

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Condensed Consolidated Interim Financial Statements

March 31, 2016 and 2015

(Unaudited)

(With Independent Auditors' Review Report Thereon)

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Independent Auditors' Review Report

Based on a report originally issued in Korean

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

Reviewed financial statements

We have reviewed the accompanying condensed consolidated interim financial statements of Lotte Shopping Co., Ltd. and its subsidiaries (the "Group"), which comprise the condensed consolidated statement of financial position as of March 31, 2016, the condensed consolidated statements of comprehensive income, changes in equity and cash flows for the three-month periods ended March 31, 2016 and 2015 and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility

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

Auditors' review responsibility

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

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

Conclusion

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

Other matters

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

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

KPMG Samjong Accounting Corp.
Seoul, Korea
May 13, 2016

This report is effective as of May 13, 2016, the review report date. Certain subsequent events or circumstances, which may occur between the review report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the review report should understand that the above review report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

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

As of March 31, 2016 and December 31, 2015

(Unaudited)

		Korean won (millions)	
	<i>Notes</i>	March 31, 2016	December 31, 2015
Assets			
Cash and cash equivalents	6,34,39 ₩	1,620,313	1,751,268
Trade and other receivables	4,6,38,39	896,435	918,851
Other financial assets	5,6,21,39	9,360,872	9,672,512
Inventories	7	3,333,421	3,265,997
Income tax refund receivable		3,718	2,828
Other non-financial assets	8	401,606	385,396
Non-current assets held for sale	9	-	447
Total current assets		15,616,365	15,997,299
Investments in associates and joint ventures	10,11	1,282,485	1,274,851
Other financial assets	5,6,21,39	2,111,145	2,089,193
Property, plant and equipment, net	12,38	15,693,188	15,759,107
Investment property, net	13	702,443	520,982
Goodwill	14	2,715,421	2,715,569
Other intangible assets, net	14	847,260	862,820
Other non-financial assets	8	1,330,642	1,413,805
Deferred tax assets		57,904	59,740
Total non-current assets		24,740,488	24,696,067
Total assets	₩	40,356,853	40,693,366

See accompanying notes to the condensed consolidated interim financial statements.

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

As of March 31, 2016 and December 31, 2015

(Unaudited)

	<i>Notes</i>	Korean won (millions)	
		March 31, 2016	December 31, 2015
Liabilities			
Borrowings and debentures, net of issuance costs	6,16,36,38,39	₩ 3,705,666	4,267,139
Trade and other payables	6,15,38,39	5,257,294	5,465,907
Other financial liabilities	6,21,39	510,166	533,789
Income tax payables		118,622	134,348
Unearned revenues	17	217,597	217,574
Provisions	18	61,009	60,359
Other non-financial liabilities	19	1,340,635	1,239,537
Total current liabilities		11,210,989	11,918,653
 Borrowings and debentures, net of issuance costs	6,16,36,38,39	 10,101,065	 9,816,438
Other financial liabilities	6,21,39	328,119	279,552
Employee benefit liabilities	20	120,937	81,291
Deferred tax liabilities		1,382,176	1,365,668
Unearned revenues	17	11,166	8,086
Provisions	18	37,208	32,458
Other non-financial liabilities	19	108,119	103,378
Total non-current liabilities		12,088,790	11,686,871
 Total liabilities		 23,299,779	 23,605,524
 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	3,910,752	3,910,752
Hybrid securities	23	269,118	269,118
Capital adjustments	24	(78,845)	(79,039)
Retained earnings	25	11,880,347	11,893,663
Accumulated other comprehensive income	26	88,338	95,502
Stockholders' equity attributable to owners of the Company		16,227,164	16,247,450
Non-controlling interests		829,910	840,392
 Total equity		 17,057,074	 17,087,842
 Total liabilities and equity	₩	 40,356,853	 40,693,366

See accompanying notes to the condensed consolidated interim financial statements.

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

For the three-month periods ended March 31, 2016 and 2015

(Unaudited)

