	90.00

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

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

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

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

June 30, 2016 and 2015

(Unaudited)

1. General Description of the Reporting Entity, Continued

(c) Financial information of significant subsidiaries as of and for the six-month period ended June 30, 2016 and as of and for the year ended December 31, 2015 are summarized as follows:

Subsidiaries	Korean won (millions)					
	June 30, 2016					
	Assets	Liabilities	Equity	Sales	Net income (loss)	Total comprehensive Income (loss)
Lotte Card Co., Ltd.	₩ 9,422,361	7,292,102	2,130,259	825,384	73,205	72,713
eB Card Co., Ltd.	187,996	140,926	47,070	41,776	1,163	1,152
Woori Home Shopping & Television Co., Ltd.	800,782	211,139	589,643	416,393	34,630	31,481
Korea Seven Co., Ltd.	992,799	696,900	295,899	1,679,868	17,221	17,503
Buy the way Inc.	144,105	34,788	109,317	93,253	2,273	2,383
Lotte Suwon Station Shopping Town Co., Ltd.	328,091	250,526	77,565	21,674	(6,829)	(6,829)
Lotte Songdo Shopping Town Co., Ltd.	244,036	161,867	82,169	9,820	(11,068)	(11,070)
CS Mart Co., Ltd.	161,067	54,806	106,261	207,524	5,202	5,205
LOTTE Himart Co., Ltd.	2,978,115	1,159,141	1,818,974	1,838,355	47,822	46,298
Lotte Members Co., Ltd	189,803	156,966	32,837	29,721	3,364	3,203
LOTTE.COM INC	148,799	121,809	26,990	104,556	(2,816)	(2,619)
LOTTE MART COMPANY LIMITED	166,427	199,290	(32,863)	163,630	(9,551)	(8,451)
Qingdao LOTTE Mart Commercial Co., Ltd.	15,750	77,533	(61,783)	-	(6,485)	(4,927)
Lotte Shopping Holdings (Hong Kong) Co., Limited	1,234,428	723,854	510,574	434	(9,028)	(20,041)
Swift Harvest Ltd. and its subsidiaries	641,565	894,384	(252,819)	382,731	(64,579)	(62,514)
LOTTE PROPERTIES (CHENGDU) HK LIMITED	429,799	221,444	208,355	-	(3,564)	(4,839)
Lotte Properties (Chengdu) Limited	603,330	221,633	381,697	-	(6,370)	(19,224)
LHSC Limited	30,174	-	30,174	-	(93)	(281)
LOTTE VIETNAM SHOPPING CO., LTD.	453,260	420,066	33,194	126,679	(5,045)	(4,979)
LOTTE SHOPPING HOLDINGS (SINGAPORE) PTE. LTD.	621,566	18	621,548	-	4,252	2,205
PT. LOTTE SHOPPING INDONESIA	337,832	206,591	131,241	440,942	7,483	12,410
PT. LOTTE MART INDONESIA	199,389	204,299	(4,910)	140,424	(6,984)	(6,932)

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

June 30, 2016 and 2015

(Unaudited)

1. General Description of the Reporting Entity, Continued

(c) Financial information of significant subsidiaries as of and for the six-month period ended June 30, 2016 and as of and for the year ended December 31, 2015 are summarized as follows:, continued

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

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

June 30, 2016 and 2015

(Unaudited)

1. General Description of the Reporting Entity, Continued

(d) Entities included in subsidiaries in 2016 are as follows:

Description	Subsidiaries
Established in 2016	Lotte Ulsan Development Co., Ltd. LOTTE E-Commerce Vietnam Co., Ltd
Reclassification from joint venture due to acquisition of additional interests	Chongqing Yujia Lucky Pai Commercial Co., Ltd. (Formerly, Chongqing Yujia Co., Ltd.)

(e) Entities excluded from subsidiaries in 2016 are as follows:

Description	Subsidiaries
Liquidation in 2016	Times Supermarket Limited Wealth Concept Inc. Supreme Forum Ltd. Apex Forum Ltd. Ocean Luck Asia Investment Ltd. East Fine Enterprise Ltd. Fine Port Ltd Fine Spring Ltd. Full Faith Development Ltd. Goldwell Corporation Ltd. Ocean Rich International Ltd. Waho (China) Ltd. Wealthland Corporation Ltd.
Loss of control in 2016	Hangzhou Lucky Pai Investment Co., Ltd. (*) Heilongjiang Fangxin TV shopping Media. Co., Ltd. (*)

(\*) Companies described above had been subsidiaries of Lucky Pai Ltd., but they were excluded from consolidation due to loss of control as of June 30, 2016.

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

June 30, 2016 and 2015

(Unaudited)

1. General Description of the Reporting Entity, Continued

(f) Non-controlling interests

Financial information related to significant non-controlling interests for subsidiaries as of and for the six-month period ended June 30, 2016 and as of and for the year ended December 31, 2015 are as follows:

Description	June 30, 2016			
	Woori Home Shopping & Television Co., Ltd.	Lotte Card Co., Ltd.	Korea Seven Co., Ltd.	LOTTE Himart Co., Ltd.
Ownership interests held by NCI	46.97%	6.22%	48.86%	34.75%
Current assets	₩ 513,548	9,140,588	287,335	710,536
Non-current assets	331,306	488,717	708,619	783,025
Current liabilities	190,254	2,573,424	541,202	488,352
Non-current liabilities	22,072	4,953,787	155,697	718,893
Net assets	632,528	2,102,094	299,055	286,316
Net assets attributable to non-controlling interests	297,364	131,603	144,497	99,504
Dividends paid to non-controlling interests during the period	14,090	-	832	3,528
Sales	421,555	884,052	1,679,868	1,838,355
Net income	33,052	70,624	17,221	45,783
Total comprehensive income	29,777	64,778	17,503	44,260
Profit attributable to non-controlling interests	15,413	4,288	8,414	15,911
Total comprehensive income attributable to non-controlling interests	13,865	3,924	8,552	15,382
Cash flows from operating activities	10,473	34,382	49,174	7,289
Cash flows from investing activities	80,614	(32,645)	(54,312)	(33,768)
Cash flows from financing activities	(30,000)	111,330	(41,857)	(53,039)
Effect of currency exchange rate	(162)	118	-	-
Net increase (decrease) in cash and cash equivalents	60,925	113,185	(46,995)	(79,518)

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

June 30, 2016 and 2015

(Unaudited)

1. General Description of the Reporting Entity, Continued

(f) Non-controlling interests, continued

Financial information related to significant non-controlling interests for subsidiaries as of and for the six-month period ended June 30, 2016 and as of and for the year ended December 31, 2015 are as follows:, continued

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

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

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(Unaudited)

1. General Description of the Reporting Entity, Continued

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

Details of the parent's additional investments in subsidiaries for the six-month period ended June 30, 2016 is summarized as follows:

Subsidiaries	2016				
	Korean won (millions)	Percentage of ownership (%)		Korean won (millions)	
		Before additional acquisition	After additional acquisition	Before additional acquisition	After additional acquisition
Qingdao LOTTE Mart Commercial Co., Ltd.	₩ 41,025	100.00%	100.00%	₩ (127,157)	(86,132)
LOTTE CINEMA VIETNAM CO., LTD.	27,700	100.00%	100.00%	(89,483)	(61,783)
Lotte Datviet Homeshopping Co., Ltd.	10,299	90.00%	90.00%	8,295	18,594
	<u>5,951</u>	85.58%	90.02%	<u>398</u>	<u>5,776</u>
Total	₩ <u>84,975</u>			₩ <u>(207,947)</u>	<u>(123,545)</u>

# LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

## Notes to the Condensed Consolidated Interim Financial Statements

**June 30, 2016 and 2015**

(Unaudited)

### **2. Basis of Accounting**

#### **(a) Statement of compliance**

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

These condensed consolidated interim financial statements were prepared in accordance with K-IFRS No. 1034 '*Interim Financial Reporting*' as part of the period covered by the Group's K-IFRS annual 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 Group since the last annual consolidated financial statements as at and for the year ended December 31, 2015.

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

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

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

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

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

**June 30, 2016 and 2015**

(Unaudited)

**4. Trade and Other Receivables**

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

		Korean won (millions)	
		<b>June 30, 2016</b>	<b>December 31, 2015</b>
Trade receivables	₩	515,148	621,014
Other receivables		350,730	349,065
Allowance for doubtful accounts		(20,554)	(51,228)
		<hr/>	<hr/>
Total	₩	845,324	918,851
		<hr/> <hr/>	<hr/> <hr/>

**5. Restricted Deposits**

Restricted deposits included in short-term and long-term financial instruments as of June 30, 2016 and December 31, 2015 are summarized as follows:

Description	Depository	Korean won (millions)	
		<b>June 30, 2016</b>	<b>December 31, 2015</b>
Current:			
Time deposits	Kookmin Bank and others	₩ 34,888	78,441
Special deposits	Industrial Bank of Korea and others	174,699	154,000
Money Market Fund	Citibank and others	21,883	21,744
Non-current:			
Special deposits	Busan Bank and others	2,507	2,505
Available-for-sale financial assets	Busan City Hall and others	19,841	21,408
		<hr/>	<hr/>
Total		₩ 253,818	278,098
		<hr/> <hr/>	<hr/> <hr/>

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

June 30, 2016 and 2015

(Unaudited)

6. Fair Value of Financial Instruments

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

		Korean won (millions)			
		June 30, 2016		December 31, 2015	
		Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	Cash and cash equivalents	₩ 1,538,117	1,538,117	1,751,268	1,751,268
Financial assets at fair value through profit or loss	Short-term financial instruments	30,003	30,003	60,003	60,003
	Derivative assets held for the purpose of trading	17,877	17,877	-	-
	Subtotal	47,880	47,880	60,003	60,003
Loans and receivables (*1)	Current :				
	Trade and other receivables	845,324	845,324	918,851	918,851
	Short-term financial instruments	1,047,139	1,047,139	1,221,935	1,221,935
	Short-term loans	14,574	14,574	12,136	12,136
	Accrued income	33,574	33,574	37,664	37,664
	Current portion of deposits	91,081	91,081	107,947	107,947
	Card financial assets	8,218,074	8,218,074	8,178,959	8,178,959
	Non-current :				
	Long-term financial instruments	2,507	2,507	2,507	2,507
	Long-term loans	54,521	54,521	54,909	54,909
	Deposits	1,388,829	1,388,829	1,361,193	1,361,193
Long-term trade receivable	16,336	16,336	-	-	
Accrued income	13	13	8	8	
	Subtotal	11,711,972	11,711,972	11,896,109	11,896,109
Available-for-sale financial assets	Marketable available-for-sale financial assets (*2)	291,167	291,167	282,887	282,887
	Non-marketable available-for-sale financial assets (*3)	303,615	303,615	279,170	279,170
	Subtotal	594,782	594,782	562,057	562,057
Derivative assets held for the purpose of hedging	Current	57,711	57,711	53,868	53,868
	Non-current	60,578	60,578	108,519	108,519
	Subtotal	118,289	118,289	162,387	162,387
	Total	₩ 14,011,040	14,011,040	14,431,824	14,431,824

(\*1) Book value is considered as a 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.

