

LOTTE SHOPPING CO., LTD.

Condensed Separate 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 separate interim financial statements of Lotte Shopping Co., Ltd. (the "Company"), which comprise the condensed separate interim statement of financial position as of June 30, 2016, the condensed separate interim statements of comprehensive income for the three-month and six-month periods ended June 30, 2016 and 2015, the condensed separate interim 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 separate interim financial statements in accordance with Korean International Financial Reporting Standards ("K-IFRS") No.1034 *Interim Financial Reporting*, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' review responsibility

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

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

Conclusion

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

Other matters

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

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

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

<p>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 condensed separate interim financial statements and notes thereto. Accordingly, the readers of the review report should understand that the above review report has not been updated to reflect the impact of such subsequent events or circumstances, if any.</p>
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LOTTE SHOPPING CO., LTD.
Condensed Separate Interim Statements of Financial Position

As of June 30, 2016 and December 31, 2015

(Unaudited)

	Notes	Korean won (millions)	
		June 30, 2016	December 31, 2015
Assets			
Cash and cash equivalents	6,34,37 ₩	334,555	578,618
Trade and other receivables	4,6,36,37	364,013	563,375
Other financial assets	5,6,21,37	563,286	811,586
Inventories	7	1,892,904	2,036,792
Other non-financial assets	8	118,148	99,291
Total current assets		3,272,906	4,089,662
Investments in associates and joint ventures, subsidiaries	9,10,11,36	5,303,760	5,266,106
Other financial assets	5,6,21,37	1,270,732	1,226,294
Property and equipment, net	12	13,576,016	13,471,597
Investment property, net	13	267,692	289,454
Goodwill	14,38	485,527	484,277
Intangible assets, net	14	393,778	410,621
Other non-financial assets	8	810,256	782,695
Total non-current assets		22,107,761	21,931,044
Total assets		₩ 25,380,667	26,020,706

See accompanying notes to the condensed separate interim financial statements.

LOTTE SHOPPING CO., LTD.

Condensed Separate Interim Statements of Financial Position, Continued

As of June 30, 2016 and December 31, 2015

(Unaudited)

	Notes	Korean won (millions)	
		June 30, 2016	December 31, 2015
Liabilities			
Borrowings and debentures, net of issuance costs	6,16,37 ₩	907,210	1,082,579
Trade and other payables	6,15,36,37	3,076,986	3,719,808
Other financial liabilities	6,21,37	396,196	309,762
Income taxes payable		55,799	75,504
Unearned revenues	17	53,978	56,478
Provisions	18	17,253	1,404
Other non-financial liabilities	19	687,108	718,526
Total current liabilities		5,194,530	5,964,061
Borrowings and debentures, net of issuance costs	6,16,37	3,367,614	3,351,529
Other financial liabilities	6,21,37	97,091	72,672
Employee benefit liabilities	20	92,433	44,784
Deferred tax liabilities		1,033,641	1,043,023
Unearned revenues	17	5,440	3,373
Other non-financial liabilities	19	27,075	9,557
Total non-current liabilities		4,623,294	4,524,938
Total liabilities		9,817,824	10,488,999
Equity			
Common stock of ₩5,000 par value			
Authorized - 60,000,000 shares			
Issued and outstanding – 31,490,892 shares	1,22	157,454	157,454
Capital surplus	22	3,962,094	3,962,094
Hybrid securities	23	269,118	269,118
Capital adjustments	24	(1,806)	(1,806)
Retained earnings	25	11,126,066	11,080,393
Accumulated other comprehensive income	26	49,917	64,454
Total equity		15,562,843	15,531,707
Total liabilities and equity	₩	25,380,667	26,020,706

See accompanying notes to the condensed separate interim financial statements.

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

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

(Unaudited)

		Korean won (millions, except for earnings per share)			
		2016		2015	
Notes		Three-month period	Six-month period	Three-month period	Six-month period
Sales	28,35,36 ₩	3,839,081	7,849,393	3,923,526	7,908,141
Cost of sales	7,28,31,36	(2,570,212)	(5,260,792)	(2,664,266)	(5,350,761)
Gross profit		1,268,869	2,588,601	1,259,260	2,557,380
Selling, general and administrative expenses	29,31,36	(1,200,553)	(2,330,588)	(1,160,039)	(2,252,257)
Operating profit		68,316	258,013	99,221	305,123
Other income	30,36	23,641	39,153	8,214	18,449
Other expenses	30,36	(34,134)	(47,268)	(22,209)	(35,099)
Finance income	32	74,574	136,631	43,451	94,671
Finance costs	32	(116,027)	(213,174)	(58,211)	(111,743)
Profit before income tax		16,370	173,355	70,466	271,401
Income tax expense	33	(11,991)	(55,690)	(17,170)	(62,676)
Profit for the period		4,379	117,665	53,296	208,725
Other comprehensive income (loss) : Items that will never be reclassified to profit or loss:	26				
Remeasurements of net defined benefit liabilities	20	(214)	(8,609)	2,467	2,543
Income tax on items that will never be reclassified to profit or loss		52	2,083	(597)	(615)
Total items that will never be reclassified to profit or loss		(162)	(6,526)	1,870	1,928
Items that are or may be reclassified subsequently to profit or loss:					
Net change in unrealized fair value of available-for-sale financial assets	26	(13,602)	(5,103)	24,150	16,406
Effective portion of unrealized changes in fair values of cash flow hedges	21,26	(1,095)	(14,075)	(10,709)	(9,640)
Income tax on items that are or may be reclassified subsequently to profit or loss		3,557	4,641	(3,253)	(1,637)
Total items that are or may be reclassified subsequently to profit or loss		(11,140)	(14,537)	10,188	5,129
Other comprehensive income (loss) for the period, net of tax		(11,302)	(21,063)	12,058	7,057
Total comprehensive income (loss) for the period		(6,923)	96,602	65,354	215,782
Earnings per share	27				
- Basic earnings per share (in won)		44	3,766	1,696	6,848
- Diluted earnings per share (in won)	₩	44	3,763	1,688	6,827

See accompanying notes to the condensed separate interim financial statements.

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

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

(Unaudited)

Korean won (millions)

		<u>Capital stock</u>	<u>Capital surplus</u>	<u>Hybrid securities</u>	<u>Capital adjustments</u>	<u>Retained earnings</u>	<u>Accumulated other comprehensive income</u>	<u>Total equity</u>
Balance at January 1, 2015	₩	157,454	3,962,094	269,118	(1,806)	11,464,811	113,093	15,964,764
Total comprehensive income (loss) for the period								
Profit for the period		-	-	-	-	208,725	-	208,725
Other comprehensive income (loss):								
Net change in unrealized fair value of available-for-sale financial assets		-	-	-	-	-	12,436	12,436
Effective portion of unrealized changes in fair values of cash flow hedges		-	-	-	-	-	(7,307)	(7,307)
Remeasurements of net defined benefit liabilities		-	-	-	-	1,928	-	1,928
Subtotal		-	-	-	-	1,928	5,129	7,057
Total comprehensive income (loss) for the period		-	-	-	-	210,653	5,129	215,782
Transactions with owners of the Company, recognized directly in equity:								
Interest payment of hybrid securities		-	-	-	-	(6,359)	-	(6,359)
Dividends		-	-	-	-	(59,104)	-	(59,104)
Subtotal		-	-	-	-	(65,463)	-	(65,463)
Balance at June 30, 2015	₩	<u>157,454</u>	<u>3,962,094</u>	<u>269,118</u>	<u>(1,806)</u>	<u>11,610,001</u>	<u>118,222</u>	<u>16,115,083</u>

See accompanying notes to the condensed separate interim financial statements.

LOTTE SHOPPING CO., LTD.

Condensed Separate Interim Statements of Changes in Equity, Continued

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

(Unaudited)

Korean won (millions)

		<u>Capital stock</u>	<u>Capital surplus</u>	<u>Hybrid securities</u>	<u>Capital adjustments</u>	<u>Retained earnings</u>	<u>Accumulated other comprehensive income</u>	<u>Total equity</u>
Balance at January 1, 2016	₩	157,454	3,962,094	269,118	(1,806)	11,080,393	64,454	15,531,707
Total comprehensive income (loss) for the period								
Profit for the period		-	-	-	-	117,665	-	117,665
Other comprehensive income (loss):								
Net change in unrealized fair value of available-for-sale financial assets		-	-	-	-	-	(3,868)	(3,868)
Effective portion of unrealized changes in fair values of cash flow hedges		-	-	-	-	-	(10,669)	(10,669)
Remeasurements of net defined benefit liabilities		-	-	-	-	(6,526)	-	(6,526)
Subtotal		-	-	-	-	(6,526)	(14,537)	(21,063)
Total comprehensive income (loss) for the period		-	-	-	-	111,139	(14,537)	96,602
Transactions with owners of the Company, recognized directly in equity:								
Interest payment of hybrid securities		-	-	-	-	(6,362)	-	(6,362)
Dividends		-	-	-	-	(59,104)	-	(59,104)
Subtotal		-	-	-	-	(65,466)	-	(65,466)
Balance at June 30, 2016	₩	<u>157,454</u>	<u>3,962,094</u>	<u>269,118</u>	<u>(1,806)</u>	<u>11,126,066</u>	<u>49,917</u>	<u>15,562,843</u>

See accompanying notes to the condensed separate interim financial statements.

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

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

(Unaudited)

	Korean won (millions)	
	2016	2015
Cash flows from operating activities		
Profit for the period	₩ 117,665	208,725
Income tax expense	55,690	62,676
Post-employment benefits expense	37,044	35,175
Long-term employee benefits expense	4,864	1,701
Depreciation	264,249	269,374
Amortization	34,788	34,647
Loss on foreign currency translation	16,060	31,136
Loss on foreign currency transactions	634	74
Loss on disposal of property and equipment	938	4,923
Loss on disposal of intangible assets	1	2
Loss on valuation of financial liabilities at fair value through profit or loss	15,713	1,544
Loss on valuation of derivative instruments	16,791	11,246
Loss on transaction of derivative instruments	15,597	-
Loss on redemption of debentures	19,226	-
Rental expenses (Amortization of discount on deposit, etc.)	31,737	27,597
Loss on disposal of investments in subsidiaries, associates and joint ventures	59	351
Impairment loss of investments in subsidiaries, associates and joint ventures	68,725	-
Loss on disposal of available-for-sale financial assets	420	792
Impairment loss of available-for-sale financial assets	43	-
Impairment loss of other non-current assets	-	437
Interest expense	60,560	66,616
Miscellaneous losses	13,000	-
Gain on foreign currency translation	(15,187)	(1,061)
Gain on foreign currency transactions	(10,189)	-
Gain on disposal of property and equipment	(1,632)	(608)
Gain on valuation of derivative instruments	(32,996)	(34,319)
Gain on transaction of derivative instruments	(13,362)	-
Reversal of bad debt expenses	-	(6)
Other bad debt expenses (Reversal of other bad debt expenses)	(6)	15
Gain on disposal of investments in subsidiaries, associates and joint ventures	(1,982)	-
Rental income	(1,158)	(1,163)
Interest income	(26,226)	(26,022)
Dividend income	(37,240)	(33,433)
Reversal of impairment of other non-financial assets	(4)	(1)
Trade receivables	113,566	20,353
Other receivables	73,731	17,289
Other financial assets	(1,829)	35,246
Inventories	143,888	217,051
Other non-financial assets	(50,868)	(54,125)
Trade payables	(424,378)	(527,033)
Other payables	(173,041)	(330,393)
Other financial liabilities	99,750	31,286
Other non-financial liabilities	(31,415)	9,113
Unearned revenues	(1,254)	(2,891)
Provisions	15,848	15,276

See accompanying notes to the condensed separate interim financial statements.