	Notes	Korean won (millions, except for earnings per share)	
		2016	2015
Sales	28,35,36,38	₩ 7,178,876	6,935,373
Cost of sales	7,28,31,38	(4,957,873)	(4,765,029)
Gross profit		<u>2,221,003</u>	<u>2,170,344</u>
Selling, general and administrative expenses	29,31,38	(2,012,873)	(1,903,164)
Operating profit		<u>208,130</u>	<u>267,180</u>
Other income	30,38	16,865	16,700
Other expenses	30,38	(28,774)	(48,015)
Finance income	32	73,928	43,499
Finance costs	32	(136,727)	(87,654)
Equity method income (loss) on investments in associates	10,11	(3,248)	198
Profit before income tax		<u>130,174</u>	<u>191,908</u>
Income tax expense	33	(64,147)	(76,471)
Profit for the period		<u>66,027</u>	<u>115,437</u>
Other comprehensive income (loss) :			
Items that will never be reclassified to profit or loss:			
Remeasurements of net defined benefit liabilities	20	(10,827)	(199)
Net change in equity of equity method investments		(1,814)	(710)
Income tax on items that will never be reclassified to profit or loss		3,223	284
Total items that will never be reclassified to profit or loss		<u>(9,418)</u>	<u>(625)</u>
Items that are or may be reclassified subsequently to profit or loss:			
Net change in unrealized fair value of available-for-sale financial assets		8,788	(41,330)
Exchange rate differences on translating foreign operations		2,590	(5,781)
Effective portion of unrealized changes in fair values of cash flow hedges	21	(22,598)	3,595
Net change in equity of equity method investments		1,462	(7,901)
Income tax on items that are or may be reclassified to profit or loss		1,853	15,916
Total items that are or may be reclassified to profit or loss		<u>(7,905)</u>	<u>(35,501)</u>
Other comprehensive income (loss) for the period, net of tax		<u>(17,323)</u>	<u>(36,126)</u>
Total comprehensive income (loss) for the period		<u>48,704</u>	<u>79,311</u>
Profit attributable to:			
- Owners of the Company		57,975	106,189
- Non-controlling interests		8,052	9,248
		<u>66,027</u>	<u>115,437</u>
Total comprehensive income (loss) attributable to:			
- Owners of the Company		41,897	83,298
- Non-controlling interests		6,807	(3,987)
		<u>48,704</u>	<u>79,311</u>
Earnings per share			
- Basic earnings per share (in won)	27	1,851	3,486
- Diluted earnings per share (in won)	₩	1,842	3,433

See accompanying notes to the condensed consolidated interim financial statements.

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

For the three-month periods ended March 31, 2016 and 2015

(Unaudited)

Korean won (millions)									
	Capital stock	Capital surplus	Hybrid securities	Capital adjustments	Retained earnings	Accumulated other comprehensive income	Stockholders' equity attributable to owners of the Company	Non- controlling interests	Total equity
Balance at January 1, 2015	₩ 157,454	3,910,752	269,118	(78,452)	12,360,095	106,836	16,725,803	818,074	17,543,877
Total comprehensive income (loss) for the period									
Profit for the period	-	-	-	-	106,189	-	106,189	9,248	115,437
Other comprehensive income (loss):									
Net change in unrealized fair value of available-for-sale financial assets	-	-	-	-	-	(16,121)	(16,121)	(11,934)	(28,055)
Exchange differences on translating foreign operations	-	-	-	-	-	(4,588)	(4,588)	(1,109)	(5,697)
Effective portion of unrealized changes in fair values of cash flow hedges	-	-	-	-	-	4,175	4,175	(19)	4,156
Remeasurements of net defined benefit liabilities	-	-	-	-	32	-	32	(172)	(140)
Change in equity of equity method investments	-	-	-	-	(485)	(5,905)	(6,390)	-	(6,390)
Subtotal	-	-	-	-	(453)	(22,439)	(22,892)	(13,234)	(36,126)
Total comprehensive income for the period	-	-	-	-	105,736	(22,439)	83,297	(3,986)	79,311
Transactions with owners of the Company, recognized directly in equity:									
Dividends to owners of the Company	-	-	-	-	(59,105)	-	(59,105)	(14,810)	(73,915)
Interests of hybrid securities	-	-	-	-	(3,175)	-	(3,175)	-	(3,175)
Changes in ownership interests in subsidiaries	-	-	-	-	-	-	-	15,100	15,100
Other	-	-	-	(149)	-	-	(149)	-	(149)
Subtotal	-	-	-	(149)	(62,280)	-	(62,429)	290	(62,139)
Balance at March 31, 2015	₩ 157,454	3,910,752	269,118	(78,601)	12,403,551	84,397	16,746,671	814,378	17,561,049

See accompanying notes to the condensed consolidated interim financial statements.

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

For the three-month periods ended March 31, 2016 and 2015

(Unaudited)