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

June 30, 2016 and 2015

(Unaudited)

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

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

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

(b) Other financial assets as of June 30, 2016 and December 31, 2015 are summarized as follows:

Account	Korean won (millions)	
	June 30, 2016	December 31, 2015
Current:		
Short-term financial instruments	₩ 1,077,142	1,281,938
Short-term loans	14,574	12,136
Accrued income	33,574	37,664
Deposits	91,081	107,947
Card business financial assets	8,218,074	8,178,959
Derivative assets held for the purpose of hedging	57,711	53,868
Subtotal	9,492,156	9,672,512
Non-current:		
Long-term financial instruments	2,507	2,507
Available-for-sale financial assets	594,782	562,057
Long-term loans	54,521	54,909
Deposits	1,388,829	1,361,193
Long-term trade receivables	16,336	-
Long-term accrued income	13	8
Derivative assets held for the purpose of trading	17,877	-
Derivative assets held for the purpose of hedging	60,578	108,519
Subtotal	2,135,443	2,089,193
Total	₩ 11,627,599	11,761,705

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

June 30, 2016 and 2015

(Unaudited)

6. Fair Value of Financial Instruments, Continued

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

	Korean won (millions)				December 31, 2015
	June 30, 2016		Acquisition cost	Carrying amount	
	Number of shares	Percentage of ownership			Carrying amount
<b>Marketable available-for-sale financial assets:</b>					
BNK Financial Group Inc.	8,543,826	2.62%	₩ 56,179	68,949	55,248
Shinhan Financial Group Co., Ltd.	311,118	0.07%	2,247	11,822	12,305
LOTTE FOOD CO., LTD.	47,180	3.45%	10,167	40,197	44,774
momo.com Inc.	21,333,420	15.02%	37,684	162,929	161,737
Others			5,638	7,270	8,823
Subtotal			₩ 111,915	291,167	282,887
<b>Non-marketable available-for-sale financial assets:</b>					
LOTTE Logistics Corp.	66,308	4.64%	₩ 4,000	15,555	13,865
LOTTE rental co., ltd.	1,592,072	13.53%	164,967	162,439	142,420
SPARX Asset Management Korea Co., Ltd. (Formerly, Cosmo Asset Management Co., Ltd.)	149,807	17.70%	50,118	34,414	34,457
Lotte Properties (Shenyang) Limited	29,928,756	17.93%	41,919	41,919	41,919
Investment in government bonds			679	708	386
Others			50,513	48,580	46,123
Subtotal			312,196	303,615	279,170
Total			₩ 424,111	594,782	562,057

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

June 30, 2016 and 2015

(Unaudited)

6. Fair Value of Financial Instruments, Continued

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

		Korean won (millions)			
		June 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	₩ 129,153	129,153	113,440	113,440
	Non-current derivative liabilities held for the purpose of trading	26,309	26,309	24,608	24,608
	Subtotal	155,462	155,462	138,048	138,048
Financial liabilities based on amortized cost (*)	Current :				
	Trade and other payables	4,951,470	4,951,470	5,465,907	5,465,907
	Short-term borrowings	1,499,139	1,499,139	1,789,819	1,789,819
	Current portion of long-term borrowings	721,604	721,604	467,641	467,641
	Current portion of long-term debentures	1,814,370	1,814,370	1,896,239	1,896,239
	Accrued expenses	375,925	375,925	276,716	276,716
	Current portion of withholding deposit	235,900	235,900	244,524	244,524
	Other liabilities	10,089	10,089	11,947	11,947
	Non-current :				
	Long-term borrowings	1,709,629	1,709,629	1,856,538	1,856,538
	Long-term debentures	8,079,424	8,079,424	7,959,900	7,959,900
	Withholding deposit	207,243	207,243	201,134	201,134
	Other liabilities	52,512	52,512	38,465	38,465
Subtotal	19,657,305	19,657,305	20,208,830	20,208,830	
Derivative liabilities held for the purpose of hedging	Current	672	672	602	602
	Non-current	44,576	44,576	15,345	15,345
	Subtotal	45,248	45,248	15,947	15,947
Total	₩ 19,858,015	19,858,015	20,362,825	20,362,825	

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

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

June 30, 2016 and 2015

(Unaudited)

6. Fair Value of Financial Instruments, Continued

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

	Korean won (millions)	
	<u>June 30, 2016</u>	<u>December 31, 2015</u>
Current:		
Accrued expenses	₩ 375,925	276,716
Deposit received	235,900	244,524
Derivative liabilities held for the purpose of hedging	672	602
Finance lease liabilities	7,217	11,282
Others	2,872	665
Subtotal	<u>622,586</u>	<u>533,789</u>
Non-current:		
Deposit received	207,243	201,134
Derivative liabilities held for the purpose of hedging	44,576	15,345
Derivative liabilities held for the purpose of trading	26,309	24,608
Finance lease liabilities	46,963	32,870
Other financial liabilities	5,549	5,595
Subtotal	<u>330,640</u>	<u>279,552</u>
Total	<u>₩ 953,226</u>	<u>813,341</u>

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

June 30, 2016 and 2015

(Unaudited)

6. Fair Value of Financial Instruments, Continued

(f) The fair value hierarchy

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

Description	Korean won (millions)			
	Level I	Level II	Level III	Total
Available-for-sale financial assets	₩ 291,167	708	218,786	510,661
Derivative assets	-	118,289	17,877	136,166
Total financial assets	291,167	118,997	236,663	646,827
Overseas convertible bonds	-	129,153	-	129,153
Derivative liabilities	-	45,248	26,309	71,557
Total financial liabilities	₩ -	174,401	26,309	200,710

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

Description	Korean won (millions)			
	Level I	Level II	Level III	Total
Available-for-sale financial assets	₩ 282,887	386	198,034	481,307
Derivative assets	-	162,387	-	162,387
Total financial assets	282,887	162,773	198,034	643,694
Overseas convertible bonds	-	113,440	-	113,440
Derivative liabilities	-	15,947	24,608	40,555
Total financial liabilities	₩ -	129,387	24,608	153,995

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

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

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

June 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 six-month period ended June 30, 2016 and for the year ended December 31, 2015 are as follows:

Description	Korean won (millions)	
	June 30, 2016	December 31, 2015
Beginning of the period	₩ 173,426	112,217
Gain included in finance costs		
- Gain on valuation of derivative instruments	16,133	167
Gain (loss) included in OCI		
- Net change in unrealized fair value of available-for-sale financial assets	(6,259)	7,262
Purchases	27,054	137,912
Disposal	-	(84,132)
End of the period	₩ 210,354	173,426

(h) Sensitivity analysis

For the fair values of available-for-sale financial assets and stock options, reasonably possible changes as of June 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	₩ 76,721	(57,974)	16,026	48,181

(ii) Stock options (liability-classified)

Description	Korean won (millions)			
	Stock price		Stock price volatility	
	10% Decrease	10% Increase	1% Decrease	1% Increase
Stock options	₩ (5,368)	5,396	(5)	10

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES  
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June 30, 2016 and 2015

(Unaudited)

7. Inventories

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

		Korean won (millions)					
		June 30, 2016			December 31, 2015		
		Acquisition cost	Allowance for inventory valuation	Book value	Acquisition cost	Allowance for inventory valuation	Book value
Merchandise	₩	2,954,543	(27,152)	2,927,391	2,952,329	(21,290)	2,931,039
Finished goods		13,653	(4,546)	9,107	17,579	(4,798)	12,781
Goods in process		869	-	869	969	-	969
Raw materials		970	(152)	818	973	(125)	848
Subsidiary materials		-	-	-	23	-	23
Supplies		1,700	-	1,700	2,244	-	2,244
Materials-in-transit		6,582	-	6,582	2,149	-	2,149
Unsold apartment units		12,748	-	12,748	29,412	-	29,412
Unfinished apartment units		329,388	-	329,388	286,532	-	286,532
Total	₩	3,320,453	(31,850)	3,288,603	3,292,210	(26,213)	3,265,997

(b) For the three-month and six-month periods ended June 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	Six-month period	Three-month period	Six-month period
Cost of goods sold:					
- Amount of inventories recognized as cost of goods sold	₩	4,656,771	9,301,383	4,673,482	9,149,176
- Changes of allowance for valuation losses of inventories		4,856	5,638	5,473	5,858

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

**June 30, 2016 and 2015**

(Unaudited)

**8. Other Non-financial Assets**

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

Description	Korean won (millions)	
	June 30, 2016	December 31, 2015
Current:		
Advance payments	₩ 109,483	132,282
Prepaid expenses	209,894	174,145
Prepaid value added tax	71,717	78,909
Others	57	60
Subtotal	391,151	385,396
Non-current:		
Long-term advance payments	218,193	183,727
Long-term prepaid expenses (*)	1,081,928	1,226,136
Others	3,849	3,942
Subtotal	1,303,970	1,413,805
Total	₩ 1,695,121	1,799,201

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

**9. Non-current assets held for sale**

Non-current assets held for sale as of June 30, 2016 and December 31, 2015 are as follows:

	Korean won (millions)	
	June 30, 2016	December 31, 2015
Tools and equipment(*)	₩ -	447

(\*) Since Qingdao Lotte Mart Commercial Co., Ltd. closed the Deyang store and decided to dispose of its tools and equipment in 2015, these assets were reclassified to non-current assets held for sale. In 2016, Qingdao Lotte Mart Commercial Co., Ltd. decided to dispose its tools and equipment to Swift Harvest. Ltd, a subsidiary of the Company. Therefore, the Group reclassified these assets from non-current assets held for sale to property, plant and equipment.

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

June 30, 2016 and 2015

(Unaudited)

10. Investments in Associates

(a) The details of associates as of June 30, 2016 and December 31, 2015 are summarized as follows:

<b>June 30, 2016</b>				
Company	Location	Principal business	Percentage of ownership (%)	Korean won (millions)
				Balance at June 30, 2016
Lotte Station Building Co., Ltd.	Korea	Distribution	25.00	₩ 117,890
Daehong Communications Co., Ltd.	Korea	Advertisement agency	34.00	134,848
Lotte Capital Co., Ltd.	Korea	Capital	22.36	208,139
Lotteria Co., Ltd.	Korea	Restaurant chain	38.68	225,926
FRL Korea Co., Ltd.	Korea	Retail	49.00	189,787
Lotte Asset Development Co., Ltd.	Korea	Real estate development	39.14	46,271
Lotte Trading Co., Ltd.	Korea	Product brokerage	27.68	115,325
Lotte Europe Holdings B.V.	Netherlands	Holding company	26.98	-
Coralis S.A.	Luxembourg	Holding company	45.00	-
Others				145,839
Total				₩ 1,184,025

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

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

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(Unaudited)

10. Investments in Associates, Continued

(b) Changes in investments in associates for the six-month period ended June 30, 2016 and for the year ended December 31, 2015 are as follows:

		Korean won (millions)							
		2016							
		Adjustment to						Balance at	
Company	Beginning balance	Acquisition	Dividends	Net income (loss)	Capital adjustment	Disposal	Others	June 30, 2016	
Lotte Station Building Co., Ltd.	₩ 121,725	-	(7,382)	4,358	(813)	-	2	117,890	
Daehong Communications Co., Ltd.	135,243	-	(680)	3,458	(3,124)	-	(49)	134,848	
Lotte Capital Co., Ltd.	195,323	-	(2,234)	17,790	(2,176)	-	(564)	208,139	
Lotteria Co., Ltd.	239,270	-	-	(6,174)	(6,905)	-	(265)	225,926	
FRL Korea Co., Ltd.	187,626	-	-	4,287	(2,126)	-	-	189,787	
Lotte Asset Development Co., Ltd.	49,316	-	-	731	(2,679)	-	(1,097)	46,271	
Lotte Trading Co., Ltd.	124,077	-	-	383	(9,137)	-	2	115,325	
Lotte Europe Holdings B.V.	-	-	-	-	-	-	-	-	
Coralis S.A.	11,923	4,474	-	(16,481)	84	-	-	-	
Others	131,252	19,275	-	(1,941)	(614)	(2,004)	(129)	145,839	
Total	₩ 1,195,755	23,749	(10,296)	6,411	(27,490)	(2,004)	(2,100)	1,184,025	