LOTTE SHOPPING CO., LTD.

Condensed Separate Interim Statements of Cash Flows, Continued

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

(Unaudited)

	Korean won (millions)	
	<u>2016</u>	<u>2015</u>
Cash flows from operating activities, continued		
Payment of post-employment benefits and long-term employee benefits	(18,415)	(23,892)
Plan assets	12,516	14,990
Income tax paid	<u>(78,052)</u>	<u>(160,120)</u>
Net cash provided by operating activities	₩ <u>313,869</u>	<u>(77,432)</u>

See accompanying notes to the condensed separate interim financial statements.

LOTTE SHOPPING CO., LTD.

Condensed Separate Interim Statements of Cash Flows, Continued

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

(Unaudited)

		Korean won (millions)	
		2016	2015
Cash flows from investing activities			
Proceeds from sale of short-term financial assets	₩	597,851	42,683
Decrease of short-term loans		3,250	4,150
Proceeds from sale of available-for-sale financial assets		-	3,887
Proceeds from sale of investments in subsidiaries, associates and joint ventures		1,923	1,941
Proceeds from disposal of property and equipment		8,862	43,668
Proceeds from disposal of other intangible assets		-	451
Cash inflows from capital distribution from subsidiaries and associates and joint ventures		2,004	4,899
Cash inflows from business combination		413	-
Purchase of short-term financial assets		(376,553)	(362,852)
Increase of short-term loans		-	(26)
Increase of long-term loans		(2,000)	-
Purchase of available-for-sale financial assets		(17,398)	(2,183)
Purchase of investments in subsidiaries, associates and joint ventures		(108,382)	(61,376)
Acquisition of property and equipment		(382,818)	(439,809)
Acquisition of other intangible assets		(29,223)	(18,755)
Interest received		11,777	8,952
Dividends received		37,292	31,244
Net cash used in investing activities	₩	(253,002)	(743,126)

See accompanying notes to the condensed separate interim financial statements.

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

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

(Unaudited)

		Korean won (millions)	
		2016	2015
Cash flows from financing activities			
Proceeds from issuance of debentures	₩	578,985	718,123
Repayment of short-term borrowings		-	(30,000)
Redemption of current portion of debentures		(759,217)	(400,000)
Payment of hybrid securities interests		(6,362)	(6,359)
Interest paid		(59,234)	(58,710)
Dividend paid		(59,104)	(59,104)
Net cash provided by financing activities	₩	(304,932)	163,950
Net decrease in cash and cash equivalents		(244,065)	(656,608)
Cash and cash equivalents at January 1		578,618	917,846
Impact of foreign currency exchange rates on cash and cash equivalents		2	(1)
Cash and cash equivalents at June 30	₩	334,555	261,237

See accompanying notes to the condensed separate interim financial statements.

LOTTE SHOPPING CO., LTD.
Notes to the Condensed Separate 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, 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 stock	1,938,688	6.16
Others	9,521,302	30.24
Total	<u>31,490,892</u>	<u>100.00</u>

2. Basis of Accounting

(a) Statement of compliance

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

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

These condensed interim financial statements are separate interim financial statements prepared in accordance with K-IFRS No.1027, 'Separate Financial Statements' presented by a parent, an investor in an associate or a venturer in a joint venture, in which the investments are accounted for on the basis of the direct equity interest rather than on the basis of the reported results and net assets of the investees.

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

June 30, 2016 and 2015

(Unaudited)

2. Basis of Accounting, Continued

(b) Use of estimates and judgments

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

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

3. Significant Accounting Policies

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

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

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)	
		<u>June 30, 2016</u>	<u>December 31, 2015</u>
Trade receivables	₩	276,991	398,451
Other receivables		91,615	169,569
Allowance for doubtful accounts		<u>(4,593)</u>	<u>(4,645)</u>
Total	₩	<u>364,013</u>	<u>563,375</u>

5. Restricted Deposits

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

		Korean won (millions)	
<u>Description</u>	<u>Depository</u>	<u>June 30, 2016</u>	<u>December 31, 2015</u>
Current:			
Time deposits	Busan Bank	₩ 3,053	2,851
Special deposits	Industrial Bank of Korea and others	109,000	95,500
Non-current:			
Long-term financial instruments	Busan Bank Shinhan Bank and others	2,000 15	2,000 15
Available-for-sale financial assets	Busan Metropolitan Government and others	<u>19,841</u>	<u>21,408</u>
Total		₩ <u>133,909</u>	<u>121,774</u>

LOTTE SHOPPING CO., LTD.

Notes to the Condensed Separate 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	₩ 334,555	334,555	578,618	578,618
Financial assets at fair value through profit or loss	Non-current derivative assets-trade	17,877	17,877	-	-
Loans and receivables (*1)	Current:				
	Trade and other receivables	364,013	364,013	563,375	563,375
	Short-term financial instruments	432,053	432,053	653,351	653,351
	Short-term loans	6,500	6,500	6,500	6,500
	Accrued income	2,309	2,309	3,827	3,827
	Deposits	87,928	87,928	102,663	102,663
	Non-current:				
	Long-term financial instruments	2,000	2,000	2,000	2,000
	Opening a checking account deposit	15	15	15	15
	Long-term loans	44,250	44,250	45,500	45,500
	Deposits	884,311	884,311	857,583	857,583
	Long-term other receivables	16,336	16,336	-	-
	Subtotal	1,839,715	1,839,715	2,234,814	2,234,814
Available-for-sale financial assets	Marketable available-for-sale equity securities (*2)	179,416	179,416	171,174	171,174
	Non-marketable available-for-sale equity securities (*3)	35,190	35,190	34,448	34,448
	Equity securities valued by acquisition cost (*4)	79,082	79,082	76,552	76,552
	Non-marketable debt securities (*5)	437	437	120	120
	Subtotal	294,125	294,125	282,294	282,294
Derivative assets held for the purpose of hedging	Current derivative assets-hedge	34,496	34,496	45,245	45,245
	Non-current derivative assets-hedge	11,818	11,818	38,902	38,902
	Subtotal	46,314	46,314	84,147	84,147
	Total	₩ 2,532,586	2,532,586	3,179,873	3,179,873

LOTTE SHOPPING CO., LTD.
Notes to the Condensed Separate 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

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

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

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

(*4) Others are recorded at acquisition cost because fair value cannot be reliably measured and difference between fair value and acquisition cost is immaterial.

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

- (b) Other financial assets as of 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	₩ 432,053	653,351
Short-term loans	6,500	6,500
Accrued income	2,309	3,827
Deposits	87,928	102,663
Derivative assets held for the purpose of hedging	34,496	45,245
Subtotal	563,286	811,586
Non-current:		
Long-term financial instruments	2,000	2,000
Opening a checking account deposit	15	15
Available-for-sale financial assets	294,125	282,294
Long-term loans	44,250	45,500
Deposits	884,311	857,583
Long-term other receivables	16,336	-
Derivative assets held for the purpose of hedging	11,818	38,902
Derivative assets held for the purpose of trading	17,877	-
Subtotal	1,270,732	1,226,294
Total	₩ 1,834,018	2,037,880

LOTTE SHOPPING CO., LTD.
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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:

Description	Korean won (millions)				December 31, 2015 Carrying amount
	June 30, 2016		Acquisition cost	Carrying amount	
	Number of shares	Percentage of ownership			
Marketable available-for-sale financial assets:					
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.	7,319,420	5.15%	35,956	55,900	55,491
Others			2,751	2,548	3,356
Subtotal			107,300	179,416	171,174
Non-marketable available-for- sale financial assets:					
LOTTE LOGISTICS CORP.	66,308	4.64%	4,000	15,555	13,865
Lotte Properties (Shenyang) Limited	29,928,756	17.93%	41,919	41,919	41,919
Government and public bonds			431	437	120
Others			66,196	56,798	55,216
Subtotal			112,546	114,709	111,120
Total			₩ 219,846	294,125	282,294

LOTTE SHOPPING CO., LTD.