Korean won (millions)									
	Capital stock	Capital surplus	Hybrid securities	Capital adjustments	Retained earnings	Accumulated other comprehensive income	Stockholders' equity attributable to owners of the Company	Non- controlling interests	Total equity
Balance at January 1, 2016	₩ 157,454	3,910,752	269,118	(79,039)	11,893,663	95,502	16,247,450	840,392	17,087,842
Total comprehensive income (loss) for the period:									
Profit for the period	-	-	-	-	57,975	-	57,975	8,052	66,027
Other comprehensive income (loss):									
Net change in unrealized fair value of available-for-sale financial assets	-	-	-	-	-	6,531	6,531	103	6,634
Exchange differences on translating foreign operations	-	-	-	-	-	3,387	3,387	(765)	2,622
Effective portion of unrealized changes in fair values of cash flow hedges	-	-	-	-	-	(18,127)	(18,127)	(61)	(18,188)
Remeasurements of net defined benefit liabilities	-	-	-	-	(7,357)	-	(7,357)	(504)	(7,861)
Change in equity of equity method investments	-	-	-	-	(1,557)	1,045	(512)	(18)	(530)
Subtotal	-	-	-	-	(8,914)	(7,164)	(16,078)	(1,245)	(17,323)
Total comprehensive income for the period	-	-	-	-	49,061	(7,164)	41,897	6,807	48,704
Transactions with owners of the Company, recognized directly in equity:									
Dividends to owners of the Company	-	-	-	-	(59,105)	-	(59,105)	(18,449)	(77,554)
Interests of hybrid securities	-	-	-	-	(3,272)	-	(3,272)	-	(3,272)
Changes in ownership interests in subsidiaries	-	-	-	-	-	-	-	1,144	1,144
Other	-	-	-	194	-	-	194	16	210
Subtotal	-	-	-	194	(62,377)	-	(62,183)	(17,289)	(79,472)
Balance at March 31, 2016	₩ 157,454	3,910,752	269,118	(78,845)	11,880,347	88,338	16,227,164	829,910	17,057,074

See accompanying notes to the condensed consolidated interim financial statements.

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

For the three-month periods ended March 31, 2016 and 2015

(Unaudited)

		Korean won (millions)	
		2016	2015
Cash flows from operating activities			
Profit for the period	₩	66,027	115,437
Income tax expense		64,147	76,471
Post-employment benefits		29,159	26,985
Long-term employee benefits		2,588	2,344
Depreciation		206,201	206,529
Amortization		32,848	26,949
Loss on foreign currency translation		7,400	11,404
Loss on disposal of property, plant and equipment		1,177	1,510
Loss on valuation of financial liabilities at fair value through profit or loss		5,494	960
Loss on valuation of derivative instruments		38,967	11,441
Loss on redemption of debentures		19,226	-
Equity method loss of investments in associates and joint ventures		22,876	19,469
Rental expenses (amortization of discount on deposit, etc.)		25,417	23,254
Other expenses		1,191	2,660
Gain on foreign currency translation		(42,454)	(705)
Gain on disposal of property, plant and equipment		(1,572)	(839)
Gain on disposal of investment property		-	(699)
Gain on valuation of derivative instruments		(5,099)	(5,287)
Equity method gain of investments in associates and joint ventures		(19,628)	(19,667)
Gain on disposal of investments in subsidiaries, associates and joint ventures		(1,982)	(12,591)
Other income		(1,666)	(767)
Cost of card business		132,091	108,061
Income of card business		(203,234)	(185,399)
Interest expense		64,757	62,695
Interest income		(23,197)	(22,869)
Dividend income		(1,688)	(1,770)
Trade receivables		72,752	(110,375)
Other receivables		19,784	(59,788)
Other financial assets		173,600	180,113
Inventories		(74,125)	(97,681)
Other non-financial assets		(78,963)	(57,673)
Trade payables		(67,095)	(219,661)
Other payables		(308,643)	57,224
Other financial liabilities		(23,483)	(71,695)
Unearned revenues		(423)	(317)
Provisions		(1,568)	(5,322)
Other non-financial liabilities		103,559	80,266
Payment of post-employment benefits		(14,728)	(17,295)
Plan assets		10,424	11,037
Income tax paid		(7,627)	(11,469)
Interest received		173,656	175,733
Interest paid		(47,336)	(35,497)
Dividends received		-	78
Net cash provided by operating activities	₩	348,830	263,254

See accompanying notes to the condensed consolidated interim financial statements.

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

For the three-month periods ended March 31, 2016 and 2015

(Unaudited)

		Korean won (millions)	
		2016	2015
Cash flows from investing activities			
Proceeds from sale of financial assets	₩	446,715	265,310
Collection of loans		4,753	5,063
Proceeds from sale of available-for-sale financial assets		91	4,018
Proceeds from sale of investments in associates and joint ventures		1,982	-
Proceeds from disposal of property, plant and equipment		10,285	22,886
Proceeds from disposal of intangible assets		-	14
Proceeds from disposal of investment property		-	3,400
Proceeds from capital distribution from associates		-	4,511
Purchase of financial assets		(320,404)	(386,899)
Increase of loans		(1,302)	(1,266)
Purchase of available-for-sale financial assets		(17,298)	(980)
Purchase of investments in associates and joint ventures		(22,744)	(93,371)
Acquisition of property, plant and equipment		(282,688)	(382,170)
Acquisition of intangible assets		(21,934)	(15,973)
Acquisition of investment property		-	(55)
Acquisition of other investments		(541)	(425)
Business combination, net of cash acquired		-	1,336
Cash out flows from disposal of subsidiaries, net of proceeds received		-	(37)
Interest received		12,250	12,070
Dividends received		-	2,536
Net cash used in investing activities	₩	(190,835)	(560,032)

See accompanying notes to the condensed consolidated interim financial statements.