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

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10. Investments in Associates, Continued

(c) Financial information of associates as of and for the six-month period ended June 30, 2016 and as of and for the year ended December 31, 2015 is summarized as follows:

		Korean won (millions)							
		2016							
Company		Current assets	Non-current assets	Current liabilities	Non-current liabilities	Sales	Operating profit (loss)	Other comprehensive income (loss)	Total comprehensive income (loss) (*1)
Lotte Station Building Co., Ltd.	₩	209,907	462,741	192,204	8,883	283,532	23,455	(3,241)	14,193
Daehong Communications Co., Ltd.		246,547	440,094	244,085	52,540	213,678	8,283	(8,625)	1,444
Lotte Capital Co., Ltd. (*2)		6,679,554	-	5,745,569	-	458,711	105,758	(12,207)	68,714
Lotteria Co., Ltd.		315,556	830,231	396,923	196,669	555,829	5,956	(16,070)	(11,497)
FRL Korea Co., Ltd.		430,940	148,955	187,291	5,283	511,770	16,783	(4,338)	4,412
Lotte Asset Development Co., Ltd.		446,891	265,360	427,219	166,368	102,880	6,063	(7,847)	(5,981)
Lotte Trading Co., Ltd.		254,128	848,515	288,879	168,511	191,142	(473)	(32,511)	(31,063)
Lotte Europe Holdings B.V.		95,574	410,847	245,939	258,274	49,354	4,725	(1,449)	35,312
Coralis S.A.		34,061	397,543	121,086	348,485	13,968	(6,405)	186	(39,932)

(\*1) Total comprehensive income stated above excludes attribution to non-controlling shareholder.

(\*2) Since Lotte Capital Co., Ltd. is a financial institution, it does not present current and non-current assets or liabilities.

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

(\*1) Total comprehensive income stated above excludes attribution to non-controlling shareholder.

(\*2) Since Lotte Capital Co., Ltd. is a financial institution, it does not present current and non-current assets or liabilities.

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**10. Investments in Associates, Continued**

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

Company	Korean won (millions)	
	June 30, 2016	
	Unrecognized losses for the period	Unrecognized accumulated losses
Lotte Incheon Development Co., Ltd.	₩ (5,615)	(7,723)
Lotte Europe Holdings B.V.	-	(2,095)
Coralis S.A.	(1,576)	(1,576)
Total	₩ (7,191)	(11,394)

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11. Joint Ventures

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

<b>June 30, 2016</b>				
Company	Location	Major operation	Percentage of ownership (%)	Korean won (millions)
				Balance at June 30, 2016
D-Cinema of Korea Co., Ltd.	Korea	Film equipment	50.00	₩ 2,068
STL Co., Limited	Korea	Retail	50.00	473
LOTTE JTB Co., Ltd.	Korea	Travel business	50.00	7,065
Shenyang SL Cinema Investment Management Co., Ltd.	China	Cinema	49.00	941
Shandong Luckypai TV Shopping	China	TV Home Shopping	49.00	9,763
Yunnan Maile TV Shopping Media Co., Ltd.	China	TV Home Shopping	49.00	3,718
Chongqing Yujia Co., Ltd. (*)	China	TV Home Shopping	-	-
International Business Center Company Limited	Vietnam	Distribution	50.00	59,018
Total				₩ <u>83,046</u>

(\*) For the six-month period ended June 30, 2016, Chongqing Yujia Co., Ltd. became a subsidiary of the Company due to Lucky Pai Ltd.'s acquisition of rest 51% of the interests.

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

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES  
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(Unaudited)

11. Joint Ventures, Continued

(b) Changes in joint ventures for the six-month period ended June 30, 2016 and for the year ended December 31, 2015 are as follows:

		Korean won (millions)						
		2016						
		Adjustment to						
Company	Beginning balance	Acquisition	Dividends	Net income (loss)	Capital adjustment	Others	Balance at June 30, 2016	
D-Cinema of Korea Co., Ltd.	₩ 1,725	-	-	343	-	-	2,068	
STL Co., Limited	606	-	-	(133)	-	-	473	
LOTTE JTB Co., Ltd.	-	10,000	-	(2,883)	(52)	-	7,065	
Shenyang SL Cinema Investment Management Co., Ltd.	962	-	-	11	(32)	-	941	
Shandong Luckypai TV Shopping	10,092	-	-	-	-	(329)	9,763	
Yunnan Maile TV Shopping Media Co., Ltd.	4,195	-	(213)	(140)	-	(124)	3,718	
Chongqing Yujia Co., Ltd.	-	-	-	-	-	-	-	
International Business Center Company Limited	61,516	-	(4,266)	2,144	20	(396)	59,018	
Total	₩ 79,096	10,000	(4,479)	(658)	(64)	(849)	83,046	

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

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES  
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(Unaudited)

11. Joint Ventures, Continued

(c) Financial information of joint ventures as of and for the six-month period ended June 30, 2016 and for the year ended December 31, 2015 are summarized as follows:

Company	Korean won (millions)							
	2016							
	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Sales	Operating profit (loss)	Other comprehensive income	Total comprehensive income (loss) (*)
D-Cinema of Korea Co., Ltd. ₩	21,453	5,956	23,206	68	4,131	442	-	685
STL Co., Limited	3,745	983	3,288	494	7,610	(182)	-	(266)
LOTTE JTB Co., Ltd.	39,619	3,127	25,519	3,097	12,606	2,015	-	1,967
Shenyang SL Cinema Investment Management Co., Ltd.	977	1,520	500	-	760	6	(64)	(43)
Shandong Luckypai TV Shopping	43,186	3,725	26,643	-	-	-	-	-
Yunnan Maile TV Shopping Media Co., Ltd.	12,955	2,178	9,415	-	11,862	(1,142)	-	(170)
International Business Center Company Limited	11,520	53,292	33,560	1,083	10,893	5,451	37	4,324

(\*) Total comprehensive income stated above excludes attribution to non-controlling shareholder.

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

(\*) Total comprehensive income stated above excludes attribution to non-controlling shareholder.

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(Unaudited)

12. Property, Plant and Equipment

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

		Korean won (millions)							
		June 30, 2016				December 31, 2015			
		Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Book value	Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Book value
Land	₩	8,010,283	-	-	8,010,283	7,991,801	-	-	7,991,801
Buildings		7,309,235	(2,278,957)	-	5,030,278	7,229,462	(2,169,376)	-	5,060,086
Structures		353,884	(108,799)	-	245,085	354,383	(102,766)	-	251,617
Machinery		270,406	(148,156)	(411)	121,839	265,792	(144,192)	(417)	121,183
Vehicles		7,715	(5,507)	(50)	2,158	8,541	(5,759)	(50)	2,732
Display fixtures		744,972	(466,929)	(8,225)	269,818	727,796	(432,687)	(9,440)	285,669
Furniture and fixtures		3,879,777	(2,833,993)	(5,575)	1,040,209	3,739,494	(2,648,079)	(5,587)	1,085,828
Tools and equipment		189,208	(107,223)	(3,359)	78,626	186,219	(103,005)	(3,492)	79,722
Other PP&E		273,773	(96,023)	(23,759)	153,991	257,741	(90,634)	(23,618)	143,489
Construction-in-progress		797,522	-	-	797,522	679,473	-	-	679,473
Finance lease assets		77,538	(16,119)	(1,713)	59,706	82,957	(23,679)	(1,771)	57,507
Total	₩	<u>21,914,313</u>	<u>(6,061,706)</u>	<u>(43,092)</u>	<u>15,809,515</u>	<u>21,523,659</u>	<u>(5,720,177)</u>	<u>(44,375)</u>	<u>15,759,107</u>

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

		Korean won (millions)						
		2016						
		Book value as of January 1, 2016	Acquisitions	Depreciation	Impairment	Disposals	Others (*)	Book value as of June 30, 2016
Land	₩	7,991,801	6,974	-	-	(3,054)	14,562	8,010,283
Buildings		5,060,086	4,404	(104,242)	-	(3,180)	73,210	5,030,278
Structures		251,617	88	(7,424)	-	(917)	1,721	245,085
Machinery		121,183	9,028	(10,083)	-	(30)	1,741	121,839
Vehicles		2,732	75	(470)	-	(178)	(1)	2,158
Display fixtures		285,669	30,786	(47,259)	-	(1,762)	2,384	269,818
Furniture and fixtures		1,085,828	110,092	(214,371)	-	(1,360)	60,020	1,040,209
Tools and equipment		79,722	13,221	(10,386)	(2)	(4,446)	517	78,626
Other PP&E		143,489	8,335	(7,808)	(2)	(6)	9,983	153,991
Construction-in-progress		679,473	327,970	-	-	(3,528)	(206,393)	797,522
Finance lease assets		57,507	424	(5,535)	-	-	7,310	59,706
Total	₩	<u>15,759,107</u>	<u>511,397</u>	<u>(407,578)</u>	<u>(4)</u>	<u>(18,461)</u>	<u>(34,946)</u>	<u>15,809,515</u>

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

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12. Property, Plant and Equipment, Continued

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

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

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

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**13. Investment Property**

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

		Korean won (millions)					
		June 30, 2016			December 31, 2015		
		Acquisition cost	Accumulated depreciation	Book value	Acquisition cost	Accumulated depreciation	Book value
Land	₩	352,488	-	352,488	223,494	-	223,494
Buildings		392,261	(86,749)	305,512	387,646	(90,158)	297,488
Total	₩	744,749	(86,749)	658,000	611,140	(90,158)	520,982

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

		Korean won (millions)					
		2016					
		Book value as of January 1, 2016	Acquisition	Depreciation	Disposals	Others (*)	Book value as of June 30, 2016
Land	₩	223,494	-	-	-	128,994	352,488
Buildings		297,488	3,725	(6,220)	-	10,519	305,512
Total	₩	520,982	3,725	(6,220)	-	139,513	658,000

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

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

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

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

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(Unaudited)

14. Goodwill and Intangible Assets

(a) Goodwill and intangible assets as of June 30, 2016 and December 31, 2015 are summarized as follows:

		Korean won (millions)							
		June 30, 2016				December 31, 2015			
		Acquisition cost	Accumulated amortization	Accumulated impairment losses	Book value	Acquisition cost	Accumulated amortization	Accumulated impairment losses	Book value
Goodwill	₩	3,584,942	-	(868,479)	2,716,463	3,571,160	-	(855,591)	2,715,569
Industrial property rights		144,463	(6,517)	-	137,946	144,015	(5,999)	-	138,016
Rights to use facility		525,278	(157,726)	(2)	367,550	524,464	(144,449)	(2)	380,013
Membership		39,966	-	(5,542)	34,424	39,674	-	(5,532)	34,142
Other intangible assets		524,056	(219,537)	(4,551)	299,968	672,647	(357,448)	(4,550)	310,649
Total	₩	4,818,705	(383,780)	(878,574)	3,556,351	4,951,960	(507,896)	(865,675)	3,578,389