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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
	Current derivative liabilities held for the purpose of trading	1	1	13,362	13,362
	Non-current derivative liabilities held for the purpose of trading	26,309	26,309	24,608	24,608
	Subtotal	155,463	155,463	151,410	151,410
Financial liabilities based on amortized cost (*)	Current:				
	Trade and other payables	3,076,986	3,076,986	3,719,808	3,719,808
	Short-term borrowings	200,000	200,000	200,000	200,000
	Current portion of long-term borrowings	99,767	99,767	-	-
	Current portion of debentures	478,290	478,290	769,139	769,139
	Financial guarantee liabilities	8,843	8,843	6,778	6,778
	Accrued expenses	189,619	189,619	84,921	84,921
	Current portion of deposits received	197,061	197,061	204,427	204,427
	Non-current:				
	Long-term borrowings	113,215	113,215	196,820	196,820
Debentures	3,254,399	3,254,399	3,154,709	3,154,709	
Deposits received	45,758	45,758	44,283	44,283	
Subtotal	7,663,938	7,663,938	8,380,885	8,380,885	
Derivative liabilities held for the purpose of hedging	Current derivative liabilities-hedge	672	672	274	274
	Non-current derivative liabilities-hedge	25,024	25,024	3,781	3,781
	Subtotal	25,696	25,696	4,055	4,055
Total	₩ 7,845,097	7,845,097	8,536,350	8,536,350	

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

LOTTE SHOPPING CO., LTD.
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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:		
Derivative liabilities held for the purpose of trading	₩ 1	13,362
Derivative liabilities held for the purpose of hedging	672	274
Financial guarantee liabilities	8,843	6,778
Accrued expenses	189,619	84,921
Deposits received	197,061	204,427
Subtotal	<u>396,196</u>	<u>309,762</u>
Non-current:		
Derivative liabilities held for the purpose of trading	26,309	24,608
Derivative liabilities held for the purpose of hedging	25,024	3,781
Deposit received	45,758	44,283
Subtotal	<u>97,091</u>	<u>72,672</u>
Total	<u>₩ 493,287</u>	<u>382,434</u>

LOTTE SHOPPING CO., LTD.
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(Unaudited)

6. Fair Value of Financial Instruments, Continued

(f) The fair value hierarchy

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

Description	Korean won (millions)			
	Level I	Level II	Level III	Total
Available-for-sale financial assets	₩ 179,416	437	35,190	215,043
Derivative assets	-	46,314	17,877	64,191
Total financial assets	179,416	46,751	53,067	279,234
Overseas convertible bonds	-	129,153	-	129,153
Derivative liabilities	-	25,696	26,310	52,006
Total financial liabilities	₩ -	154,849	26,310	181,159

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	₩ 171,174	120	34,448	205,742
Derivative assets	-	84,147	-	84,147
Total financial assets	171,174	84,267	34,448	289,889
Overseas convertible bonds	-	113,440	-	113,440
Derivative liabilities	-	4,055	37,970	42,025
Total financial liabilities	₩ -	117,495	37,970	155,465

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

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

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(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	₩ (3,522)	90,739
Transfer into Level 3	-	(15,554)
Loss included in finance costs		
Loss on valuation of derivative instruments	29,494	11,126
Gain (loss) included in OCI		
Net change in unrealized fair value of available-for-sale financial assets	785	(5,834)
Disposal	-	(83,999)
End of the period	₩ 26,757	(3,522)

(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	2,967	(2,421)	889	1,885

(ii) Stock options

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

(iii) Embedded derivatives

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

LOTTE SHOPPING CO., LTD.
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(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	₩	1,907,185	(21,105)	1,886,080	2,047,850	(16,279)	2,031,571
Finished goods		1,112	(476)	636	3,918	(1,033)	2,885
Goods in process		-	-	-	213	-	213
Raw materials		-	-	-	183	-	183
Subsidiary materials		-	-	-	23	-	23
Supplies		96	-	96	98	-	98
Materials-in-transit		6,092	-	6,092	1,819	-	1,819
Total	₩	<u>1,914,485</u>	<u>(21,581)</u>	<u>1,892,904</u>	<u>2,054,104</u>	<u>(17,312)</u>	<u>2,036,792</u>

(b) During 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	₩ 2,514,826	5,151,105	2,613,091	5,243,268
-	Changes of allowance for valuation losses of inventories	3,744	4,269	5,797	7,662

LOTTE SHOPPING CO., LTD.
Notes to the Condensed Separate 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:

		Korean won (millions)	
		June 30, 2016	December 31, 2015
Current:			
Advance payments	₩	33,898	36,229
Prepaid expenses		84,250	63,062
Subtotal		118,148	99,291
Non-current:			
Long-term advance payments		218,193	183,696
Long-term prepaid expenses		592,063	598,999
Subtotal		810,256	782,695
Total	₩	928,404	881,986

LOTTE SHOPPING CO., LTD.
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(Unaudited)

9. Investments in Associates

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

Company	Location	Principal business	Ownership (%)	June 30, 2016	
					Korean won (millions)
				Balance at June 30, 2016	
Lotte Station Building Co., Ltd.	Korea	Distribution	25.00	₩	157,380
Daehong Communications Co., Ltd.	Korea	Advertisement agency	34.00		28,785
Lotte Capital Co., Ltd.	Korea	Capital	22.36		77,413
Lotteria Co., Ltd.	Korea	Restaurant chain	38.68		112,864
FRL Korea Co., Ltd.	Korea	Retail	49.00		24,827
Lotte Asset Development Co., Ltd.	Korea	Real estate development	39.14		72,890
Zara Retail Korea Co., Ltd.	Korea	Retail	20.00		16,106
LOTTE Giants Co., Ltd.	Korea	Baseball club	30.00		9,823
Lotte Europe Holdings B.V.	Netherlands	Holding company	26.98		87,504
Coralis S.A.	Luxembourg	Holding company	45.00		59,605
S.M.CONTENTES INVESTMENT	Korea	Film producing company	25.00		1,750
Capital One Diversity Cinema Fund	Korea	Film producing company	20.00		364
UNION INVESTMENT PARTNERS	Korea	Film producing company	26.67		4,000
Capital One Middle-Low Budget Cinema Fund	Korea	Film producing company	25.00		1,650
Hubei XL Cinema Co., Ltd.	China	Cinema	49.00		9,423
Hemisphere Film Investors II LLC (*1)	America	Film producing company	100.00		19,074
TW No.14 Culture Contents Fund	Korea	Film producing company	30.00		6,000
Leading Asia Contents Fund	Korea	Film producing company	21.01		4,000
Shandong Longzhile Cinema Co., Ltd.	China	Cinema	49.00		8,057
Lotte Incheon Development Co., Ltd.	Korea	Real estate lease	37.50		15,000
Lotte Trading Co., Ltd.	Korea	Product brokerage	27.68		92,782
Eunpyeong PFV	Korea	Real estate development	20.11		3,500
Lotte Incheon Town Co., Ltd.	Korea	Real estate lease	35.00		3,500
LOTTE Town Dongtan Co.,LTD	Korea	Real estate development	50.00		35,000
LOTTE Accelerator Corporation (*2)	Korea	Management consulting	16.67		2,500
BUSAN-LOTTE CREATIVE FILM FUND	Korea	Film producing company	47.62		2,500
Total				₩	<u>856,297</u>

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

(*2) The investment is classified as an associate because Lotte.Com Inc., a subsidiary of the Company, holds 16.67% of the common stocks.

LOTTE SHOPPING CO., LTD.
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9. Investments in Associates, Continued

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

Company	Location	Principal business	Ownership (%)	December 31, 2015	
					Korean won (millions)
					Balance at December 31, 2015
Lotte Station Building Co., Ltd.	Korea	Distribution	25.00	₩	157,380
Daehong Communications Co., Ltd.	Korea	Advertisement agency	34.00		28,785
Lotte Capital Co., Ltd.	Korea	Capital	22.36		77,413
Lotteria Co., Ltd.	Korea	Restaurant chain	38.68		112,864
FRL Korea Co., Ltd.	Korea	Retail	49.00		24,827
Lotte Asset Development Co., Ltd.	Korea	Real estate development	39.14		72,890
Zara Retail Korea Co., Ltd.	Korea	Retail	20.00		16,106
LOTTE Giants Co., Ltd.	Korea	Baseball club	30.00		823
Lotte Europe Holdings B.V. (*1)	Netherlands	Holding company	26.98		87,504
Coralis S.A.	Luxembourg	Holding company	45.00		55,131
S.M.CONTENTES INVESTMENT	Korea	Film producing company	25.00		1,750
Capital One Diversity Cinema Fund	Korea	Film producing company	20.00		364
UNION INVESTMENT PARTNERS	Korea	Film producing company	26.67		4,000
Capital One Middle-Low Budget Cinema Fund	Korea	Film producing company	25.00		3,000
Hubei XL Cinema Co., Ltd.	China	Cinema	49.00		9,423
Hemisphere Film Investors II LLC (*2)	America	Film producing company	100.00		19,727
TW No.14 Culture Contents Fund	Korea	Film producing company	30.00		6,000
Leading Asia Contents Fund	Korea	Film producing company	21.01		4,000
Shandong Longzhile Cinema Co., Ltd.	China	Cinema	49.00		7,173
Lotte Incheon Development Co., Ltd.	Korea	Real estate lease	37.50		15,000
Lotte Trading Co., Ltd.	Korea	Product brokerage	27.68		92,782
Eunpyeong PFV	Korea	Real estate development	20.11		3,500
Lotte Incheon Town Co., Ltd. (*3)	Korea	Real estate lease	35.00		3,500
LOTTE Town Dongtan Co.,LTD	Korea	Real estate development	50.00		35,000
Total				₩	<u>838,942</u>

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

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

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

LOTTE SHOPPING CO., LTD.

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10. Joint Ventures

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

June 30, 2016				
Company	Location	Principal business	Percentage of ownership (%)	Korean won (millions) Balance at June 30, 2016
D-Cinema of Korea Co., Ltd.	Korea	Film equipment	50.00	-
Shenyang SL Cinema Investment Management Co., Ltd.	China	Cinema	49.00	1,496
STL Co., Limited	Korea	Retail	50.00	4,000
Total				₩ <u>5,496</u>

December 31, 2015				
Company	Location	Principal business	Ownership (%)	Korean won (millions) Balance at December 31, 2015
D-Cinema of Korea Co., Ltd.	Korea	Film equipment	50.00	-
Shenyang SL Cinema Investment Management Co., Ltd.	China	Cinema	49.00	1,496
STL Co., Limited	Korea	Retail	50.00	4,000
Total				₩ <u>5,496</u>

LOTTE SHOPPING CO., LTD.