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

For the three-month periods ended March 31, 2016 and 2015

(Unaudited)

		Korean won (millions)	
		2016	2015
Cash flows from financing activities			
Proceeds from borrowings	₩	917,340	545,624
Proceeds from issuance of debentures		778,693	707,654
Proceeds related to sale and lease back transactions		7,923	1,290
Cash inflows from settlement of derivative instruments		1,215	-
Repayment of borrowings		(1,266,492)	(828,548)
Redemption of debentures		(662,210)	(777,265)
Cash outflows from settlement of derivative instruments		-	(11,981)
Payment of hybrid securities interests		(3,272)	(3,175)
Cash outflows from other financing activities		(4,164)	(420)
Interest paid		(53,686)	(50,301)
Net cash used in financing activities	₩	(284,653)	(417,122)
Net decrease in cash and cash equivalents		(126,658)	(713,900)
Cash and cash equivalents at beginning of the period		1,751,268	1,928,136
Impact of foreign currency exchange rates on cash and cash equivalents		(114)	24
Exchange differences on translating foreign operations		(4,183)	2,793
Cash and cash equivalents at end of the period	₩	1,620,313	1,217,053

See accompanying notes to the condensed consolidated interim financial statements.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Condensed Consolidated Interim Financial Statements

March 31, 2016 and 2015

(Unaudited)

1. General Description of Reporting Entity

(a) Organization and Description of the Company

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

The stockholders of the Company as of March 31, 2016 are as follows:

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

(b) Description of Subsidiaries

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

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

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Condensed Consolidated Interim Financial Statements

March 31, 2016 and 2015

(Unaudited)

1. General Description of Reporting Entity, Continued

(b) Description of Subsidiaries, continued

Subsidiaries	Location	Products or services	March 31, 2016	
			Fiscal year	Percentage of ownership (%)
Lotte DatViet Homeshopping Co., Ltd.	Vietnam	TV Home Shopping	Dec. 31	85.58
Korea Seven Co., Ltd.	Korea	Distribution	Dec. 31	51.14
Buy the way Inc.	Korea	Distribution	Dec. 31	100.00
NCF Co., Ltd.	Korea	Apparel manufacturing	Dec. 31	99.80
Lotte Gimhae Development Co., Ltd.	Korea	Service company	Dec. 31	100.00
Lotte Suwon Station Shopping Town Co., Ltd.	Korea	Real estate development	Dec. 31	95.00
Lotte Songdo Shopping Town Co., Ltd.	Korea	Real estate development	Dec. 31	56.30
CS Mart Co., Ltd.	Korea	Distribution	Dec. 31	99.95
LOTTE Himart Co., Ltd. (*2)	Korea	Consumer electronics	Dec. 31	65.25
Lotte Department Store Masan Co., Ltd.	Korea	Distribution	Dec. 31	100.00
Lotte Members Co., Ltd	Korea	Business support service	Dec. 31	93.78
LOTTE.COM INC	Korea	E-commerce business	Dec. 31	50.01
LOTTE PS NET	Korea	Financial support service	Dec. 31	63.64
Lotte Ulsan Development Co., Ltd.	Korea	Real estate business, Real estate lease	Dec. 31	100.00
LOTTE MART COMPANY LIMITED (*3)	China	Distribution	Dec. 31	100.00
Lotte (China) Management Co., Ltd.	China	Business management	Dec. 31	70.00
Lotte Shopping Holdings (Hong Kong) Co., Limited	Hong Kong	Holding company	Dec. 31	100.00
Qingdao LOTTE Mart Commercial Co., Ltd.	China	Distribution	Dec. 31	100.00
Liaoning LOTTE Mart Co., Ltd. (*3)	China	Distribution	Dec. 31	100.00
Lotte Mart China Co., Ltd. and its subsidiaries	China	Distribution, Real estate development	Dec. 31	100.00
Swift Harvest Ltd. and its subsidiaries (*4)	Hong Kong	Distribution, Real estate development	Dec. 31	100.00
Hong Fung Ltd. and its subsidiaries (*4)	Hong Kong	Real estate development	Dec. 31	100.00
Nantong Meili Properties Limited (*4)	China	Real estate development	Dec. 31	100.00
Zhuji Decheng Properties Limited (*4)	China	Real estate development	Dec. 31	100.00
Nantong Yaodong Properties Limited (*4)	China	Real estate development	Dec. 31	100.00
Nantong Fuhua Properties Limited and its subsidiary (*4)	China	Real estate development	Dec. 31	100.00
Nantong Jinyou Properties Limited and its subsidiary (*4)	China	Real estate development	Dec. 31	100.00
Nantong Branda Properties Limited and its subsidiary (*4)	China	Real estate development	Dec. 31	100.00
Nantong Fortune Trade Properties Limited(*4)	China	Real estate development	Dec. 31	100.00
Nantong Fine Spring Properties Limited (*4)	China	Real estate development	Dec. 31	100.00
Nantong Fine Port Properties Limited and its subsidiary (*4)	China	Real estate development	Dec. 31	100.00