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

		Korean won (millions)							
		2016							
		Book value as of January 1, 2016	Acquisition	Business combination	Amortization	Impairment	Disposals	Others (*)	Book value as of June 30, 2016
Goodwill	₩	2,715,569	-	30,735	-	(30,443)	(1)	603	2,716,463
Industrial property rights		138,016	471	-	(550)	-	-	9	137,946
Rights to use facility		380,013	489	-	(13,277)	-	-	325	367,550
Membership		34,142	292	-	-	(10)	-	-	34,424
Other intangible assets		310,649	35,017	5,788	(54,389)	(120)	(280)	3,303	299,968
Total	₩	3,578,389	36,269	36,523	(68,216)	(30,573)	(281)	4,240	3,556,351

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

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(Unaudited)

14. Goodwill and Intangible Assets, Continued

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

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

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

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**15. Trade and Other Payables**

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

		Korean won (millions)	
		<b>June 30, 2016</b>	<b>December 31, 2015</b>
Trade payables	₩	3,473,400	3,725,603
Other payables		1,478,070	1,740,304
Total	₩	<u>4,951,470</u>	<u>5,465,907</u>

**16. Borrowings and Debentures**

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

		Korean won (millions)	
		<b>June 30, 2016</b>	<b>December 31, 2015</b>
Current:			
Short-term borrowings	₩	1,499,139	1,789,819
Current portion of long-term borrowings		721,837	467,765
Current portion of discount on long-term borrowings		(233)	(124)
Current portion of long-term debentures		1,948,574	2,030,280
Current portion of discount on debentures		(5,106)	(1,727)
Convertible bond redemption premium		1,173	1,173
Conversion rights adjustment		(480)	(604)
Exchange rights adjustment		(638)	(19,443)
Subtotal		<u>4,164,266</u>	<u>4,267,139</u>
Non-current:			
Long-term borrowings		1,710,510	1,857,614
Discount on long-term borrowings		(881)	(1,076)
Long-term debentures		8,102,638	7,994,640
Discount on debentures		(23,214)	(34,740)
Subtotal		<u>9,789,053</u>	<u>9,816,438</u>
Total	₩	<u>13,953,319</u>	<u>14,083,577</u>

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**16. Borrowings and Debentures, Continued**

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

Lender	Details	Annual interest rate (%)		Korean won (millions)	
				June 30, 2016	December 31, 2015
Korea Development Bank and others	General Financial notes	1.77~9.55	₩	824,639	846,819
Shinhan Bank and others		1.41~5.68		674,500	943,000
Total			₩	1,499,139	1,789,819

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

Lender	Details	Annual interest rate (%)		Korean won (millions)	
				June 30, 2016	December 31, 2015
Shinhan Bank and others	Local currency	1.91~6.90	₩	1,099,333	1,006,095
Lotte Co., Ltd. (Japan) and others	Foreign currency	1.19~9.15		1,333,014	1,319,284
Subtotal				2,432,347	2,325,379
Less: Discount on borrowings				(1,114)	(1,200)
Total book value				2,431,233	2,324,179
Less: Current portion of long-term borrowings, net of discount				(721,604)	(467,641)
Long-term borrowings			₩	1,709,629	1,856,538

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16. Borrowings and Debentures, Continued

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

Description	Maturity	Interest rate (%)	Korean won (millions)	
			June 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
61th placed	Mar. 21, 2018	3.05	100,000	100,000
62th placed	Jun. 21, 2018	2.80	110,000	110,000
63-1st placed	Jul. 02, 2017	2.79	200,000	200,000
63-2nd placed	Jul. 02, 2019	3.08	200,000	200,000
64-1st placed (foreign currency)	May 25, 2018	3M USD Libor+0.50	174,705	175,800
64-2nd placed (foreign currency)	May 25, 2018	3M USD Libor	116,470	117,200
64-3rd placed (foreign currency)	May 25, 2018	3M USD Libor+0.02	116,470	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	174,705	175,800
67-2nd placed (foreign currency)	Aug. 17, 2018	3M USD Libor+0.02	116,470	117,200
67-3rd placed (foreign currency)	Aug. 06, 2018	3M USD Libor+0.60	116,470	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	116,470	-
69-2nd placed (foreign currency)	Jan. 29, 2019	3M USD Libor+0.02	116,470	-
70-1st placed	Apr. 04, 2019	1.77	100,000	-
70-2nd placed	Apr. 04, 2021	2.02	170,000	-
70-3rd placed	Apr. 04, 2026	2.48	70,000	-
1st placed (Global bond)	Apr. 07, 2016	-	-	468,800
2nd placed (Global bond)	May 09, 2017	3.38	465,880	468,800
USD convertible bonds (*1)	Jul. 05, 2016	-	22,346	22,340
JPY convertible bonds (*1)	Jul. 05, 2016	-	106,807	91,100
Exchangeable bonds (*2)	Jan. 24, 2018	-	13,800	321,200
Korea Seven Co., Ltd. (foreign currency)	Apr. 18, 2016	-	-	35,160
Korea Seven Co., Ltd. (convertible bonds)	May 08, 2018	-	7,920	7,920
Lotte Card Co., Ltd.	Multiple	1.79~3.86	5,526,229	5,264,040
LOTTE Himart Co., Ltd.	Multiple	2.08~3.04	650,000	620,000
LOTTE Himart Co., Ltd. (Foreign currency)	Mar. 29, 2016	-	-	35,160
Subtotal			10,051,212	10,024,920

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**16. Borrowings and Debentures, Continued**

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

Description	Maturity	Interest rate (%)	Korean won (millions)	
			June 30, 2016	December 31, 2015
Less: Discount on debentures			(28,320)	(36,467)
Convertible bond redemption premium			1,173	1,173
Conversion rights adjustment			(480)	(604)
Less: Exchange rights adjustment			(638)	(19,443)
Total book value			10,022,947	9,969,579
Less: Current portion of debentures, net of discount			(1,943,523)	(2,009,679)
Total			<b>₩ 8,079,424</b>	<b>7,959,900</b>

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**16. Borrowings and Debentures, Continued**

(\*1) In 2011, the Group issued USD convertible bonds of USD 500 million and JPY convertible bonds of JPY 32.5 billion, among which USD convertible bonds of USD 480,800,000 and JPY convertible bonds of JPY 22,940,000,000 were redeemed during 2014. USD convertible bonds and JPY convertible bonds have been designated as financial liabilities at fair value through profit or loss as of June 30, 2016 and December 31, 2015. The terms and conditions for convertible bonds held as of June 30, 2016 are summarized as follows:

(a) Type of bonds:	Registered overseas unsecured convertible bonds
(b) Total face value of bonds:	
USD Bonds:	19,200,000
JPY Bonds:	9,560,000,000
Total (in won):	149,412,924,000
(c) Exchange Rate	
USD Fixed Exchange Rate:	exchange rate of KRW 1,083.50/USD 1.00
JPY Fixed Exchange Rate:	exchange rate of KRW 13.4529/JPY 1.00
(d) Bond interest rate	
Coupon rate (%):	-
Yield to maturity (%):	- (overseas convertible bonds without guarantee in U.S. dollars) (0.25) (overseas convertible bonds without guarantee in Japanese yen)
(e) Date of bond maturity:	July 5, 2016
(f) Principal redemption method:	
i. Redemption on the maturity date: Redemption in lump sum on the maturity date for the principal amount of bonds for which a condition for early redemption has not occurred and the conversion right has not been exercised.	
ii. Early redemption: The Group has a call option, whereas bond holders have a put option	
(g) Put option by bondholders:	
the put option can be exercised if any of the following conditions occurs:	
On the third anniversary of the date of payment (July 5, 2014);	
i. If any change of control occurs in the company; or	
ii. The issued stocks of the company is delisted from the stock exchange or their transaction is suspended for 30 consecutive transaction days or longer.	
(h) Call option by the company:	
the call option can be exercised if any of the following conditions occurs:	
i. If the closing price for 20 transactional days in 30 consecutive transaction days reaches 130% or more of the conversion price between 3 years from the issuance date and 30 business days to the maturity date;	
ii. If the balance of bonds that has not been redeemed reaches less than 10% of the sum of the total issued amount (clean up call); or	
iii. Any additional tax burden arises due to the amendments of the related laws and regulations.	
(i) Matters relating to conversion:	
i. Conversion ratio (%):	100
ii. Conversion price (KRW per share) (*):	645,572
iii. Method to decide conversion price:	
While following Article 5-22 of the Regulations on Issuance, Public Disclosure, etc. of Securities, 23.8% conversion premium was applied to the closing price of the shares listed on the Korea Exchange on the day of conversion price determination	
iv. Type of shares to be issued following conversion:	Registered common shares
v. Period to apply for conversion:	
Start date:	July 5, 2012
End date:	7 business days prior to the maturity date
vi. Matters for the adjustment of conversion price:	
In the case where a condition for re-adjustment of the conversion price has occurred, such as share dilution, the conversion price will be adjusted in accordance with the provisions in the relevant bonds purchase agreement.	

(\*2) On March 18, 2016, the general meeting of the Company's shareholders resolved to distribute cash dividends exceeding 0.5% of the market price of the Company's stock for the defined period. Consequently, in accordance with terms and conditions of conversion price adjustments, the conversion price was adjusted from ₩647,979 to ₩645,572.

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**16. Borrowings and Debentures, Continued**

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

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

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**16. Borrowings and Debentures, Continued**

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

		Korean won (millions)		
		Borrowings	Debentures	Total
Within 1 year	₩	721,837	1,948,574	2,670,411
1 ~ 2 years		847,521	2,990,878	3,838,399
2 ~ 3 years		724,095	2,591,760	3,315,855
3 ~ 4 years		136,894	1,330,000	1,466,894
More than 4 years		2,000	1,190,000	1,192,000
Total	₩	<u>2,432,347</u>	<u>10,051,212</u>	<u>12,483,559</u>

**17. Unearned Revenues**

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

		Korean won (millions)	
		June 30, 2016	December 31, 2015
Current:			
Membership point	₩	95,214	93,222
Other points		78,448	85,018
Unearned rental income		8,579	8,492
Others		32,790	30,842
Subtotal		<u>215,031</u>	<u>217,574</u>
Non-current:			
Unearned rental income		<u>9,810</u>	<u>8,086</u>
Total	₩	<u>224,841</u>	<u>225,660</u>

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18. Provisions

(a) Changes in provisions for the six-month period ended June 30, 2016 are as follows:

		Korean won (millions)			
		<b>2016</b>			
		Beginning balance	Increase	Utilization	Balance as of June 30, 2016
Current:					
Provision for bonus points reward program	₩	27,962	27,579	(27,035)	28,506
Provision for bonus payable		8,525	28,684	(20,287)	16,922
Provision for sales return		9,023	7,212	(9,008)	7,227
Other provisions (*1)		14,849	15,497	(3,055)	27,291
Subtotal		60,359	78,972	(59,385)	79,946
Non-current:					
Provision for unused credit card limits (*2)		27,291	5,315	-	32,606
Other provisions		5,167	-	(45)	5,122
Subtotal		32,458	5,315	(45)	37,728
Total	₩	92,817	84,287	(59,430)	117,674

(\*1) Other provisions include provisions for litigation, provision for closing up stores and and others. During 2015, Qingdao LOTTE Mart Commercial Co., Ltd., which is a subsidiary of the Company, closed five discount stores. In connection with closing the stores, the Group estimated the expenditures that have incurred in connection with the closures and recognized other provision of ₩4,506 million as of June 30, 2016.