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11. Investments in Subsidiaries

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

Subsidiaries	Location	Products or services	Fiscal year	Percentage of ownership (%)(*1)	June 30, 2016	
						Korean won (millions) Balance at June 30, 2016
Lotte Card Co., Ltd.	Korea	Credit card, financing	Dec. 31	93.78	₩	1,000,089
Woori Home Shopping & Television Co., Ltd.	Korea	TV Home Shopping	Dec. 31	53.03		393,213
Korea Seven Co.,Ltd.	Korea	Distribution	Dec. 31	51.14		82,473
Lotte Gimhae Development Co., Ltd.	Korea	Service company	Dec. 31	100.00		300
Lotte Suwon Station Shopping Town Co., Ltd.	Korea	Real estate development	Dec. 31	95.00		94,810
Lotte Songdo Shopping Town Co., Ltd.	Korea	Real estate development	Dec. 31	56.30		60,000
NCF Co., Ltd.	Korea	Apparel manufacturing	Dec. 31	99.80		20,059
CS Mart Co., Ltd.	Korea	Distribution	Dec. 31	99.95		255,826
LOTTE Himart Co., Ltd. (*2)	Korea	Consumer electronics retail	Dec. 31	65.25		1,248,068
Lotte Department Store Masan Co., LTD.	Korea	Distribution	Dec. 31	100.00		16,500
Lotte Members Co., Ltd (*3)	Korea	Business support service	Dec. 31	93.78		12,065
LOTTE.COM INC (*4)	Korea	E-commerce business	Dec. 31	50.01		23,178
Lotte Shopping Holdings (Hong Kong) Co., Ltd. (*5)	Hong Kong	Holding company	Dec. 31	100.00		376,712
LOTTE SHOPPING HOLDINGS (SINGAPORE) PTE. LTD.	Singapore	Holding company	Dec. 31	100.00		638,270
Qingdao LOTTE Mart Commercial Co., Ltd. (*5)	China	Distribution	Dec. 31	24.80		-
LOTTE CINEMA VIETNAM CO., LTD.	Vietnam	Cinema	Dec. 31	90.00		29,596
LOTTE PROPERTIES (CHENGDU) HK LIMITED	Hong Kong	Holding company	Dec. 31	73.46		160,391
Lotte (China) Management Co., Ltd.	China	Managing company	Dec. 31	70.00		6,232
LOTTE HOTEL & RETAIL VIETNAM PTE. LTD.	Singapore	Holding company	Dec. 31	20.00		14,185
LHSC Limited	Cayman Islands	Holding company	Dec. 31	16.02		-
Lotte Ulsan Development Co., Ltd.	Korea	Real estate development	Dec. 31	100.00		10,000
					₩	<u>4,441,967</u>

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11. Investments in Subsidiaries, Continued

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

Subsidiaries	Location	Products or services	Fiscal year	Percentage of ownership (%)(*1)	December 31, 2015	
						Korean won (millions) Balance at December 31, 2015
Lotte Card Co., Ltd.	Korea	Credit card, financing	Dec. 31	93.78	₩	1,000,089
Woori Home Shopping & Television Co., Ltd.	Korea	TV Home Shopping	Dec. 31	53.03		393,213
Korea Seven Co.,Ltd.	Korea	Distribution	Dec. 31	51.14		82,473
Lotte Gimhae Development Co., Ltd.	Korea	Service company	Dec. 31	100.00		300
Lotte Suwon Station Shopping Town Co., Ltd.	Korea	Real estate development	Dec. 31	95.00		94,810
Lotte Songdo Shopping Town Co., Ltd.	Korea	Real estate development	Dec. 31	56.30		60,000
NCF Co., Ltd.	Korea	Apparel manufacturing	Dec. 31	99.80		20,059
CS Mart Co., Ltd.	Korea	Distribution	Dec. 31	99.95		255,826
LOTTE Himart Co., Ltd. (*2)	Korea	Consumer electronics retail	Dec. 31	65.25		1,248,068
Lotte Department Store Masan Co., LTD.	Korea	Distribution	Dec. 31	100.00		16,500
Lotte Members Co., Ltd (*3)	Korea	Business support service	Dec. 31	93.78		12,065
LOTTE.COM INC (*4)	Korea	E-commerce business	Dec. 31	50.01		23,178
Lotte Shopping Holdings (Hong Kong) Co., Ltd. (*5)	Hong Kong	Holding company	Dec. 31	100.00		376,712
LOTTE SHOPPING HOLDINGS (SINGAPORE) PTE. LTD.	Singapore	Holding company	Dec. 31	100.00		298,959
Lotte Vietnam Shopping Co., Ltd. (*7)	Vietnam	Distribution	Dec. 31	100.00		125,243
Qingdao LOTTE Mart Commercial Co., Ltd. (*5)	China	Distribution	Dec. 31	36.79		-
LOTTE MART COMPANY LIMITED (*6)	China	Distribution	Dec. 31	100.00		-
Liaoning LOTTE Mart Co., Ltd. (*6)	China	Distribution	Dec. 31	40.00		-
PT. LOTTE SHOPPING INDONESIA (*7)	Indonesia	Distribution	Dec. 31	55.00		214,068
LOTTE CINEMA VIETNAM CO., LTD.	Vietnam	Cinema	Dec. 31	90.00		19,297
LOTTE PROPERTIES (CHENGDU) HK LIMITED	Hong Kong	Holding company	Dec. 31	73.46		160,391
Lotte (China) Management Co., Ltd.	China	Managing company	Dec. 31	70.00		6,232
LOTTE HOTEL & RETAIL VIETNAM PTE. LTD.	Singapore	Holding company	Dec. 31	20.00		14,185
LHSC Limited	Cayman Islands	Holding company	Dec. 31	16.02		-
					₩	<u>4,421,668</u>

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11. Investments in Subsidiaries, Continued

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

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

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

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

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

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

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

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

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

Description	Korean won (millions)	
	June 30, 2016	December 31, 2015
LOTTE Himart Co., Ltd.	₩ 710,091	908,793

LOTTE SHOPPING CO., LTD.

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12. Property and Equipment

(a) Property 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	₩	7,642,869	-	-	7,642,869	7,608,263	-	-	7,608,263
Buildings		6,116,861	(1,978,214)	-	4,138,647	6,063,967	(1,888,832)	-	4,175,135
Structures		337,221	(104,695)	-	232,526	336,533	(97,454)	-	239,079
Machinery		91,099	(46,177)	(380)	44,542	90,195	(42,792)	(380)	47,023
Vehicles		4,976	(3,507)	(50)	1,419	5,296	(3,335)	(50)	1,911
Display fixtures		223,623	(159,008)	-	64,615	217,236	(147,490)	-	69,746
Furniture and fixtures		2,938,770	(2,173,148)	(5,265)	760,357	2,844,578	(2,032,972)	(5,265)	806,341
Tools and equipment		484	(484)	-	-	484	(484)	-	-
Construction-in-progress		691,041	-	-	691,041	524,099	-	-	524,099
Total	₩	<u>18,046,944</u>	<u>(4,465,233)</u>	<u>(5,695)</u>	<u>13,576,016</u>	<u>17,690,651</u>	<u>(4,213,359)</u>	<u>(5,695)</u>	<u>13,471,597</u>

(b) Changes in property 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	Disposals	Others (*)	Book value as of June 30, 2016
Land	₩	7,608,263	6,974	-	(3,054)	30,686	7,642,869
Buildings		4,175,135	614	(80,479)	(3,160)	46,537	4,138,647
Structures		239,079	87	(7,088)	-	448	232,526
Machinery		47,023	1,323	(3,912)	-	108	44,542
Vehicles		1,911	22	(345)	(169)	-	1,419
Display fixtures		69,746	4,931	(11,990)	(704)	2,632	64,615
Furniture and fixtures		806,341	60,174	(158,859)	(1,049)	53,750	760,357
Tools and equipment		-	-	-	-	-	-
Construction-in-progress		524,099	263,168	-	-	(96,226)	691,041
Total	₩	<u>13,471,597</u>	<u>337,293</u>	<u>(262,673)</u>	<u>(8,136)</u>	<u>37,935</u>	<u>13,576,016</u>

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

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12. Property and Equipment, Continued

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

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

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

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

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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	₩	197,574	-	197,574	208,942	-	208,942
Buildings		115,542	(45,424)	70,118	133,698	(53,186)	80,512
Total	₩	313,116	(45,424)	267,692	342,640	(53,186)	289,454

(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	Acquisitions	Depreciation	Others (*)	Book value as of June 30, 2016
Land	₩	208,942	-	-	(11,368)	197,574
Buildings		80,512	-	(1,576)	(8,818)	70,118
Total	₩	289,454	-	(1,576)	(20,186)	267,692

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

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

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

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

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

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14. Intangible Assets and Goodwill

(a) Intangible assets and goodwill 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	₩	641,435	-	(155,908)	485,527	640,261	-	(155,984)	484,277
Industrial property rights		5,715	(4,698)	-	1,017	5,375	(4,404)	-	971
Rights to use facility		525,047	(157,693)	(2)	367,352	524,395	(144,427)	(2)	379,966
Membership		16,260	-	-	16,260	16,260	-	-	16,260
Other intangible assets (*)		215,973	(206,664)	(160)	9,149	199,020	(185,436)	(160)	13,424
Total	₩	1,404,430	(369,055)	(156,070)	879,305	1,385,311	(334,267)	(156,146)	894,898

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

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

		Korean won (millions)					
		2016					Book value as of June 30, 2016
		Book value as of January 1, 2016	Acquisitions	Amortization	Disposals	Others (*)	Book value as of June 30, 2016
Goodwill	₩	484,277	-	-	(1)	1,251	485,527
Industrial property rights		971	340	(294)	-	-	1,017
Rights to use facility		379,966	488	(13,266)	-	164	367,352
Membership		16,260	-	-	-	-	16,260
Other intangible assets		13,424	16,953	(21,228)	-	-	9,149
Total	₩	894,898	17,781	(34,788)	(1)	1,415	879,305

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

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14. Intangible Assets and Goodwill, Continued

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

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

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

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)	
		June 30, 2016	December 31, 2015
Trade payables	₩	2,389,015	2,813,445
Other payables		687,971	906,363
Total	₩	<u>3,076,986</u>	<u>3,719,808</u>

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(Unaudited)

16. Borrowings and Debentures

(a) Borrowings and debentures 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:			
Short-term borrowings	₩	200,000	200,000
Current portion of long-term borrowings		100,000	-
Discount on current portion of long-term borrowings		(233)	-
Current portion of long-term debentures		608,833	903,440
Discount on debentures		(752)	(1,418)
Exchange rights adjustment		(638)	(19,443)
Subtotal		<u>907,210</u>	<u>1,082,579</u>
Non-current:			
Long-term borrowings		113,215	197,201
Discount on long-term borrowings		-	(381)
Long-term debentures		3,258,230	3,159,200
Discount on debentures		(3,831)	(4,491)
Subtotal		<u>3,367,614</u>	<u>3,351,529</u>
Total	₩	<u>4,274,824</u>	<u>4,434,108</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	Annual interest rate (%)	Korean won (millions)	
		June 30, 2016	December 31, 2015
Shinhan Bank	91days CD rate+0.15%	₩ 200,000	200,000
Total		₩ 200,000	200,000

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

Lender	Annual interest rate (%)	Maturity	Korean won (millions)	
			June 30, 2016	December 31, 2015
Lotte Co., Ltd. (Japan)	3M Tibor+1.129	Aug. 31, 2018	₩ 113,215	97,201
Mizuho Bank, Ltd.	2.67	Mar. 17, 2017	100,000	100,000
	Subtotal		213,215	197,201
	Less: Discount on borrowings		(233)	(381)
	Subtotal		212,982	196,820
	Less: Current portion of long-term borrowings		(99,767)	-
	Total		₩ 113,215	196,820