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Condensed Consolidated Interim Financial Statements

March 31, 2016 and 2015

(Unaudited)

1. General Description of the Reporting Entity, Continued

(b) Description of Subsidiaries, continued

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

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Condensed Consolidated Interim Financial Statements

March 31, 2016 and 2015

(Unaudited)

1. General Description of the Reporting Entity, Continued

(b) Description of Subsidiaries, continued

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

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Condensed Consolidated Interim Financial Statements

March 31, 2016 and 2015

(Unaudited)

1. General Description of the Reporting Entity, Continued

(b) Description of Subsidiaries, continued

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

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

March 31, 2016 and 2015

(Unaudited)

1. General Description of the Reporting Entity, Continued

(b) Description of Subsidiaries, continued

Subsidiaries	Location	Products or services	December 31, 2015	
			Fiscal year	Percentage of ownership (%)
Nantong Yaodong Properties Limited (*3)	China	Real estate development	Dec. 31	100.00
Nantong Fuhua Properties Limited and its subsidiary (*3)	China	Real estate development	Dec. 31	100.00
Nantong Jinyou Properties Limited and its subsidiary (*3)	China	Real estate development	Dec. 31	100.00
Nantong Branda Properties Limited and its subsidiary (*3)	China	Real estate development	Dec. 31	100.00
Nantong Fortune Trade Properties Limited(*3)	China	Real estate development	Dec. 31	100.00
Nantong Fine Spring Properties Limited (*3)	China	Real estate development	Dec. 31	100.00
Nantong Fine Port Properties Limited and its subsidiary (*3)	China	Real estate development	Dec. 31	100.00
Huai An Full Faith Properties Limited (*3)	China	Real estate development	Dec. 31	100.00
Jilin LOTTE Mart Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Mart (Chongqing) Commercial Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Business Management (Tianjin) Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Department Store (Shenyang) Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte International Department Store (Weihai) Co., Ltd.	China	Distribution	Dec. 31	100.00
LOTTE DEPARTMENT STORE (TIANJIN) CO., LTD.	China	Distribution	Dec. 31	100.00
Lotte Department Store (Chengdu) Co., Ltd.	China	Distribution	Dec. 31	100.00
LOTTE MART (CHENGDU) COMMERCIAL COMPANY LIMITED	China	Distribution	Dec. 31	100.00
Lotte Shopping Business Management (Hong Kong) Limited	Hong Kong	SPC	Dec. 31	100.00
LHSC Limited	Cayman islands	Holding company	Dec. 31	91.14
Lucky Pai Ltd. and its subsidiaries	China	TV Home Shopping	Dec. 31	100.00
LOTTE PROPERTIES (CHENGDU) HK LIMITED	Hong Kong	Holding company	Dec. 31	73.46
Lotte Properties (Chengdu) Limited	China	Real estate lease	Dec. 31	100.00
LOTTE VIETNAM SHOPPING CO., LTD.	Vietnam	Distribution	Dec. 31	100.00
LOTTE SHOPPING HOLDINGS (SINGAPORE) PTE. LTD.	Singapore	Holding company	Dec. 31	100.00
PT. LOTTE SHOPPING INDONESIA	Indonesia	Distribution	Dec. 31	80.00
PT. LOTTE MART INDONESIA	Indonesia	Distribution	Dec. 31	100.00
PT. LOTTE Shopping Avenue Indonesia	Indonesia	Distribution	Dec. 31	100.00
Lotte Shopping India Private Limited	India	Distribution	Dec. 31	100.00
LOTTEMART C&C INDIA PRIVATE LIMITED	India	Distribution	Dec. 31	100.00
Lotte Shopping Plaza Vietnam Co., Ltd.	Vietnam	Distribution	Dec. 31	100.00
LOTTE HOTEL & RETAIL VIETNAM PTE. LTD.	Singapore	Holding company	Dec. 31	60.00

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Condensed Consolidated Interim Financial Statements

March 31, 2016 and 2015

(Unaudited)

1. General Description of the Reporting Entity, Continued

(b) Description of Subsidiaries, continued

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

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

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

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

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

March 31, 2016 and 2015

(Unaudited)