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

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18. Provisions, Continued

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

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

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

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

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**19. Other Non-financial Liabilities**

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

	Korean won (millions)	
	<u>June 30, 2016</u>	<u>December 31, 2015</u>
Current:		
Withholdings	₩ 85,274	86,466
Withholdings of value added tax	80,078	96,059
Advances received	1,140,499	1,055,057
Other liabilities	1,088	1,955
Subtotal	<u>1,306,939</u>	<u>1,239,537</u>
Non-current:		
Other liabilities	123,828	103,378
Total	<u>₩ 1,430,767</u>	<u>1,342,915</u>

**20. Employee Benefits**

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

	Korean won (millions)	
	<u>June 30, 2016</u>	<u>December 31, 2015</u>
Present value of defined benefit obligations	₩ 690,723	640,058
Fair value of plan assets	(589,052)	(601,989)
Total	<u>₩ 101,671</u>	<u>38,069</u>

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

	Korean won (millions)	
	<u>June 30, 2016</u>	<u>December 31, 2015</u>
Present value of other long-term employee benefits	₩ 46,671	43,222

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**20. Employee Benefits, Continued**

- (c) Changes in employee benefits for the six-month period ended June 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	₩	640,058	525,909
Current service costs		57,907	109,805
Past service costs		-	66
Interest costs		9,947	21,168
Remeasurements :			
- Gain from change in demographic assumptions		-	(10,581)
- Loss from change in financial assumptions		-	19,420
- Loss from experience adjustments		4,897	3,356
Payments		(24,404)	(50,054)
Business combination		-	15,596
Others		2,318	5,373
		<u>690,723</u>	<u>640,058</u>
End of the period	₩	690,723	640,058

- (d) Changes in fair value of plan assets for the six-month period ended June 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	₩	601,989	486,054
Return on plan assets		8,797	16,425
Actuarial loss		(1,915)	(5,262)
Employer contribution		796	129,264
Payments		(20,565)	(40,088)
Business combination		-	14,188
Others		(50)	1,408
		<u>589,052</u>	<u>601,989</u>
End of the period	₩	589,052	601,989

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

		Korean won (millions)	
		<b>June 30, 2016</b>	<b>December 31, 2015</b>
Principal guaranteed insurance policies	₩	588,866	601,797
Others		186	192
		<u>589,052</u>	<u>601,989</u>
Total	₩	589,052	601,989

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20. Employee Benefits, Continued

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

		Korean won (millions)			
		2016		2015	
		Three-month period	Six-month period	Three-month period	Six-month period
Current service costs	₩	29,126	57,907	27,196	53,729
Interest costs		5,141	9,947	4,992	9,596
Return on plan assets		(4,368)	(8,797)	(4,117)	(8,269)
Contributions to defined contribution plans		562	1,106	560	1,145
Long-term employee benefits		2,968	5,556	442	2,785
Total	₩	33,429	65,719	29,073	58,986

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**21. Derivative Instruments and Hedge Accounting**

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

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

(b) Fair value of derivatives outstanding as of June 30, 2016 and December 31, 2015 are summarized as follows:

Description	Type	Korean won (millions)			
		June 30, 2016		December 31, 2015	
		Assets	Liabilities	Assets	Liabilities
Trade	Stock option	₩ -	26,309	-	24,608
	Currency swap	17,877	-	-	-
Cash flow hedge	Currency swap	86,615	39,887	101,273	11,516
	Interest swap	-	5,361	47	4,431
	Currency forward	31,674	-	61,067	-
	Total	₩ 136,166	71,557	162,387	40,555

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

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

Purpose	Type	Related accounts		Korean won (millions)
Trade	Stock option	Loss on valuation of derivative instruments	₩	(1,700)
	Total Return Swap	Gain on valuation of derivative instruments		17,877
Cash flow hedge	Currency swap	Loss on valuation of derivative instruments		(13,630)
		Unrealized loss on valuation of derivative instruments		(29,209)
		Loss on valuation of derivatives instruments (card business)		(6,833)
	Interest swap	Loss on valuation of derivatives instruments (card business)		(8)
		Unrealized Loss on valuation of derivative instruments		(2,461)
	Currency forward	Gain on valuation of derivative instruments		13,660
		Unrealized Gain on valuation of derivative instruments		2,375

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**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 amount is paid to the holders of preferred shares. As of June 30, 2016, the Company has not issued any preferred stock and 31,490,892 shares of common stock were issued and outstanding as of June 30, 2016.
- (b) Capital surplus as of June 30, 2016 and December 31, 2015 consists of the following:

	Korean won (millions)	
	<u>June 30, 2016</u>	<u>December 31, 2015</u>
Additional paid-in capital	₩ 3,786,431	3,786,431
Others	124,321	124,321
Total	<u>₩ 3,910,752</u>	<u>3,910,752</u>

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23. Hybrid securities classified as equity

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

	Date of issue	Date of maturity	Interest rate (%)	Korean won (millions)	
				June 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 Group can call the hybrid security at year 5 and interest payment date afterwards. The hybrid security holder's preference in the event of liquidation is the same as the preference stock holders; higher than the common stock holders but lower than other creditors.	

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

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**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 in 2013 and, as a result, the Company holds 1,938,688 shares of treasury stocks as of June 30, 2016.

**25. Retained Earnings**

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

	Korean won (millions)	
	<u>June 30, 2016</u>	<u>December 31, 2015</u>
Legal reserve	₩ 195,917	190,006
Voluntary reserve	10,810,052	11,190,052
Unappropriated retained earnings	<u>937,333</u>	<u>513,605</u>
	<u>₩ 11,943,302</u>	<u>11,893,663</u>

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**26. Accumulated Other Comprehensive Income**

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

		Korean won (millions)			
		<b>2016</b>			Balance as of
		Beginning balance	Changes for the period	Tax effects for the period	of June 30, 2016
Net change in unrealized fair value of available for-sale financial assets	₩	90,698	(9,126)	2,946	84,518
Exchange rate differences on translating foreign operations		(32,385)	6,135	23	(26,227)
Effective portion of unrealized changes in fair values of cash flow hedges		(12,264)	(28,954)	6,585	(34,633)
Change in equity of equity method investments		49,453	(27,512)	5,904	27,845
Total	₩	<u>95,502</u>	<u>(59,457)</u>	<u>15,458</u>	<u>51,503</u>
		Korean won (millions)			
		<b>2015</b>			Balance as of
		Beginning balance	Changes for the year	Tax effects for the year	December 31, 2015
Net change in unrealized fair value of available for-sale financial assets	₩	145,678	(76,939)	21,959	90,698
Exchange rate differences on translating foreign operations		(70,788)	38,458	(55)	(32,385)
Effective portion of unrealized changes in fair values of cash flow hedges		(10,950)	(3,050)	1,736	(12,264)
Change in equity of equity method investments		42,896	12,131	(5,574)	49,453
Total	₩	<u>106,836</u>	<u>(29,400)</u>	<u>18,066</u>	<u>95,502</u>

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**27. Earnings per Share**

(a) Basic earnings per share

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

		Korean won (millions, except per share amount)			
		2016		2015	
		Three-month period	Six-month period	Three-month period	Six-month period
Profit for the period attributable to the owners of the Company	₩	64,804	122,779	64,569	170,758
Interests of hybrid securities, net of tax		(3,090)	(6,362)	(3,183)	(6,359)
Weighted average number of ordinary shares outstanding		29,552,204	29,552,204	29,552,204	29,552,204
Basic earnings per share	₩	2,088	3,939	2,077	5,563

(ii) Weighted average number of ordinary shares

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

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**27. Earnings per Share, Continued**

(b) Diluted earnings per share

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

		Korean won (millions, except per share amount)			
		2016		2015	
		Three-month period	Six-month period	Three-month period	Six-month period
Profit for the period attributable to the owners of the Company (basic)	₩	64,804	122,779	64,569	170,758
Interests of hybrid securities, net of tax		(3,090)	(6,362)	(3,183)	(6,359)
Effect of convertible bonds, net of tax (*)		(237)	(130)	(49)	767
Effect of exchange of exchangeable bond, net of tax (*)		(78)	-	(1,870)	(3,383)
Diluted profit attributable to ordinary shareholders		61,399	116,287	59,467	161,783
Diluted weighted average number of ordinary shares		29,552,204	29,583,138	29,750,682	29,750,416
Diluted earnings per share (in won)	₩	2,078	3,931	1,999	5,438

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

(ii) Diluted weighted average number of ordinary shares

		Number of shares			
		2016		2015	
		Three-month period	Six-month period	Three-month period	Six-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 (*)		-	30,934	198,478	198,212
Diluted weighted average number of ordinary shares		29,552,204	29,583,138	29,750,682	29,750,416

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

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**27. Earnings per Share, Continued**

(b) Diluted earnings per share, continued

(iii) Potential ordinary shares from conversion of convertible bonds as of June 30, 2016 are as follows:

		Korean won (millions, except for conversion price)	
		USD Bonds	JPY Bonds
Principal amount (*1)	₩	20,803	128,610
Conversion price (in won) (*2)		645,572	645,572
Number of potential ordinary shares		32,224	199,218

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

(\*2) On March 18, 2016, the general meeting of the Company's shareholders resolved to distribute cash dividends exceeding 0.5% of the market price of the Company's stock for the defined period. Consequently, in accordance with terms and conditions of conversion price adjustments, the conversion price was adjusted from ₩647,979 to ₩645,572.

**28. Sales and Cost of Sales**

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

		Korean won (millions)			
		2016		2015	
		Three-month period	Six-month period	Three-month period	Six-month period
Sales of merchandise	₩	5,970,790	11,922,875	5,951,950	11,717,760
Sales of products		10,075	27,081	10,859	24,377
Other operating revenue		876,069	1,720,076	863,638	1,675,182
Revenue of card business		373,455	739,234	401,528	746,030
Total	₩	7,230,389	14,409,266	7,227,975	14,163,349

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

		Korean won (millions)			
		2016		2015	
		Three-month period	Six-month period	Three-month period	Six-month period
Cost of merchandise sold	₩	4,655,155	9,292,181	4,648,211	9,109,548
Cost of products sold		6,110	15,768	6,841	15,162
Cost of other operating revenue		100,175	194,467	104,530	203,685
Cost of card business		188,599	405,497	210,696	406,913
Total	₩	4,950,039	9,907,913	4,970,278	9,735,308

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29. Selling, general and administrative expenses:

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

	Korean won (millions)			
	2016		2015	
	Three-month period	Six-month period	Three-month period	Six-month period
Salaries	₩ 364,896	727,552	344,130	686,507
Retirement and termination benefits	30,352	59,955	28,505	55,960
Other employee benefits	2,965	5,540	440	2,784
Employee welfare	79,269	158,202	78,837	154,929
Education and training	5,547	10,274	5,347	9,563
Travel	9,550	19,020	9,306	18,634
Maintenance fee for car	1,077	1,996	1,109	2,095
Insurance premium	5,360	10,704	4,761	9,528
Taxes and dues	124,287	147,935	124,417	147,000
Entertainment expenses	2,750	6,231	2,518	5,670
Supplies and stationery	20,372	41,525	19,046	37,514
Communications	10,847	21,897	11,366	21,943
Utilities	77,505	177,971	78,273	177,990
Maintenance	23,238	45,237	23,100	44,366
Rent	290,349	580,845	270,469	533,990
Depreciation	200,426	401,035	206,242	408,965
Amortization of intangible assets	24,155	47,882	21,736	40,936
Commissions and fees	314,068	618,180	304,299	598,974
Service commission expenses	251,434	481,700	217,411	433,807
Advertising	84,830	156,244	94,517	168,728
Sales promotion expenses	148,934	312,448	139,890	276,998
Decoration	3,339	6,850	3,132	7,464
Bad debt expenses (Reversal of allowance for bad depts.)	(31,654)	(31,580)	145	275
Transportation	61,612	107,281	58,893	102,400
Provisions	109	109	3,710	3,743
Others	3,702	7,159	3,879	7,878
Total	₩ <u>2,109,319</u>	<u>4,122,192</u>	<u>2,055,478</u>	<u>3,958,641</u>