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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
61st placed	Mar. 21. 2018	3.05	100,000	100,000
62nd placed	Jun. 21, 2018	2.80	110,000	110,000
63-1st placed	Jul. 02, 2017	2.79	200,000	200,000
63-2nd placed	Jul. 02, 2019	3.08	200,000	200,000
64-1st placed (foreign currency)	May 25, 2018	3M USD Libor+0.50	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	April. 04, 2019	1.77	100,000	-
70-2nd placed	April. 04, 2021	2.02	170,000	-
70-3rd placed	April. 04, 2026	2.48	70,000	-
1st placed (Global bond)	Apr. 07. 2016	-	-	468,800
2nd placed (Global bond)	May 09. 2017	3.38	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
Subtotal			3,867,063	4,062,640
Less: Discount on debentures			(4,583)	(5,909)
Less: Exchange rights adjustment			(638)	(19,443)
Total book value			3,861,842	4,037,288
Less: Current portion of debentures, net of discount			(607,443)	(882,579)
Total			₩ 3,254,399	₩ 3,154,709

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16. Borrowings and Debentures, Continued

(*1) In 2011, the Company 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 (%):	0 (overseas convertible bonds without guarantee in U.S. dollars) (0.25) (overseas convertible bonds without guarantee in Japanese yen)
(e) Date of bond maturity:	July 5, 2016
(f) Principal redemption method:	
i. Redemption on the maturity date: Redemption in lump sum on the maturity date for the principal amount of bonds for which a condition for early redemption has not occurred and the conversion right has not been exercised.	
ii. Early redemption: The Company has a call option, whereas bond holders have a put option.	
(g) Put option by bondholders:	
The put option can be exercised if any of the following conditions occurs:	
i. On the third anniversary of the date of payment (July 5, 2014);	
ii. If any change of control occurs in the Company; or	
iii. The issued stocks of the Company are unlisted from the stock exchange or their transaction is suspended for 30 consecutive transaction days or longer.	
(h) Call option by the Company:	
The call option can be exercised if any of the following conditions occurs:	
i. If the closing price for 20 transactional days in 30 consecutive transaction days reaches 130% or more of the conversion price between 3 years from the issuance date and 30 business days to the maturity date;	
ii. If the balance of bonds that has not been redeemed reaches less than 10% of the sum of the total issued amount (clean up call); or	
iii. Any additional tax burden arises due to the amendments of the related laws and regulations.	
(i) Matters relating to conversion:	
i. Conversion ratio (%):	100
ii. Conversion price (KRW per share) (*):	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.	

(*) On March 20, 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. 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 Company issued five-year bonds in 2013 which are exchangeable to shares of LOTTE Himart Co., Ltd. Due to the exercise of the put option, the Company redeemed ₩307,400 million of the issued bonds on January 25, 2016. The terms and conditions are summarized as follows:

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

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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	₩ 100,000	608,833	708,833
1 ~ 2 years	-	1,047,645	1,047,645
2 ~ 3 years	113,215	740,585	853,800
3 ~ 4 years	-	690,000	690,000
More than 4 years	-	780,000	780,000
Total	₩ 213,215	3,867,063	4,080,278

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:		
Other points	₩ 46,951	51,218
Unearned rental income	1,806	1,660
Others	5,221	3,600
Subtotal	53,978	56,478
Non-current:		
Unearned rental income	5,440	3,373
Total	₩ 59,418	59,851

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18. Provisions

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

		Korean won (millions)			
		2016			
		Book value as of January 1, 2016	Increase	Utilization	Book value as of June 30, 2016
Current:					
Provision for bonus payable	₩	-	26,061	(9,664)	16,397
Provision for sales return		1,404	856	(1,404)	856
Total	₩	<u>1,404</u>	<u>26,917</u>	<u>(11,068)</u>	<u>17,253</u>

		Korean won (millions)			
		2015			
		Book value as of January 1, 2015	Increase	Utilization	Book value as of December 31, 2015
Current:					
Provision for bonus points reward program (*)	₩	496	-	(496)	-
Provision for bonus payable		-	36,823	(36,823)	-
Provision for sales return		1,410	1,404	(1,410)	1,404
Total	₩	<u>1,906</u>	<u>38,227</u>	<u>(38,729)</u>	<u>1,404</u>

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

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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	₩	26,036	30,982
Withholdings of value added tax		66,663	77,427
Advances received (*)		<u>594,409</u>	<u>610,117</u>
Subtotal		<u>687,108</u>	<u>718,526</u>
Non-current:			
Others		<u>27,075</u>	<u>9,557</u>
Total	₩	<u>714,183</u>	<u>728,083</u>

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

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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)	
		June 30, 2016	December 31, 2015
Present value of defined benefit obligations	₩	471,508	435,201
Fair value of plan assets		(417,461)	(425,742)
Total	₩	54,047	9,459

(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)	
		June 30, 2016	December 31, 2015
Present value of other long-term employee benefits	₩	38,386	35,325

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

		Korean won (millions)	
		2016	2015
Beginning of the period	₩	435,201	373,496
Current service costs		36,669	70,413
Interest costs		6,579	13,792
Remeasurements:		-	-
- Gain from change in demographic assumptions		-	(1,712)
- Gain from change in financial assumptions		-	7,285
- Loss (gain) from experience adjustments		6,472	1,936
Payments		(16,570)	(35,739)
Others		3,157	5,730
End of the period	₩	471,508	435,201

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20. Employee Benefits, Continued

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

		Korean won (millions)	
		2016	2015
Beginning of the period	₩	425,742	350,514
Return on plan assets		6,204	11,402
Actuarial loss		(2,137)	(3,284)
Employer contribution		-	94,007
Payments		(12,516)	(27,404)
Others		168	507
End of the period	₩	417,461	425,742

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

		Korean won (millions)	
		June 30, 2016	December 31, 2015
Principal-guaranteed insurance policies	₩	417,424	425,704
Others		37	38
Total	₩	417,461	425,742

- (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	₩	18,564	36,669	17,462	34,486
Interest costs		3,403	6,579	3,331	6,442
Return on plan assets		(3,089)	(6,204)	(2,853)	(5,753)
Contributions to defined contribution plans		24	45	5	37
Long-term employee benefits		2,762	4,864	(71)	1,701
Total	₩	21,664	41,953	17,874	36,913

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21. Derivative Instruments and Hedge Accounting

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

Description	Type	Description
Cash flow hedge Purpose of trading	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.
	Interest rate swap	Pays fixed interest to receive floating rate in KRW short-term borrowings.
	Currency forward	At the maturity of the contract, purchase dollars at the fixed exchange rate.
	Embedded derivatives	The embedded option to exchange the bond for the common stocks of LOTTE Himart Co., Ltd.
	Total Return Swap	The Company exchanges cash flows for beneficiary certificates investors' total revenue.
	Call option	The Company holds the right to buy preferred stocks of Lotte Incheon Development Co., Ltd. and Lotte Incheon Town Co., Ltd.
	Put option	The Company grants the right to sell preferred stocks of Lotte Incheon Development Co., Ltd. and Lotte Incheon Town Co., Ltd. to the preferred stockholders. The Company grants the right to sell preferred stocks of Eunpyeong PFV to the preferred stockholders.

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21. Derivative Instruments and Hedge Accounting, Continued

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

Type	Description	Principal amount (thousands)	Fixed exchange rate (won)	Variable rate	Swap rate	Maturity	
Currency swap	64-1st placed (foreign currency)	USD 150,000	1,105.90	3M USD Libor+0.50	2.24%	May 25, 2018	
	64-2nd placed (foreign currency)	USD 100,000	1,105.90	3M USD Libor	2.25%	May 25, 2018	
	64-3rd placed (foreign currency)	USD 100,000	1,109.80	3M USD Libor+0.02	2.25%	May 25, 2018	
	67-1st placed (foreign currency)	USD 150,000	1,165.80	3M USD Libor+0.60	2.07%	Aug. 17, 2018	
	67-2nd placed (foreign currency)	USD 100,000	1,169.00	3M USD Libor+0.02	2.05%	Aug. 17, 2018	
	67-3rd placed (foreign currency)	USD 100,000	1,171.00	3M USD Libor+0.60	1.90%	Aug. 06, 2018	
	69-1st placed (foreign currency)	USD 100,000	1,199.50	3M USD Libor+0.55	1.96%	Jan. 29, 2019	
	69-2nd placed (foreign currency)	USD 100,000	1,200.50	3M USD Libor+0.02	1.94%	Jan. 29, 2019	
	2nd placed (Global bond)	USD 100,000	1,135.70	3.38%	3.75%	May 09, 2017	
			USD 100,000			3.70%	
	Currency forward	2nd placed (Global bond)	USD 100,000	1,095.66	Not applicable	Not applicable	May 04, 2017
			USD 60,000	1,093.80			
			USD 40,000	1,094.12			
JPY convertible bonds		JPY 3,441,456	9.2927	Not applicable	Not applicable	Jul. 01, 2016	
		JPY 3,000,000	9.2918				
	JPY 3,000,000	9.2942					
Interest rate swap	Short term borrowings	KRW 150,000	Not applicable	91days CD rate+0.18%	1.95%	May.29, 2017	
		KRW 200,000		91days CD rate+0.15%	1.71%	September. 23, 2016	
		KRW 100,000		91days CD rate+0.42%	1.93%	April.19, 2019	

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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:

Description	Type of derivatives	Related accounts	Korean won (millions)
Cash flow hedge	Currency swap	Loss on valuation of derivative instruments	₩ (13,630)
		Unrealized loss on valuation of derivative instruments (*)	(15,503)
	Interest rate swap	Unrealized loss on valuation of derivative instruments (*)	(947)
	Currency forward	Gain on valuation of derivative instruments	13,660
		Unrealized gain on valuation of derivative instruments (*)	2,375
Purpose of trading	Embedded derivatives	Loss on valuation of derivative instruments	(1)
	Stock options	Loss on valuation of derivative instruments	(1,700)
	Total Return Swap	Gain on valuation of derivative instruments	17,876

(*) The aggregate amount of loss on valuation derivative instruments incurred ₩32,195 million, until the June 30, 2016. The Company recognized accumulated other comprehensive loss ₩24,404 million (less tax effects ₩7,791 million).

22. Capital Stock and Capital Surplus

(a) Pursuant to its amended Articles of Incorporation, the Company's authorized capital stock is 60,000,000 shares, which consist of common shares and preferred shares each with a par value of ₩5,000 per share. The Company is authorized to issue non-voting preferred shares of up to one-fourth of the Company's total issued and outstanding capital stock. Holders of preferred shares may, upon a resolution of the board of directors at the time of the issuance of the preferred shares, be entitled to receive dividends prior to the holders of common shares. The preferred shares will be automatically converted to common shares within ten years of issuance as determined by the Company's board of directors. However, if the holders of preferred shares do not receive the minimum dividends as prescribed, the prescribed conversion date will be extended to the time when all such minimum dividend amounts are paid to the holders of preferred shares. The Company has not issued any preferred stock and 31,490,892 shares of common stock were issued and outstanding as of June 30, 2016.