1. General Description of the Reporting Entity, Continued

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

Subsidiaries	Korean won (millions)					
	March 31, 2016					
	Assets	Liabilities	Equity	Sales	Net income (loss)	Total comprehensive Income (loss)
Lotte Card Co., Ltd.	₩ 9,048,416	6,965,001	2,083,415	392,705	26,448	25,869
eB Card Co., Ltd.	191,697	145,327	46,370	24,117	469	451
Woori Home Shopping & Television Co., Ltd.	821,949	254,590	567,359	198,718	8,650	9,198
Korea Seven Co., Ltd.	974,365	693,882	280,483	785,101	1,856	2,213
Buy the way Inc.	142,012	34,234	107,778	45,811	771	844
Lotte Suwon Station Shopping Town Co., Ltd.	344,603	261,887	82,716	11,088	(1,673)	(1,677)
Lotte Songdo Shopping Town Co., Ltd.	247,356	162,736	84,620	1,600	(8,616)	(8,619)
CS Mart Co., Ltd.	157,666	54,111	103,555	103,744	2,497	2,499
LOTTE Himart Co., Ltd.	2,941,444	1,151,822	1,789,622	887,701	19,037	16,946
Lotte Members Co., Ltd	177,999	146,589	31,410	15,110	1,891	1,777
LOTTE.COM INC	174,362	143,429	30,933	54,370	1,251	1,324
LOTTE MART COMPANY LIMITED	147,151	174,631	(27,480)	90,261	(3,561)	(3,067)
Qingdao LOTTE Mart Commercial Co., Ltd.	21,213	107,345	(86,132)	-	(2,188)	(1,577)
Lotte Shopping Holdings (Hong Kong) Co., Limited	1,171,664	723,704	447,960	-	(41,297)	(54,955)
Swift Harvest Ltd. and its subsidiaries	669,620	886,053	(216,433)	205,353	(25,802)	(25,030)
LOTTE PROPERTIES (CHENGDU) HK LIMITED	427,514	219,354	208,160	-	(1,738)	(5,034)
Lotte Properties (Chengdu) Limited	568,228	176,798	391,430	-	(3,236)	(9,490)
LHSC Limited	29,931	-	29,931	-	(45)	(524)
LOTTE VIETNAM SHOPPING CO., LTD.	444,217	408,578	35,639	63,065	(2,328)	(2,534)
LOTTE SHOPPING HOLDINGS (SINGAPORE) PTE. LTD.	313,660	22	313,638	-	(8)	(5,038)
PT. LOTTE SHOPPING INDONESIA	280,834	156,066	124,768	193,612	3,357	5,937
PT. LOTTE MART INDONESIA	180,406	182,581	(2,175)	62,456	(4,340)	(4,197)

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

March 31, 2016 and 2015

(Unaudited)

1. General Description of the Reporting Entity, Continued

(c) Financial information of significant subsidiaries as of and for the three-month period ended March 31, 2016 and as of and for the year ended December 31, 2015 are summarized as follows; continued

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

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

March 31, 2016 and 2015

(Unaudited)

1. General Description of the Reporting Entity, Continued

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

Description	Subsidiaries
Established in 2016	Lotte Ulsan Development Co., Ltd. LOTTE E-Commerce Vietnam Co., Ltd

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

Description	Subsidiaries
Liquidation in 2016	Times Supermarket Limited Wealth Concept Inc. Supreme Forum Ltd. Apex Forum Ltd. Ocean Luck Asia Investment Ltd.

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

March 31, 2016 and 2015

(Unaudited)

1. General Description of the Reporting Entity, Continued

(f) Non-controlling interests

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

Description	Korean won (millions)			
	March 31, 2016			
	Woori Home Shopping & Television Co., Ltd.	Lotte Card Co., Ltd.	Korea Seven Co., Ltd.	LOTTE Himart Co., Ltd.
Ownership interests held by NCI	46.97%	6.22%	48.86%	34.75%
Current assets	₩ 545,439	8,751,224	278,628	678,498
Non-current assets	321,381	494,667	698,893	779,737
Current liabilities	233,250	2,104,079	541,853	481,950
Non-current liabilities	22,354	5,083,147	152,030	718,303
Net assets	611,216	2,058,665	283,638	257,982
Net assets attributable to non-controlling interests	287,149	128,897	136,964	89,657
Dividends paid to non-controlling interests during the period	14,090	-	832	3,528
Revenue	201,145	434,687	785,101	887,701
Profit	7,914	24,119	1,856	18,017
Total comprehensive income	8,465	21,349	2,087	15,927
Profit attributable to non-controlling interests	3,660	1,391	907	6,262
Total comprehensive income attributable to non-controlling interests	3,919	1,219	1,020	5,535
Cash flows from operating activities	(8,875)	170,907	(19,489)	7,208
Cash flows from investing activities	67,039	(19,073)	(27,934)	(21,718)
Cash flows from financing activities	-	(134,843)	(7,071)	(38,823)
Effect of currency exchange rate	28	(27)	-	-
Net increase (decrease) in cash and cash equivalents	58,192	16,964	(54,494)	(53,333)