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30. Other income and expenses

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

		Korean won (millions)			
		2016		2015	
		Three-month period	Six-month period	Three-month period	Six-month period
<b>Other income:</b>					
Gain on foreign currency transactions	₩	801	1,179	221	901
Gain on foreign currency translation		-	118	79	176
Gain on disposal of investment property		-	-	-	699
Gain on disposal of property, plant and equipment		203	1,775	284	1,124
Gain on disposal of intangible assets		56	56	-	-
Reversal of impairment losses on other non-current assets		-	4	-	1
Reversal of impairment losses on intangible assets		-	-	-	59
Others (*1)		113,882	127,607	10,549	24,863
Total	₩	<u>114,942</u>	<u>130,739</u>	<u>11,133</u>	<u>27,823</u>
<b>Other expense:</b>					
Loss on foreign currency transactions	₩	377	929	232	424
Loss on foreign currency translation		1,882	944	13	23
Loss on disposal of property, plant and equipment		2,637	3,814	5,137	6,646
Impairment loss of property, plant and equipment		-	4	-	-
Loss on disposal of intangible assets		1	1	2	2
Impairment loss of intangible assets		30,506	30,573	39	29
Loss on disposal of other non-current assets		43	43	-	-
Impairment loss of disposal of other non-current assets		-	-	437	437
Donation		5,320	9,414	6,075	10,452
Other bad debt expenses (Reversal of allowance for bad debts)		2,522	2,097	(279)	1,062
Taxes and dues		94	153	132	3,916
Others (*2)		76,230	99,347	15,859	52,661
Total	₩	<u>119,612</u>	<u>147,319</u>	<u>27,647</u>	<u>75,652</u>

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

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

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**31. Nature of Expenses**

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

	Korean won (millions)			
	<b>2016</b>		<b>2015</b>	
	Three-month period	Six-month period	Three-month period	Six-month period
Purchase of inventories	₩ 4,584,182	9,289,919	4,478,010	9,040,191
Changes in inventories	37,174	(33,750)	159,552	64,679
Employee benefits expense	479,373	955,046	454,063	904,533
Rent	292,794	585,861	269,302	538,868
Depreciation and amortization	242,964	482,014	247,179	480,658
Sales commissions	193,451	384,463	202,991	393,993
Sales promotion expenses	150,421	313,977	139,890	277,001
Commissions	249,944	479,368	215,158	412,645
Service commission expenses	265,076	512,521	233,682	457,718
Advertising	90,975	164,603	105,907	180,118
Utilities	78,395	179,707	77,320	179,555
Taxes and dues	130,192	154,210	125,057	147,674
Others	264,417	562,166	317,645	616,316
Total	₩ <u>7,059,358</u>	<u>14,030,105</u>	<u>7,025,756</u>	<u>13,693,949</u>

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**32. Finance Income and Finance Costs**

- (a) Details of finance income and finance costs for the three-month and six-month periods ended June 30, 2016 and 2015 are as follows:

		Korean won (millions)			
		<b>2016</b>		<b>2015</b>	
		Three-month period	Six-month period	Three-month period	Six-month period
<b>Finance income:</b>					
Interest income	₩	20,689	43,886	20,868	43,737
Dividend income		5,382	7,070	6,448	8,218
Gain on foreign currency transactions		11,821	12,257	138	487
Gain on foreign currency translation		-	31,280	1,433	2,041
Gain on valuation of derivative instruments held for the purpose of hedging		32,985	15,119	28,819	34,105
Gain on valuation of derivative instruments held for the purpose of trading		17,877	17,877	-	-
Gain on transaction of derivative instruments held for the purpose of hedging		-	-	33	58
Gain on disposal of investments in subsidiaries, associates and joint ventures		3,660	5,642	-	12,592
Total	₩	<u>92,414</u>	<u>133,131</u>	<u>57,739</u>	<u>101,238</u>
<b>Finance costs:</b>					
Interest expense	₩	56,277	121,034	59,816	122,511
Loss on foreign currency transactions		73	147	858	975
Loss on foreign currency translation		33,082	30,364	28,066	39,460
Loss on valuation of financial liabilities at fair value through profit or loss		10,478	15,713	584	1,544
Impairment loss on available-for-sale financial assets		43	43	-	-
Loss on disposal of available-for-sale financial assets		-	420	-	792
Loss on valuation of derivative instruments held for the purpose of hedging		-	15,090	45	45
Loss on valuation of derivative instruments held for the purpose of trading		788	1,700	81	11,522
Loss on transaction of derivative instruments held for the purpose of hedging		17,541	18,060	-	239
Loss on redemption of debentures		-	19,226	-	-
Loss on disposal of investments in subsidiaries, associates and joint ventures		59	59	808	825
Total	₩	<u>118,341</u>	<u>221,856</u>	<u>90,258</u>	<u>177,913</u>

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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 Group's effective tax rate for the six-month period ended June 30, 2016 was 46.9% (for the six-month period ended June 30, 2015: 42.4%).

**34. Consolidated statements of cash flows**

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

		Korean won (millions)	
		<u>June 30, 2016</u>	<u>December 31, 2015</u>
Cash	₩	38,114	37,243
Deposits		536,790	587,247
Other cash equivalents		<u>963,213</u>	<u>1,126,778</u>
Total	₩	<u>1,538,117</u>	<u>1,751,268</u>

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**35. Operating Segments and Geographic Information**

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

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

- (b) Information about reportable segments as of and for the six-month periods ended June 30, 2016 and 2015 are as follows:

		Korean won (millions)						
		<b>2016</b>						
		Department stores	Discount stores	Finance business	Consumer electronics retail	Convenience stores	Others	Total
External sales	₩	3,905,764	4,132,822	788,554	1,836,646	1,765,008	1,980,472	14,409,266
Inter-segment sales		15,644	22,658	95,499	1,708	8,113	119,290	262,912
Total sales	₩	<u>3,921,408</u>	<u>4,155,480</u>	<u>884,053</u>	<u>1,838,354</u>	<u>1,773,121</u>	<u>2,099,762</u>	<u>14,672,178</u>
		Korean won (millions)						
		<b>2015</b>						
		Department stores	Discount stores	Finance business	Consumer electronics retail	Convenience stores	Others	Total
External sales	₩	3,871,897	4,126,578	787,138	1,826,555	1,561,075	1,990,106	14,163,349
Inter-segment sales		9,258	20,884	95,817	522	9,378	97,195	233,054
Total sales	₩	<u>3,881,155</u>	<u>4,147,462</u>	<u>882,955</u>	<u>1,827,077</u>	<u>1,570,453</u>	<u>2,087,301</u>	<u>14,396,403</u>

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35. Operating Segments and Geographic Information, Continued

(c) Reconciliations of total segment sales and profit to their respective consolidated financial statements line items for the six-month periods ended June 30, 2016 and 2015 are summarized as follows:

		Korean won (millions)			
		<b>2016</b>			
		Sales	Operating profit for the period	Depreciation and amortization	Profit for the period
Department stores	₩	3,921,408	234,920	181,763	215,655
Discount stores		4,155,480	(60,624)	115,777	(162,711)
Finance business		884,052	94,097	25,262	70,624
Consumer electronics retail		1,838,355	68,794	26,443	47,822
Convenience stores		1,773,121	19,798	31,276	19,494
Others		2,099,762	33,708	94,251	(92,954)
Segment totals		<u>14,672,178</u>	<u>390,693</u>	<u>474,772</u>	<u>97,930</u>
Elimination of inter-segment amounts		<u>(262,912)</u>	<u>(11,532)</u>	<u>7,242</u>	<u>50,409</u>
Consolidated amounts	₩	<u>14,409,266</u>	<u>379,161</u>	<u>482,014</u>	<u>148,339</u>
		Korean won (millions)			
		<b>2015</b>			
		Sales	Operating profit for the period	Depreciation and amortization	Profit for the period
Department stores	₩	3,881,155	219,031	182,346	199,455
Discount stores		4,147,462	(33,116)	115,859	(142,097)
Finance business		882,955	121,435	22,226	90,294
Consumer electronics retail		1,827,077	77,537	26,309	53,062
Convenience stores		1,570,453	31,773	32,975	2,893
Others		2,087,301	60,940	93,752	34,118
Segment totals		<u>14,396,403</u>	<u>477,600</u>	<u>473,467</u>	<u>237,725</u>
Elimination of inter-segment amounts		<u>(233,054)</u>	<u>(8,200)</u>	<u>7,190</u>	<u>(26,623)</u>
Consolidated amounts	₩	<u>14,163,349</u>	<u>469,400</u>	<u>480,657</u>	<u>211,102</u>

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES  
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35. Operating Segments and Geographic Information, Continued

(d) Reconciliation of segment assets and liabilities to their respective consolidated financial statement line items as of June 30, 2016 and December 31, 2015 are summarized as follows:

		Korean won (millions)	
		<b>June 30, 2016</b>	
		Assets	Liabilities
Department stores	₩	16,009,935	9,240,075
Discount stores		9,797,395	2,751,947
Finance business		9,629,306	7,527,211
Consumer electronics retail		2,978,115	1,159,141
Convenience stores		1,136,904	731,688
Others		7,023,241	2,651,263
Segment totals		<u>46,574,896</u>	<u>24,061,325</u>
Elimination of inter-segment assets and liabilities		(1,013,568)	(1,013,568)
Adjustments of business combinations		839,561	204,339
Investments in subsidiaries and associates		<u>(6,050,734)</u>	<u>-</u>
Subtotal		<u>(6,224,741)</u>	<u>(809,229)</u>
After consolidation adjustments	₩	<u>40,350,155</u>	<u>23,252,096</u>
		Korean won (millions)	
		<b>December 31, 2015</b>	
		Assets	Liabilities
Department stores	₩	16,704,343	9,886,930
Discount stores		9,742,640	2,678,163
Finance business		9,402,558	7,365,241
Consumer electronics retail		2,905,213	1,122,386
Convenience stores		1,149,742	762,710
Others		6,813,434	2,668,690
Segment totals		<u>46,717,930</u>	<u>24,484,120</u>
Elimination of inter-segment assets and liabilities		(1,041,480)	(1,041,480)
Adjustments of business combinations		851,662	162,884
Investments in subsidiaries and associates		<u>(5,834,746)</u>	<u>-</u>
Subtotal		<u>(6,024,564)</u>	<u>(878,596)</u>
After consolidation adjustments	₩	<u>40,693,366</u>	<u>23,605,524</u>

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES  
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**35. Operating Segments and Geographic Information, Continued**

(e) Sales by geographical areas for six-month periods ended June 30, 2016 and 2015 are summarized as follows:

Region	Korean won (millions)	
	2016	2015
Domestic	₩ 13,238,849	12,974,473
China	673,645	753,531
Vietnam	166,659	134,170
Indonesia	593,025	534,229
Total	₩ 14,672,178	14,396,403

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

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES  
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**36. Contingent Liabilities and Financial Commitments**

(a) As of June 30, 2016, the Group has the following credit facility commitments with financial institutions:

		Korean won (millions), Foreign currency (thousands)	
		Credit line	Amount used under credit facility
General loan	KRW	1,780,633	441,633
	CNY	4,770,000	3,780,594
	VND	4,083,017,647	4,083,017,647
	USD	678,458	678,359
	IDR	2,320,000,000	1,740,000,000
	HKD	8,000	8,000
Discount of bill	KRW	1,479,500	1,169,500
Buyer's credit	KRW	631,000	94,022
Bank overdraft	KRW	246,000	-
	CNY	300,000	299,630
Guarantee	KRW	10,280	3,854
Letter of credit	USD	39,700	9,497
Others	KRW	67,000	47

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

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

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**36. Contingent Liabilities and Financial Commitments, Continued**

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

Company	Contractor	Description of contract
Buy the way Inc.	7-Eleven, Inc.	Using the registered trademark and operating know-how
	KTOTO.CO.,LTD.	Renewal guarantees of payments for goods every year

- (c) As of June 30, 2016, the Group is the plaintiff in various lawsuits with damage claims totaling ₩70,626 million and the Group is the defendant in various lawsuits with damage claims totaling ₩117,193 million, among which ₩25,079 million is related to a claim against Lotte Card Co., Ltd., a subsidiary of the Company, related to personal data leaks. The Group cannot reliably estimate the impacts and losses from lawsuit, the first trial of which is ongoing, related to personal data leaks and recognized other provision of ₩4,093 million in regard to the claim. The management believes that the ultimate resolutions of other legal action except 75 lawsuits recognized as an other provision of ₩11,569 million will not have a material effect of the financial position or results of operations of the Group.
- (d) Lotte Card Co., Ltd. has sold certain card assets to SPCs pursuant to the Assets-Backed Securitization Law of the Republic of Korea and assumed the liability to pay the outstanding card assets when the transferred card assets cannot meet the prescribed qualifications in the contract or fall into arrears in accordance with the terms of assets transfer agreement and other contracts. Accordingly, as prescribed in the assets transfer agreement and other contracts, the SPCs have obligations of early redemption of the asset-backed securities when average portfolio earnings ratio during three consecutive settlement periods is lower than the average primary cost ratio or when outstanding balance of adjusted securitized assets is less than the minimum principal balance as of closing date of each settlement period and others.
- (e) The Company has the right to purchase 5.1% of the Hyundai Logistics Co., Ltd. shares held by IGIS I Corporation and in the event the Company does not exercise the call option, IGIS I Corporation has the right to require the Company to purchase 5.1% of Hyundai Logistics Co., Ltd. shares held by IGIS I Corporation. In connection with IGIS I Corporation's borrowings, all IGIS I Corporation shares (₩4,572 million of book value) held by the Company have been in pledge in Mizuho Corporate Bank.
- (f) The Company provides joint guarantee for debentures ₩16,000 million issued by Hi-Lotte Movie Co., Ltd.
- (g) The Group disposed of land and buildings to structured entities and the Group has been leasing the assets. The details are as follows:
- (i) The Company disposed of land and buildings of 3 stores including Lotte mart Jeju store to KTB Confidence Private Real Estate Investment Trust for ₩220 billion in 2008 and the Company has been leasing the assets. The Company has the options to purchase the assets at a fair value at the end of the lease.
- (ii) The Company disposed of land and buildings of 6 stores including Lotte department store Bundang store to Lotte Retail Real Estate Investment Trust for ₩595 billion in 2010 and 2011, and the Company has been leasing the assets. The Company has the options to purchase the assets at a fair value at the end of the lease.
- (iii) The Company has been leasing the building of Lotte outlet esiapolis store from KB Star Retail Private Real Estate Investment Trust since 2013 and the Company has the preferential right of negotiation to purchase the building.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES  
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**36. Contingent Liabilities and Financial Commitments, Continued**

- (g) The Group disposed of land and buildings to structured entities and the Group has been leasing the assets. The details are as follows:, continued
- (iv) In 2014, the Company disposed of land and buildings of 2 Lotte department stores including Ilsan store and 5 Lotte mart stores including Bupyeong store to KTB Confidence Private Real Estate Investment Trust for ₩602 billion and the Company has been leasing the assets. The Company disposed of land and buildings of 2 Lotte department stores including Dongnae store and 3 Lotte mart stores including Sungjung store to Capstone Private Real Estate Investment Trust for ₩500 billion and the Company has been leasing the assets. The Company has the preferential right of negotiation to purchase the assets at the end of the lease.
- (v) In 2015, the Company disposed of land and buildings of Lotte outlets store Gwangmyeong to KTB Confidence Private Real Estate Investment Trust for ₩147 billion and the Company has been leasing the assets. And the Company disposed of land and buildings of Lotte mart Yangdeok to KB Lotte Master Lease Private Real Estate Investment Trust for ₩55 billion and the Company has been leasing the assets. The Company has the preferential right of negotiation to purchase the assets at the end of the lease.

The Group does not consolidate these structured entities.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES  
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June 30, 2016 and 2015

(Unaudited)

**37. Inter-company Transactions and Balances with Consolidated Companies**

(a) The Group has provided guarantees for consolidated companies as of June 30, 2016 as follows:

Consolidated company	Provided by	Guarantee recipient	2016	
			Type of borrowings	Guaranteed amount (thousands)
LOTTE PROPERTIES (CHENGDU) HK LIMITED	Lotte Shopping Co., Ltd.	Korea Exchange Bank	Working capital	USD 140,000
		Shinhan Bank		USD 50,000
Lotte Shopping Holdings (Hong Kong) Co., Limited	Lotte Shopping Co., Ltd.	Standard Chartered Bank Korea Limited	Working capital	USD 38,136
		BNP Paribas		USD 38,135
		Citibank N.A., Hong Kong Branch		USD 38,135
		SMBC		USD 38,135
		ING		USD 120,214
		Shinhan Bank		HKD 8,000
		HSBC		USD 95,298
PT. LOTTE Shopping Avenue Indonesia	Lotte Shopping Co., Ltd.	BNP Paribas	Working capital	USD 104,818
		DBS		USD 20,000
		JP Morgan		IDR 200,000,000
Lotte Business Management (Tianjin) Co., Ltd.	Lotte Shopping Co., Ltd.	BNP Paribas	Working capital	CNY 150,000
LOTTE DEPARTMENT STORE (TIANJIN) CO., LTD.	Lotte Shopping Co., Ltd.	DBS	Working capital	CNY 110,000
		KEB Hana Bank		CNY 170,000
Lucky Pai (Shanghai) Trading Co., Ltd.	Lotte Shopping Co., Ltd. and Woori Home Shopping & Television Co., Ltd.	INDUSTRIAL BANK OF KOREA	Working capital	CNY 46,000
		Shinhan Bank		CNY 14,000
		KEB Hana Bank		CNY 57,000
				CNY 58,000
				CNY 39,900
	Woori Bank		CNY 20,100	
			CNY 15,000	

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

(c) 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.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES  
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**38. Transactions and Balances with Related Companies**

(a) Details of control and subsidiary relationships with the Company as of June 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.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES  
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**38. Transactions and Balances with Related Companies, Continued**

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

Related company	Korean won (millions)				
	2016				
	Sales	Purchase of inventories	Purchase of fixed asset	Other revenue	Other expenses
<b>Shareholders:</b>					
Hotel Lotte Co., Ltd.	₩ 49,293	43	-	192	60,276
Lotte Confectionery Co., Ltd.	7,562	78,882	-	-	8,449
Lotte Chilsung Beverage Co., Ltd.	7,667	52,966	-	20	323
Lotte Engineering & Construction Co., Ltd.	2,846	-	97,647	1	133
Hotel Lotte Pusan Co., Ltd.	4,821	-	-	-	9,414
LOTTE DATA COMMUNICATION COMPANY	1,455	772	43,535	102	93,646
Korea Fuji Film Co., Ltd.	634	309	-	-	28
Subtotal	74,278	132,972	141,182	315	172,269
<b>Associates:</b>					
DAEHONG COMMUNICATIONS INC.	19,053	-	439	-	43,881
Lotte Station Building Co., Ltd.	11,515	-	21	1,262	2,411
Lotteria Co., Ltd.	10,378	3,116	75	62	413
Lotte Trading Co., Ltd.	2,262	95,519	-	-	11
Others	46,272	37,231	11,690	46	40,794
Subtotal	89,480	135,866	12,225	1,370	87,510
<b>Others:</b>					
LOTTE FOOD CO., LTD.	11,213	121,382	-	-	4,462
Lotte Aluminum Co., Ltd.	1,443	11,357	18,523	-	15,887
Lotte Logistics Co., Ltd.	21,604	1,125,789	1,619	-	124,541
Others	28,304	17,958	13,126	144	103,719
Subtotal	62,564	1,276,486	33,268	144	248,609
Total	₩ 226,322	1,545,324	186,675	1,829	508,388

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES  
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**38. Transactions and Balances with Related Companies, Continued**

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

Related company	Korean won (millions)				
	2015				
	Sales	Purchase of inventories	Purchase of fixed asset	Other revenue	Other expenses
<b>Shareholders:</b>					
Hotel Lotte Co., Ltd.	₩ 34,259	78	3,410	64	56,191
Lotte Confectionery Co., Ltd.	7,103	79,095	-	53	8,037
Lotte Chilsung Beverage Co., Ltd.	5,668	52,857	-	34	326
Lotte Engineering & Construction Co., Ltd.	2,958	-	166,558	-	103
Hotel Lotte Pusan Co., Ltd.	4,451	-	-	-	9,767
LOTTE DATA COMMUNICATION COMPANY	15,138	733	70,258	44	83,487
Korea Fuji Film Co., Ltd.	776	316	-	-	12
Subtotal	<u>70,353</u>	<u>133,079</u>	<u>240,226</u>	<u>195</u>	<u>157,923</u>
<b>Associates:</b>					
DAEHONG COMMUNICATIONS INC.	14,797	-	446	26	45,539
Lotte Station Building Co., Ltd.	12,277	38	-	-	1,914
Lotteria Co., Ltd.	9,957	2,963	55	23	231
Lotte Trading Co., Ltd.	2,825	110,534	-	-	11
Others	45,130	28,446	5,361	1,355	61,522
Subtotal	<u>84,986</u>	<u>141,981</u>	<u>5,862</u>	<u>1,404</u>	<u>109,217</u>
<b>Others:</b>					
LOTTE FOOD CO., LTD.	8,928	93,389	-	12	3,791
Lotte Aluminum Co., Ltd.	1,418	7,438	14,459	1	17,364
Lotte Logistics Co., Ltd.	15,664	969,710	1,041	9,796	116,301
Others	28,588	16,367	2,987	806	80,509
Subtotal	<u>54,598</u>	<u>1,086,904</u>	<u>18,487</u>	<u>10,615</u>	<u>217,965</u>
Total	₩ <u>209,937</u>	<u>1,361,964</u>	<u>264,575</u>	<u>12,214</u>	<u>485,105</u>

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

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

Related company	Korean won (millions)				
	2016				
	Borrowings	Repayment	Capital increase	Capital decrease	
<b>Associates:</b>					
LOTTE Accelerator Corporation	₩	-	-	5,000	-
BUSAN-LOTTE CREATIVE FILM FUND		-	-	2,500	-
Coralis S.A.		-	-	4,474	-
LOTTE Giants Co., Ltd.		-	-	9,000	-
Stonebridge Innovation Quarter Fund		-	-	1,770	-
Lotte Capital Co., Ltd.		10,000	11,023	-	-
Capital One Middle-Low Budget Cinema Fund		-	-	-	(1,350)
Others		-	-	1,005	(654)
Subtotal		10,000	11,023	23,749	(2,004)
<b>Joint ventures:</b>					
LOTTE JTB Co., Ltd.		-	-	10,000	-
<b>Others:</b>					
LOTTE rental Co., Ltd.		3,806	-	-	-
Lotte Capital Lease & Finance (China) Co., Ltd. and others		8,806	950	-	-
Subtotal		12,612	950	-	-
Total	₩	22,612	11,973	33,749	(2,004)