(b) Capital surplus as of June 30, 2016 and December 31, 2015 consists of the following:

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

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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 Company can call the hybrid security at year 5 and interest payment date afterwards. The hybrid security holder's preference in the event of liquidation is the same as the preference stock holders; higher than the common stock holders but lower than other creditors.	

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

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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 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	190,007
Voluntary reserve	10,810,052	11,190,052
Unappropriated retained earnings	<u>120,097</u>	<u>(299,666)</u>
Total	<u>₩ 11,126,066</u>	<u>11,080,393</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)				
		2016				
		Beginning balance	Changes for the period	Reclassification adjustments	Tax effects for the period	Balance as of June 30
Net change in unrealized fair value of available- for-sale financial assets	₩	78,189	(5,103)	-	1,235	74,321
Effective portion of unrealized changes in fair values of cash flow hedges		(13,735)	(19,405)	5,330	3,406	(24,404)
Total	₩	<u>64,454</u>	<u>(24,508)</u>	<u>5,330</u>	<u>4,641</u>	<u>49,917</u>

		Korean won (millions)				
		2015				
		Beginning balance	Changes for the year	Reclassification adjustments	Tax effects for the year	Balance as of December 31
Net change in unrealized fair value of available- for-sale financial assets	₩	122,717	(37,184)	(21,560)	14,216	78,189
Effective portion of unrealized changes in fair values of cash flow hedges		(9,624)	(6,322)	900	1,311	(13,735)
Total	₩	<u>113,093</u>	<u>(43,506)</u>	<u>(20,660)</u>	<u>15,527</u>	<u>64,454</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	₩	4,379	117,665	53,296	208,725
Interests of hybrid securities		(3,090)	(6,362)	(3,183)	(6,359)
Weighted average number of common shares outstanding		29,552,204	29,552,204	29,552,204	29,552,204
Basic earnings per share	₩	44	3,766	1,696	6,848

(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

(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	₩	4,379	117,665	53,296	208,725
Interests of hybrid securities		(3,090)	(6,362)	(3,183)	(6,359)
Effect of conversion of convertible bonds (*)		-	5	92	731
Diluted profit attributable to ordinary shareholders		1,289	111,308	50,205	203,097
Diluted weighted average number of ordinary shares		29,552,204	29,583,138	29,750,682	29,750,416
Diluted earnings per share	₩	44	3,763	1,688	6,827

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

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27. Earnings per Share, Continued

(b) Diluted earnings per share, continued

(ii) 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	<u>29,552,204</u>	<u>29,583,138</u>	<u>29,750,682</u>	<u>29,750,416</u>

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

		USD Bonds	JPY Bonds
Principal amount (in millions of won) (*1)	₩	20,803	128,610
Conversion price (in won) (*2)		<u>645,572</u>	<u>645,572</u>
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 the 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.

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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-merchandise	₩	3,832,176	7,837,440	3,837,899	7,747,724
Sales-merchandise in direct management		3,506,049	7,173,666	3,570,919	7,197,631
Specific sales-merchandise		326,127	663,774	266,980	550,093
Discount store sales – merchandise		461,071	939,692	386,497	781,394
Sales allowance and discount Reserve for returned goods		149,128	312,155	122,503	236,689
unsold and deferred sales		49,807	95,644	52,423	107,244
Cost of specific merchandise sold		262,136	531,893	211,571	437,461
Sales-finished goods		1,539	4,574	2,469	4,984
Others		466,437	947,071	469,655	936,827
Total	₩	<u>3,839,081</u>	<u>7,849,393</u>	<u>3,923,526</u>	<u>7,908,141</u>

(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	₩	2,527,218	5,167,093	2,594,456	5,218,543
Cost of products sold		750	2,718	1,089	2,363
Cost of other operating revenue		42,244	90,981	68,721	129,855
Total	₩	<u>2,570,212</u>	<u>5,260,792</u>	<u>2,664,266</u>	<u>5,350,761</u>

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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	₩	214,006	430,557	204,137	414,289
Retirement and termination benefits		18,901	37,089	17,924	35,171
Long-term employee benefits		2,762	4,864	(72)	1,700
Employee welfare		42,612	84,316	41,779	83,070
Education and training		2,854	5,203	2,751	4,995
Travel		5,071	10,076	4,878	9,852
Maintenance fee for car		261	482	251	497
Insurance premium		2,640	5,224	2,205	4,597
Taxes and dues		104,344	115,401	105,402	115,313
Entertainment expense		659	1,551	656	1,426
Supplies and stationery		12,207	26,614	13,201	27,393
Publication expense		242	475	198	507
Communications		2,592	5,216	2,433	5,072
Utilities		47,332	112,244	47,400	114,648
Maintenance		7,268	13,106	7,282	14,321
Rent		170,547	340,540	154,647	309,616
Depreciation		132,267	264,249	135,513	269,374
Amortization of intangible assets		7,341	14,668	7,361	14,748
Commissions and fees		114,289	229,867	109,416	221,466
Service commission expenses		179,757	356,805	169,334	339,761
Advertising		37,812	66,825	42,447	75,191
Samples expenses		16	33	17	27
Sales commission		53,911	108,741	50,236	99,578
Sales promotion expenses		33,018	79,044	32,628	71,141
Decoration		2,341	5,073	2,438	6,110
Bad debt expenses (Reversal of bad debt expenses)		-	-	(1)	(6)
Transportation		4,712	10,745	4,654	10,141
Research and development expenses		66	145	54	108
Compensation expenses		408	798	437	890
Others		317	637	433	1,261
Total	₩	<u>1,200,553</u>	<u>2,330,588</u>	<u>1,160,039</u>	<u>2,252,257</u>

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30. Other incomes 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
Other income:					
Gain on foreign currency transactions	₩	202	454	178	521
Gain on foreign currency translation		90	97	75	164
Gain on disposal of property and equipment		114	1,632	474	608
Reversal of impairment loss of other non-current assets		-	4	-	1
Others (*1)		23,235	36,966	7,487	17,155
Total	₩	23,641	39,153	8,214	18,449
Other expenses:					
Loss on foreign currency transactions	₩	188	608	144	286
Loss on foreign currency translation		-	46	8	11
Loss on disposal of property and equipment		505	938	4,435	4,923
Loss on disposal of intangible assets		1	1	2	2
Impairment loss of non-current assets		-	-	437	437
Donation		1,730	3,657	4,888	7,102
Other bad debt expenses (Reversal of other bad debt expenses)		(1)	(6)	(3)	15
Taxes and dues		47	86	124	139
Others (*2)		31,664	41,938	12,174	22,184
Total	₩	34,134	47,268	22,209	35,099

(*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)			
		2016		2015	
		Three-month period	Six-month period	Three-month period	Six-month period
Purchase of inventories	₩	2,339,010	4,993,609	2,365,881	4,989,267
Changes in inventories		169,537	148,158	224,362	216,082
Employee benefits expense		278,282	556,825	264,025	534,742
Rent		170,547	340,540	154,647	309,616
Depreciation and amortization		150,710	299,037	155,063	304,021
Sales commissions		53,911	108,741	50,236	99,578
Sales promotion expenses		33,018	79,044	32,628	71,141
Commissions		114,289	229,867	109,419	221,472
Service commission expenses		179,757	356,805	169,334	339,761
Advertising expenses		45,594	75,184	46,814	86,582
Utilities		47,332	112,244	47,400	114,648
Taxes and dues		104,345	121,401	105,402	115,313
Others		84,433	169,925	99,094	200,795
Total	₩	<u>3,770,765</u>	<u>7,591,380</u>	<u>3,824,305</u>	<u>7,603,018</u>

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32. Finance Income and Finance Costs

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)			
		2016		2015	
		Three-month period	Six-month period	Three-month period	Six-month period
Finance income:					
Interest income	₩	12,775	26,226	12,688	26,022
Dividend income		1,852	37,240	2,221	33,433
Gain on foreign currency transactions		9,735	9,735	-	-
Gain on foreign currency translation		-	15,090	897	897
Gain on valuation of derivative instruments held for the purpose of hedging		32,335	15,120	27,645	32,575
Gain on valuation of derivative instruments held for the purpose of trading		17,877	17,876	-	1,744
Gain on transaction of derivative instruments held for the purpose of trading		-	13,362	-	-
Gain on disposal of investments in associates, joint ventures and subsidiaries		-	1,982	-	-
Total	₩	<u>74,574</u>	<u>136,631</u>	<u>43,451</u>	<u>94,671</u>
Finance expenses:					
Interest expense	₩	28,797	60,560	32,305	66,616
Loss on foreign currency transactions		-	26	1	69
Loss on foreign currency translation		32,573	16,014	23,839	31,125
Loss on valuation of financial liability 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	-	-
Loss on valuation of derivative instruments held for the purpose of trading		780	1,701	1,131	11,246
Loss on transaction of derivative instruments held for the purpose of hedging		15,597	15,597	-	-
Loss on redemption of debentures		-	19,226	-	-
Loss on disposal of investments in associates, joint ventures and subsidiaries		59	59	351	351
Impairment loss on investments in associates, joint ventures and subsidiaries		27,700	68,725	-	-
Total	₩	<u>116,027</u>	<u>213,174</u>	<u>58,211</u>	<u>111,743</u>

LOTTE SHOPPING CO., LTD.
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33. Income Taxes

Income tax expense was recognized as current tax expense adjusted to current adjustments for prior periods, deferred tax income/expenses by origination and reversal of deferred assets/liabilities and temporary differences, and income tax recognized in other comprehensive income. The Company's effective tax rate for the six-month period ended June 30, 2016 was 32.12% (for the six-month period ended June 30, 2015: 23.09%). The increase in effective tax rate was primarily due to the unawareness of deferred tax assets by Impairment loss on investments in subsidiaries.