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

March 31, 2016 and 2015

(Unaudited)

1. General Description of the Reporting Entity, Continued

(f) Non-controlling interests, continued

Financial information related to significant non-controlling interests for subsidiaries as of and for the three-month period ended March 31, 2016 and as of and for the year ended December 31, 2015 are as follows; continued

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

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

March 31, 2016 and 2015

(Unaudited)

1. General Description of the Reporting Entity, Continued

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

Details of the parent's additional investments in subsidiaries for the three-month period ended March 31, 2016 is summarized as follows:

Subsidiaries	2016				
	Korean won (millions)	Percentage of ownership (%)		Korean won (millions)	
		Before additional acquisition	After additional acquisition	Parent's portion in net assets Before additional acquisition	After additional acquisition
Qingdao LOTTE Mart Commercial Co., Ltd.	₩ 41,025	100.00	100.00	₩ (127,157)	(86,132)
LOTTE CINEMA VIETNAM CO., LTD.	10,299	90.00	90.00	8,295	18,594
Total	₩ 51,324			₩ (118,862)	(67,538)

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Condensed Consolidated Interim Financial Statements

March 31, 2016 and 2015

(Unaudited)

2. Basis of Accounting

(a) Statement of compliance

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

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

(b) Use of estimates and judgments

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

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

3. Significant Accounting Policies

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

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

March 31, 2016 and 2015

(Unaudited)

4. Trade and Other Receivables

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

		Korean won (millions)	
		March 31, 2016	December 31, 2015
Trade receivables	₩	574,980	621,014
Other receivables		372,042	349,065
Allowance for doubtful accounts		(50,587)	(51,228)
Total	₩	<u>896,435</u>	<u>918,851</u>

5. Restricted Deposits

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

		Korean won (millions)	
Description	Depository	March 31, 2016	December 31, 2015
Current:			
Time deposits	Kookmin Bank and others	₩ 38,190	78,441
Special deposits	Industrial Bank of Korea and others	174,000	154,000
Money Market Fund	Citibank and others	19,506	21,744
Non-current:			
Special deposits	Busan Bank and others	2,505	2,505
Available-for-sale financial assets	Busan City Hall and others	23,830	21,408
Total		<u>₩ 258,031</u>	<u>278,098</u>

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6. Fair Value of Financial Instruments

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

		Korean won (millions)			
		March 31, 2016		December 31, 2015	
		Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	Cash and cash equivalents	₩ 1,620,313	1,620,313	1,751,268	1,751,268
Financial assets at fair value through profit or loss	Short-term financial instruments	80,003	80,003	60,003	60,003
Loans and receivables (*1)	Current :				
	Trade and other receivables	896,435	896,435	918,851	918,851
	Short-term financial instruments	1,095,985	1,095,985	1,221,935	1,221,935
	Short-term loans	7,470	7,470	12,136	12,136
	Accrued income	36,176	36,176	37,664	37,664
	Current portion of deposits	98,964	98,964	107,947	107,947
	Card financial assets	7,993,149	7,993,149	8,178,959	8,178,959
	Non-current :				
	Long-term financial instruments	2,507	2,507	2,507	2,507
	Long-term loans	57,871	57,871	54,909	54,909
	Deposits	1,379,449	1,379,449	1,361,193	1,361,193
	Long-term other receivables	16,336	16,336	-	-
	Accrued income	9	9	8	8
	Subtotal	11,584,351	11,584,351	11,896,109	11,896,109
Available-for-sale financial assets	Marketable available-for-sale financial assets (*2)	305,809	305,809	282,887	282,887
	Non-marketable available-for-sale financial assets (*3)	281,964	281,964	279,170	279,170
	Subtotal	587,773	587,773	562,057	562,057
Derivative assets held for the purpose of hedging	Current	49,125	49,125	53,868	53,868
	Non-current	67,200	67,200	108,519	108,519
	Subtotal	116,325	116,325	162,387	162,387
	Total	₩ 13,988,765	13,988,765	14,431,824	14,431,824

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

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

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6. Fair Value of Financial Instruments, Continued

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

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

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

Account	Korean won (millions)	
	March 31, 2016	December 31, 2015
Current:		
Short-term financial instruments	₩ 1,175,988	1,281,938
Short-term loans	7,470	12,136
Accrued income	36,176	37,664
Deposits	98,964	107,947
Card business financial assets	7,993,149	8,178,959
Derivative assets held for the purpose of hedging	49,125	53,868
Subtotal	9,360,872	9,672,512
Non-current:		
Long-term financial instruments	2,507	2,507
Available-for-sale financial assets	587,773	562,057
Long-term loans	57,871	54,909
Deposits	1,379,449	1,361,193
Long-term other receivables	16,336	-
Accrued income	9	8
Derivative assets held for the purpose of hedging	67,200	108,519
Subtotal	2,111,145	2,089,193
Total	₩ 11,472,017	11,761,705