Related company	Korean won (millions)				
	2015				
	Borrowings	Repayment	Capital increase	Capital decrease	
<b>Associates:</b>					
Lotte Europe Holdings B.V	₩	-	-	10,855	-
Lotte Asset Development Co., Ltd.		-	-	19,571	-
Shandong Longzhile Cinema Co., Ltd.		-	-	437	-
Hemisphere Film Investors II LLC		-	-	-	4,898
Others		-	-	3,450	636
Subtotal		-	-	34,313	5,534
<b>Others:</b>					
Lotte Capital Lease & Finance (China) Co., Ltd. and others		20,244	12,621	-	-
Total	₩	20,244	12,621	34,313	5,534

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

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

Related company	Korean won (millions)				
	2016				
	Receivables		Payables		
	Trade receivables	Other receivables	Trade payables	Borrowings	Other payables
<b>Shareholders:</b>					
Hotel Lotte Co., Ltd.	₩ 2,676	79,766	1	-	32,570
Lotte Confectionery Co., Ltd.	637	11,617	20,288	-	3,405
Lotte Chilsung Beverage Co., Ltd.	669	54,719	8,046	-	6,235
Lotte Engineering & Construction Co., Ltd.	23	33,751	-	-	77,896
Hotel Lotte Pusan Co., Ltd.	110	10,518	-	-	5,208
LOTTE DATA COMMUNICATION COMPANY	23	7,336	443	-	45,196
Korea Fuji Film Co., Ltd.	4	92	132	-	1,506
Subtotal	4,142	197,799	28,910	-	172,016
<b>Associates:</b>					
DAEHONG COMMUNICATIONS INC.	3,305	1,495	7	-	26,125
Lotte Station Building Co., Ltd.	4,528	12,423	-	-	7,530
Lotteria Co., Ltd.	640	1,084	636	-	9,974
Lotte Trading Co., Ltd.	80	832	7,805	-	109
Others	2,853	10,252	9,848	15,000	32,598
Subtotal	11,406	26,086	18,296	15,000	76,336
<b>Others:</b>					
LOTTE FOOD CO., LTD.	1,392	3,723	22,834	-	8,176
Lotte Aluminum Co., Ltd.	30	18,388	5,017	-	13,130
Lotte Logistics Co., Ltd.	17	4,420	255,496	-	27,834
Others	2,610	119,642	3,010	24,804	71,957
Subtotal	4,049	146,173	286,357	24,804	121,097
Total	₩ 19,597	370,058	333,563	39,804	369,449

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June 30, 2016 and 2015

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

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

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

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

(e) The Group has provided guarantees for related companies as of June 30, 2016 as follows:

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

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

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

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

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

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

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**39. Risk Management**

(a) Management of financial risks

**Objectives and Policies of the Group**

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

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

**Credit Risk**

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

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

1) Exposure to credit risk

The book value of a financial asset represents the maximum exposure to credit risk. The maximum exposures to credit risk as of June 30, 2016 and December 31, 2015 are as follows:

Account	Korean won (millions)	
	June 30, 2016	December 31, 2015
Cash equivalent (*1)	₩ 1,500,003	1,714,025
Trade and other receivables	845,324	918,851
Other financial assets (current)	9,492,156	9,672,512
Other financial assets (non-current) (*2)	1,541,368	1,527,522
Total	₩ 13,378,851	13,832,910

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

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

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**39. Risk Management, Continued**

(a) Management of financial risks, continued

2) Impairment loss

Trade and other receivables, other financial assets (current), and other financial assets (non-current), before deducting the allowance for doubtful accounts as of June 30, 2016 and December 31, 2015 are summarized as follows:

Description	Korean won (millions)			
	June 30, 2016			
	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	₩ 777,365	67,534	20,979	865,878
Other financial assets (current)	9,095,055	347,788	250,725	9,693,568
Other financial assets (non-current)	1,541,368	-	4,059	1,545,427
Total	₩ 11,413,788	415,322	275,763	12,104,873

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

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

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

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**39. Risk Management, Continued**

(a) Management of financial risks, continued

3) Allowance for doubtful trade and other receivables

The movement in the allowance for doubtful trade and other receivables for the six-month period ended June 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	₩	51,228	16,131
Impairment loss		2,553	38,334
Reversal of impairment loss		(32,859)	(144)
Write-offs		(479)	(3,310)
Recoveries		21	83
Others		90	134
Balance at end of the period	₩	<u>20,554</u>	<u>51,228</u>

The movement in the allowance for doubtful other financial assets (current) for the six-month period ended June 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	₩	206,990	179,106
Impairment loss		106,208	211,963
Write-offs		(120,386)	(198,400)
Recoveries		8,600	14,321
Balance at end of the period	₩	<u>201,412</u>	<u>206,990</u>

The movement in the allowance for doubtful other financial assets (non-current) for the six-month period ended June 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	₩	4,057	4,000
Impairment loss		804	5,400
Write-offs		(802)	(5,368)
Business combination		-	25
Balance at end of the period	₩	<u>4,059</u>	<u>4,057</u>

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**39. Risk Management, Continued**

(a) Management of financial risks, continued

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

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

		Korean won (millions)				
		<b>June 30, 2016</b>				
Description		Carrying amount	3 months or less	3 ~ 6 months	6 ~ 12 months	More than 1 year
Trade and other receivables	₩	67,534	50,970	11,863	1,630	3,071
Other financial assets (current)		347,788	343,915	3,873	-	-
Total	₩	<u>415,322</u>	<u>394,885</u>	<u>15,736</u>	<u>1,630</u>	<u>3,071</u>

		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	₩	36,363	27,275	2,472	3,240	3,376
Other financial assets (current)		316,064	315,324	740	-	-
Total	₩	<u>352,427</u>	<u>342,599</u>	<u>3,212</u>	<u>3,240</u>	<u>3,376</u>

5) Guarantees

As of June 30, 2016, the Group has provided financial guarantees to associates, joint ventures and other related companies. Should the Group be liable for payment upon defaults of the associates, joint ventures and other related companies, the expected amounts which the Group is liable to pay within 1 year are ₩172,410 million.

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**39. Risk Management, Continued**

(a) Management of financial risks, continued

**Liquidity Risks**

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

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

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

Aggregate maturities of financial liabilities, including estimated interest, as of June 30, 2016 are as follows:

Description	Korean won (millions)					
	Carrying amount	Contractual cash flows	3 months or less	3 ~ 6 months	6 ~ 12 months	More than 1 year
Borrowings and debentures (current)	₩ 4,164,266	4,444,640	900,698	733,011	2,810,931	-
Trade and other payables	4,951,470	4,951,470	4,897,623	49,626	4,221	-
Other financial liabilities (current)	622,586	631,682	425,319	115,116	91,247	-
Borrowings and debentures (non-current)	9,789,053	10,475,268	57,408	59,554	119,737	10,238,569
Other financial liabilities (non-current)	330,640	342,912	3,138	5,299	13,640	320,835
Total	₩ 19,858,015	20,845,972	6,284,186	962,606	3,039,776	10,559,404

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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**39. Risk Management, Continued**

(a) Management of financial risks, continued

**Market Risks**

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

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

1) Currency risk

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

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

Assets and liabilities denominated in foreign currencies other than the Group functional currencies as of June 30, 2016 and December 31, 2015 are as follows:

		Korean won (millions)			
		June 30, 2016		December 31, 2015	
		Assets	Liabilities	Assets	Liabilities
USD	₩	11,193	2,782,508	11,685	3,104,347
EUR		19	1,833	65	2,191
JPY		75	220,030	257	188,311
VND		29	-	-	-
CNY		1,693	102	1,249	-
Total	₩	13,009	3,004,473	13,256	3,294,849

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**39. Risk Management, Continued**

(a) Management of financial risks, continued

The closing rates as of June 30, 2016 and December 31, 2015 and the average rates for the three-month period ended June 30, 2016 and 2015 are as follows:

		Average rate		Closing rate	
		<b>2016</b>	<b>2015</b>	<b>June 30, 2016</b>	<b>December 31, 2015</b>
USD	₩	1,182.21	1,098.99	1,164.70	1,172.00
EUR		1,319.02	1,226.23	1,295.50	1,280.53
JPY		10.5958	9.1391	11.3215	9.7201
VND		0.0529	0.0510	0.0522	0.0522
CNY(*)		180.44	176.70	174.67	180.55

(\*) The Group 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 Group applies direct CNH/KRW exchange rate in translation from January 1, 2016.

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**39. Risk Management, Continued**

(a) Management of financial risks, continued

The Group regularly measures exchange risks on Korean won against foreign currency fluctuations. The Group assumes that foreign currency exchange rates fluctuate 10% at the end of reporting period, and others variables are not changed. Sensitivity analysis of income before taxes from changes of foreign currency exchange rate as of June 30, 2016 and December 31, 2015 are summarized as follows:

		Korean won (millions)			
		June 30, 2016		December 31, 2015	
		10% increase	10% decrease	10% increase	10% decrease
USD	₩	756	(756)	684	(684)
EUR		(181)	181	(213)	213
JPY		(11,315)	11,315	(9,695)	9,695
VND		3	(3)	-	-
CNY		159	(159)	125	(125)
Total	₩	(10,578)	10,578	(9,099)	9,099

Borrowings and debentures with currency swaps and overseas convertible bonds designated as financial liabilities at fair value through profit or loss are not included. The sensitivity analysis above is related to the monetary assets and liabilities, denominated in a currency other than the Group's functional currency, as of June 30, 2016 and December 31, 2015 of the Group entities in Korea.

2) Interest rate risk

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

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

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

		Korean won (millions)	
		June 30, 2016	December 31, 2015
Variable rate instruments:			
Financial assets	₩	908,966	820,038
Financial liabilities		3,545,041	3,424,414

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**39. Risk Management, Continued**

(a) Management of financial risks, continued

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

		Korean won (millions)			
		June 30, 2016		December 31, 2015	
		100bps up	100bps down	100bps up	100bps down
Interest income	₩	9,090	(9,090)	8,200	(8,200)
Interest expense		6,544	(6,544)	5,900	(5,900)

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

3) Price risk

The Group is exposed to fluctuations of price in available-for-sale financial assets. The book values of the marketable available-for-sale financial assets as of June 30, 2016 and December 31, 2015 are ₩291,167 million and ₩282,887 million, respectively.

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

		Korean won (millions)			
		June 30, 2016		December 31, 2015	
		10% increase	10% decrease	10% increase	10% decrease
Other comprehensive income	₩	29,117	(29,117)	28,289	(28,289)

(b) Capital Management

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

The liabilities to equity ratios and net borrowings to equity ratios as of June 30, 2016 and December 31, 2015 are as follows:

		Korean won (millions)	
		June 30, 2016	December 31, 2015
Liabilities (a)	₩	23,252,096	23,605,524
Equity (b)		17,098,059	17,087,842
Financial instruments (*) (c)		2,579,565	2,998,383
Borrowings (d)		13,953,319	14,083,577
Liabilities to equity ratio (a/b)		135.99%	138.14%
Net borrowings to equity ratio ((d-c)/b)		66.52%	64.87%

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