34. Statements of Cash Flows

As of 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	₩ 13,019	15,377
Deposits	25,237	24,242
Other cash equivalents	<u>296,299</u>	<u>538,999</u>
Total	₩ <u>334,555</u>	<u>578,618</u>

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35. Contingent Liabilities and Financial Commitments

- (a) As of June 30, 2016, the Company has various forms of credit facility commitments with financial institutions as follows:

	Credit line		Amount used under credit facility	
	Korean won (millions),	Foreign currency (thousands)	Korean won (millions),	Foreign currency (thousands)
General loan	KRW	100,000	KRW	100,000
Discount of bill	KRW	450,000	KRW	200,000
Buyer's credit	KRW	200,000	KRW	8,850
Bank overdraft	KRW	60,000	KRW	-
Guarantees	USD	1,200	USD	300
Letter of credit	USD	25,000	USD	9,197

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

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

- (c) As of June 30, 2016, the Company is the plaintiff in various lawsuits claiming damages totaling ₩51,944 million and the Company is the defendant in various lawsuits with damage claims totaling ₩64,297 million. The management believes that the ultimate resolutions of other legal actions will not have a material effect on the financial position or operations of the Company.
- (d) The Company has the right to purchase 5.1% of the Hyundai Logistics Co., Ltd. shares held by IGIS I Corporation and in the event the Company does not exercise the call option, IGIS I Corporation has the right to require the Company to purchase 5.1% of Hyundai Logistics Co., Ltd. shares held by IGIS I Corporation. In connection with IGIS I Corporation's borrowings, all IGIS I Corporation shares (book value of ₩4,572million) held by the Company have been in pledge in Mizuho Corporate Bank.
- (e) The Company provides joint guarantee for debentures ₩16,000 millions issued by Hi-Lotte Movie Co., Ltd.

LOTTE SHOPPING CO., LTD.

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36. 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.

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	Korea	SPC	Dec. 31	0.90
The 7th Supreme	Korea	SPC	Dec. 31	0.90
The 8th Supreme	Korea	SPC	Dec. 31	0.90
The 9th Supreme	Korea	SPC	Dec. 31	0.90
PT. Lotte Members Indonesia	Indonesia	Business support services	Dec. 31	100.00
Lotte Members China	China	Business support services	Dec. 31	100.00
Lotte Members Vietnam Co., Ltd.	Vietnam	Business support service	Dec. 31	100.00
Woori Home Shopping & Television Co., Ltd.	Korea	TV Home Shopping	Dec. 31	53.03
Lotte DatViet Homeshopping Co., Ltd.	Vietnam	TV Home Shopping	Dec. 31	90.02
Korea Seven Co., Ltd.	Korea	Distribution	Dec. 31	51.14
Buy the way Inc.	Korea	Distribution	Dec. 31	100.00
NCF Co., Ltd.	Korea	Apparel manufacturing	Dec. 31	99.80
Lotte Gimhae Development Co., Ltd.	Korea	Service company	Dec. 31	100.00
Lotte Suwon Station Shopping Town Co., Ltd.	Korea	Real estate development	Dec. 31	95.00
Lotte Songdo Shopping Town Co., Ltd.	Korea	Real estate development	Dec. 31	56.30
CS Mart Co., Ltd.	Korea	Distribution	Dec. 31	99.95

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36. Transactions and Balances with Related Companies, Continued

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

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

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36. Transactions and Balances with Related Companies, Continued

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

Subsidiaries	June 30, 2016			
	Location	Products or Services	Fiscal year	Percentage of ownership (%)
Lotte Department Store (Shenyang) Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte International Department Store (Weihai) Co., Ltd.	China	Distribution	Dec. 31	100.00
LOTTE DEPARTMENT STORE (TIANJIN) CO., LTD.	China	Distribution	Dec. 31	100.00
Lotte Department Store (Chengdu) Co., Ltd.	China	Distribution	Dec. 31	100.00
LOTTE MART (CHENGDU) COMMERCIAL COMPANY LIMITED	China	Distribution	Dec. 31	100.00
Lotte Shopping Business Management (Hong Kong) Limited	Hong Kong	SPC	Dec. 31	100.00
LHSC Limited	Cayman	Holding company	Dec. 31	91.14
Lucky Pai Ltd. and its subsidiaries	China	TV Home Shopping	Dec. 31	100.00
LOTTE PROPERTIES (CHENGDU) HK LIMITED	Hong Kong	Holding company	Dec. 31	73.46
Lotte Properties (Chengdu) Limited	China	Real estate lease, Apartment sales services	Dec. 31	100.00
LOTTE 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
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

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36. 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:

Korean won (millions)

Related Company	2016				
	Sales	Purchases of inventories	Purchases of fixed assets	Other revenue	Other expenses
Shareholders:					
Hotel Lotte Co., Ltd.	₩ 22,371	44	-	147	57,322
Lotte Confectionery Co., Ltd.	5,888	71,552	-	-	2,964
Lotte Chilsung Beverage Co., Ltd.	5,511	30,622	-	20	272
Lotte Engineering & Construction Co., Ltd.	2,188	-	107,079	1	115
Hotel Lotte Pusan Co., Ltd.	3,365	-	-	-	9,403
LOTTE DATA COMMUNICATION COMPANY	951	-	22,226	-	31,710
KOREA FUJIFILM CO., LTD.	606	9	-	-	-
Subtotal	40,880	102,227	129,305	168	101,786
Subsidiaries:					
Lotte Card Co., Ltd.	5,385	-	-	309	71,076
Woori Home Shopping & Television Co., Ltd.	202	-	-	-	16,927
Korea Seven Co., Ltd.	3,585	-	-	-	24
LOTTE Himart Co., Ltd. (*)	20,637	1,559	19	7	38
LOTTE.COM INC.	1,271	-	-	-	48,290
Others	7,194	5,261	536	8	43,347
Subtotal	38,274	6,820	555	324	179,702
Associates:					
Daehong Communications Co., Ltd.	18,329	-	333	-	22,145
Lotteria Co., Ltd.	7,759	3,061	75	1	109
Lotte Station Building Co., Ltd.	5,335	-	21	-	2,134
Lotte Trading Co., Ltd.	2,033	86,876	-	-	5
Others	26,871	36,627	-	-	19,801
Subtotal	60,327	126,564	429	1	44,194
Others:					
LOTTE FOOD CO., LTD.	6,111	68,763	-	-	3,858
Lotte Aluminum Co., Ltd.	1,119	4,663	4,622	-	6,333
Others	17,224	5,652	1,144	4	111,411
Subtotal	24,454	79,078	5,766	4	121,602
Total	₩ 163,935	314,689	136,055	497	447,284

(*) Gift certificates sold to LOTTE Himart Co., Ltd. for the six-month period ended June 30, 2016 and June 30, 2015 were ₩8,258 million and ₩1,460 million, respectively.

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36. 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	Purchases of inventories	Purchases of fixed assets	Other revenue (*)	Other expenses
Shareholders:					
Hotel Lotte Co., Ltd.	₩ 21,913	78	3,410	-	52,997
Lotte Confectionery Co., Ltd.	5,843	72,921	-	53	3,009
Lotte Chilsung Beverage Co., Ltd.	4,020	27,125	-	34	314
Lotte Engineering & Construction Co., Ltd.	2,773	-	162,183	-	104
Hotel Lotte Pusan Co., Ltd.	3,204	-	-	-	9,734
LOTTE DATA COMMUNICATION COMPANY	2,283	-	35,898	-	32,532
KOREA FUJIFILM CO., LTD.	769	123	-	-	-
Subtotal	40,805	100,247	201,491	87	98,690
Subsidiaries:					
Lotte Card Co., Ltd.	2,801	-	-	240	74,986
Woori Home Shopping & Television Co., Ltd.	329	-	-	-	22,036
Korea Seven Co., Ltd.	1,917	-	-	-	30
LOTTE Himart Co., Ltd.	19,546	301	2	482	161
LOTTE.COM INC.	479	-	-	-	43,909
Others	5,158	5,404	1,093	207	37,459
Subtotal	30,230	5,705	1,095	929	178,581
Associates:					
Daehong Communications Co., Ltd.	14,141	-	117	-	25,653
Lotteria Co., Ltd.	7,850	2,889	-	-	46
Lotte Station Building Co., Ltd.	6,490	38	-	-	2,583
Lotte Trading Co., Ltd.	2,583	98,075	-	23	32
Others	23,392	26,229	-	1,135	21,602
Subtotal	54,456	127,231	117	1,158	49,916
Others:					
LOTTE FOOD CO., LTD.	5,008	56,589	-	-	3,417
Lotte Aluminum Co., Ltd.	1,159	4,764	9,581	1	7,468
Others	18,431	5,737	1,154	10,404	105,194
Subtotal	24,598	67,090	10,735	10,405	116,079
Total	₩ 150,089	300,273	213,438	12,579	443,266

(*) Other revenues include disposal of fixed assets.

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36. Transactions and Balances with Related Companies, Continued

(c) Significant finance 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		Collection	2015	
	Capital increase	Capital decrease		Capital increase	Capital decrease
Subsidiaries:					
Lotte Shopping Holdings (Hong Kong) Co., Limited	₩ 68,725	-	26	979	-
LOTTE SHOPPING HOLDINGS (SINGAPORE) PTE. LTD.	-	-	-	2,173	-
LOTTE.COM INC.	-	-	-	11,563	-
Lotte Shopping Reit Management Singapore PTE. LTD.	-	-	-	-	(1,305)
Lotte Department Store Masan Co., Ltd.	-	-	-	12,000	-
Lotte Ulsan Development Co., Ltd.	10,000	-	-	-	-
LOTTE CINEMA VIETNAM CO., LTD.	10,299	-	-	-	-
Subtotal	89,024	-	26	26,715	(1,305)
Associates:					
Lotte Europe Holdings B.V.	-	-	-	10,855	-
Lotte Incheon Town Co., Ltd.	-	-	-	3,450	-
Shandong Longzhile Cinema Co., Ltd.	884	-	-	437	-
Lotte Asset Development Co., Ltd.	-	-	-	19,571	-
Capital One Diversity Cinema Fund	-	-	-	-	(636)
Hemisphere Film Investors II LLC	-	(654)	-	-	(4,899)
LOTTE Accelerator Corporation BUSAN-LOTTE CREATIVE FILM FUND	2,500	-	-	-	-
Coralis S.A.	4,474	-	-	-	-
LOTTE Giants Co., Ltd.	9,000	-	-	-	-
Capital One Middle-Low Budget Cinema Fund	-	(1,350)	-	-	-
Subtotal	19,358	(2,004)	-	34,313	(5,535)
Total	₩ 108,382	(2,004)	26	61,028	(6,840)

LOTTE SHOPPING CO., LTD.

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36. 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	Other payables	
Shareholders:					
Hotel Lotte Co., Ltd.	₩	236	45,577	-	28,787
Lotte Confectionery Co., Ltd.		605	449	17,571	2,928
Lotte Chilsung Beverage Co., Ltd.		287	292	5,619	6,204
Lotte Engineering & Construction Co., Ltd.		22	4,378	-	75,297
Hotel Lotte Pusan Co., Ltd.		19	9,572	-	4,797
LOTTE DATA COMMUNICATION COMPANY		-	162	-	20,725
Korea Fuji Film Co., Ltd.		3	-	1	1,499
Subtotal		1,172	60,430	23,191	140,237
Subsidiaries:					
Lotte Card Co., Ltd.		20,044	1,125	-	35,426
Woori Home Shopping & Television Co., Ltd.		15,022	148	1	3,144
Korea Seven Co., Ltd.		6	274	7	2,059
LOTTE Himart Co., Ltd.		491	3,326	476	3,477
LOTTE.COM INC.		42,007	627	-	1,101
Others		283	12,293	6,899	10,005
Subtotal		77,853	17,793	7,383	55,212
Associates:					
Daehong Communications Co., Ltd.		3,288	791	-	9,594
Lotteria Co., Ltd.		38	72	634	7,338
Lotte Station Building Co., Ltd.		3,679	11,876	-	3,848
Lotte Trading Co., Ltd.		76	551	7,213	-
Others		21	3,670	6,081	18,231
Subtotal		7,102	16,960	13,928	39,011
Others:					
LOTTE FOOD CO., LTD.		1,333	3,096	12,208	8,058
Lotte Aluminum Co., Ltd.		-	162	736	4,625
Others		359	5,985	889	34,275
Subtotal		1,692	9,243	13,833	46,958
Total	₩	87,819	104,426	58,335	281,418

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

LOTTE SHOPPING CO., LTD.

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36. Transactions and Balances with Related Companies, Continued

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

		Korean won (millions)	
		2016	2015
Short-term benefits	₩	21,581	18,493
Retirement benefits		4,315	3,880
Other long-term benefits		(15)	21
Total	₩	25,881	22,394

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

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

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36. Transactions and Balances with Related Companies, Continued

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

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

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

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

(i) The Company entered into an agreement to jointly provide financial support for HND able 2nd limited ("HND able") and Invest Farmland Co., Ltd. in default of the principal and interest on the Asset Backed Commercial Paper ("ABCP"; ₩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.

(j) In 2015, the Company entered into an agreement to provide financial support for Suwon Landmark the Second Co., Ltd. in default of the principal and interest on the Asset Backed Commercial Paper ("ABCP"; ₩250,000 million of par value in maturing in 36 months) issued by Suwon Landmark the Second Co., Ltd. on May 26, 2015, which was collateralized with the assets of LOTTE Suwon Station Shopping Town CO., LTD.

(k) In 2015, Lotte Incheon Town Co., Ltd., which is the Company's associate, entered into a land sale and purchase agreement with the government of Incheon city. As a result of the agreement, the Company collected a security deposit of ₩30.6 billion, which had been paid by the Copmany instead of Lotte Incheon Town Co., Ltd., from Lotte Incheon Town Co., Ltd.

(l) 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.

(m) In 2013, The Company Issued Hybrid securities, among which ₩20,000 million is held by Lotte Non-Life Insurance Co., Ltd.

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37. Risk Management

(a) Management of financial risks

Objectives and Policies of the Company

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

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

Credit Risk

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

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

i) Exposure to credit risk

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

Account	Korean won (millions)	
	June 30, 2016	December 31, 2015
Cash equivalents (*1)	₩ 321,536	563,241
Trade and other receivables	364,013	563,375
Other financial assets (current)	563,286	811,586
Other financial assets (non-current) (*2)	977,044	944,120
Total	₩ 2,225,879	2,882,322

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

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

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37. Risk Management, Continued

(a) Management of financial risks, continued

ii) Impairment loss

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

		Korean won (millions)			
		June 30, 2016			
Description		Receivables that are neither past due nor impaired	Receivables that are past due as at the end of the reporting period but not impaired	Receivables impaired (*)	Total
Trade and other receivables	₩	357,976	6,037	4,593	368,606
Other financial assets (current)		563,286	-	34	563,320
Other financial assets (non-current)		977,044	-	3,950	980,994
Total	₩	<u>1,898,306</u>	<u>6,037</u>	<u>8,577</u>	<u>1,912,920</u>

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

		Korean won (millions)			
		December 31, 2015			
Description		Receivables that are neither past due nor impaired	Receivables that are past due as at the end of the reporting period but not impaired	Receivables impaired (*)	Total
Trade and other receivables	₩	549,959	13,416	4,645	568,020
Other financial assets (current)		811,586	-	34	811,620
Other financial assets (non-current)		944,120	-	3,950	948,070
Total	₩	<u>2,305,665</u>	<u>13,416</u>	<u>8,629</u>	<u>2,327,710</u>

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

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37. Risk Management, Continued

(a) Management of financial risks, continued

iii) Allowance for doubtful trade and other receivables

The movement in the allowance for doubtful trade and other receivables for the six-month period ended June 30, 2016 and for the year ended December 31, 2015 are summarized as follow:

		Korean won (millions)	
		2016	2015
Balance at beginning of the period	₩	4,645	5,799
Impairment loss		8	225
Reversal of impairment loss		(15)	(58)
Write-offs		(45)	(1,321)
Balance at end of the period	₩	<u>4,593</u>	<u>4,645</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)	
		2016	2015
Balance at beginning of the period	₩	34	34
Reversal of impairment loss		-	-
Balance at end of the period	₩	<u>34</u>	<u>34</u>

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

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

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37. Risk Management, Continued

(a) Management of financial risks, continued

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

An analysis of the aging of trade and other receivables that are past due as at the end of the reporting period but not impaired are summarized as follows:

Description	Korean won (millions)				
	June 30, 2016				
	Carrying amount	3 months or less	3 ~ 6 months	6 ~ 12 months	More than 1 year
Trade and other receivables	₩ 6,037	2,186	3,260	218	374

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

v) Guarantees

As of June 30, 2016 the Company has provided financial guarantees to associates and joint ventures. Should the Company be liable for payment upon defaults of the subsidiaries, associates and joint ventures, the expected amounts which the Company is liable to pay within 1 year are ₩1,078,858 million.

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37. Risk Management, Continued

(a) Management of financial risks, continued

Liquidity Risks

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

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

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

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

Account		Carrying amount	Contractual cash flows	Korean won (millions)			
				3 months or less	3 ~ 6 months	6 ~ 12 months	More than 1 year
Current portion of borrowings and debentures	₩	907,210	926,669	343,639	8,666	574,364	-
Trade and other payables		3,076,986	3,076,986	3,076,986	-	-	-
Other financial liabilities (current) (*)		396,194	396,814	209,353	100,489	86,972	-
Borrowings and debentures		3,367,614	3,626,985	17,944	18,870	38,479	3,551,692
Other financial liabilities (non-current)		97,091	99,949	1,616	1,169	1,736	95,428
Total	₩	<u>7,845,095</u>	<u>8,127,403</u>	<u>3,649,538</u>	<u>129,194</u>	<u>701,551</u>	<u>3,647,120</u>

(*) Embedded derivative financial liabilities are excluded in the maturity analysis.

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

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37. Risk Management, Continued

(a) Management of financial risks, continued

Market Risks

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

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

i) Currency risk

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

The Company enters into currency swap transactions with financial institutions to hedge currency risks of foreign currency denominated borrowings and debentures. When the Company needs foreign currencies, the Company enters into a forward exchange contract with major financial institutions to avoid the risks of exchange rate fluctuations. As of June 30, 2016, all of the Company's borrowings except the long-term borrowing from Lotte Co., Ltd. (Japan) are hedged against currency risks.

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

		Korean won (millions)			
		June 30, 2016		December 31, 2015	
		Assets	Liabilities	Assets	Liabilities
USD	₩	8,785	1,536,468	6,641	1,780,349
EUR		19	1,833	65	2,191
JPY		-	220,022	-	188,301
IDR		157	-	181	-
HKD		9	-	12	-
CNY		305	-	440	-
VND		29	-	-	-
Total	₩	9,304	1,758,323	7,339	1,970,841

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37. 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 six-month periods ended June 30, 2016 and 2015 are as follows:

		Average rate		Closing rate	
		2016	2015	June 30, 2016	December 31, 2015
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
IDR		0.0881	0.0848	0.0885	0.0850
HKD		152.20	141.73	150.10	151.21
CNY (*)		180.44	176.70	174.67	180.55
VND		0.0529	0.0510	0.0522	0.0522

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

The Company regularly measures exchange risks on Korean won against foreign currency fluctuations. The Company assumes that foreign currency exchange rates fluctuate 10% at the end of reporting period, and others variables are not changed. Sensitivity analysis of income before taxes from changes of foreign currency exchange rate as of 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	₩	877	(877)	663	(663)
EUR		(181)	181	(212)	212
JPY		(11,322)	11,322	(9,720)	9,720
IDR		16	(16)	18	(18)
HKD		1	(1)	1	(1)
CNY		30	(30)	44	(44)
VND		3	(3)	-	-
Total	₩	(10,576)	10,576	(9,206)	9,206

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

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37. Risk Management, Continued

(a) Management of financial risks, continued

ii) Interest rate risk

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

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

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

		Korean won (millions)	
		June 30, 2016	December 31, 2015
Variable rate instruments:			
Financial assets	₩	50,750	53,950
Financial liabilities		1,361,030	1,117,141

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

		Korean won (millions)			
		June 30, 2016		December 31, 2015	
		100bps up	100bps down	100bps up	100bps down
Interest income	₩	508	(508)	540	(540)
Interest expense		1,132	(1,132)	972	(972)

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

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37. Risk Management, Continued

(a) Management of financial risks, continued

iii) Price risk

The Company is exposed to fluctuations of price in available-for-sale financial assets. The book values of the marketable available-for-sale financial assets as of June 30, 2016 and December 31, 2015 are ₩179,416 million and ₩171,174 million, respectively.

The Company assumes that prices of the marketable available-for-sale financial assets fluctuate 10% at the end of reporting period, and others variables are not changed. Sensitivity analysis of other comprehensive income from changes of price as of 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	₩	17,942	(17,942)	17,117	(17,117)

(b) Capital Management

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

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

		Korean won (millions)	
		June 30, 2016	December 31, 2015
Liabilities (a)	₩	9,817,824	10,488,999
Equity (b)		15,562,843	15,531,707
Financial instruments (*) (c)		755,589	1,218,592
Borrowings (d)		4,274,824	4,434,108
Liabilities to equity ratio (a/b)		63.09%	67.53%
Net borrowings to equity ratio ((d-c)/b)		22.61%	20.70%

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

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38. Business Combination

(a) General description

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

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

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

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

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

(*) Total consideration transferred consists of cash.