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6. Fair Value of Financial Instruments, Continued

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

Korean won (millions)					
	March 31, 2016				December 31, 2015
	Number of shares	Percentage of ownership	Acquisition cost	Carrying amount	Carrying amount
Marketable available-for-sale financial assets:					
BNK Financial Group Inc. (Formerly, BS Financial Group Inc.)	8,543,826	2.62%	₩ 56,179	82,875	55,248
Shinhan Financial Group Co., Ltd.	311,118	0.07%	2,247	12,600	12,305
LOTTE FOOD CO., LTD.	47,180	3.45%	10,167	39,537	44,774
momo.com Inc.	21,333,420	15.02%	37,684	163,668	161,737
Others			5,639	7,129	8,823
Subtotal			₩ 111,916	305,809	282,887
Non-marketable available-for-sale financial assets:					
LOTTE Logistics Corp.	66,308	4.64%	₩ 4,000	13,865	13,865
LOTTE rental co., Ltd.	1,329,166	13.53%	137,912	142,420	142,420
SPARX Asset Management Korea Co., Ltd. (Formerly, Cosmo Asset Management Co., Ltd.)	149,807	17.70%	50,118	34,457	34,457
Lotte Properties (Shenyang) Limited	29,928,756	17.93%	41,919	41,919	41,919
Investment in government bonds			609	630	386
Others			49,691	48,673	46,123
Subtotal			284,249	281,964	279,170
Total			₩ 396,165	587,773	562,057

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6. Fair Value of Financial Instruments, Continued

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

		Korean won (millions)			
		March 31, 2016		December 31, 2015	
		Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities at fair value through profit or loss	Overseas convertible bonds	₩ 118,675	118,675	113,440	113,440
	Non-current derivative liabilities held for the purpose of trading	25,521	25,521	24,608	24,608
	Subtotal	144,196	144,196	138,048	138,048
Financial liabilities based on amortized cost (*)	Current :				
	Trade and other payables	5,257,294	5,257,294	5,465,907	5,465,907
	Short-term borrowings	1,500,058	1,500,058	1,789,819	1,789,819
	Current portion of long-term borrowings	650,230	650,230	467,641	467,641
	Current portion of long-term debentures	1,436,703	1,436,703	1,896,239	1,896,239
	Accrued expenses	263,540	263,540	276,716	276,716
	Current portion of withholding deposit	237,115	237,115	244,524	244,524
	Other liabilities	9,253	9,253	11,947	11,947
	Non-current :				
	Long-term borrowings	1,598,221	1,598,221	1,856,538	1,856,538
	Long-term debentures	8,502,844	8,502,844	7,959,900	7,959,900
	Withholding deposit	211,450	211,450	201,134	201,134
	Other liabilities	43,738	43,738	38,465	38,465
	Subtotal	19,710,446	19,710,446	20,208,830	20,208,830
Derivative liabilities held for the purpose of hedging	Current	258	258	602	602
	Non-current	47,410	47,410	15,345	15,345
	Subtotal	47,668	47,668	15,947	15,947
Total		₩ 19,902,310	19,902,310	20,362,825	20,362,825

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

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6. Fair Value of Financial Instruments, Continued

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

		Korean won (millions)	
		March 31, 2016	December 31, 2015
Current:			
Accrued expenses	₩	263,540	276,716
Deposit received		237,115	244,524
Derivative liabilities held for the purpose of hedging		258	602
Finance lease liabilities		8,555	11,282
Others		698	665
Subtotal		<u>510,166</u>	<u>533,789</u>
Non-current:			
Deposit received		211,450	201,134
Derivative liabilities held for the purpose of hedging		47,410	15,345
Derivative liabilities held for the purpose of trading		25,521	24,608
Finance lease liabilities		38,085	32,870
Other financial liabilities		5,653	5,595
Subtotal		<u>328,119</u>	<u>279,552</u>
Total	₩	<u>838,285</u>	<u>813,341</u>

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6. Fair Value of Financial Instruments, Continued

(f) The fair value hierarchy

The fair value measurements classified by fair value hierarchy as of March 31, 2016 are as follows:

Description		Korean won (millions)			Total
		Level I	Level II	Level III	
Available-for-sale financial assets	₩	305,809	630	198,034	504,473
Derivative assets		-	116,325	-	116,325
Total financial assets		305,809	116,955	198,034	620,798
Oversees convertible bonds		-	118,675	-	118,675
Derivative liabilities		-	47,668	25,521	73,189
Total financial liabilities	₩	-	166,343	25,521	191,864

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

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

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

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

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6. Fair Value of Financial Instruments, Continued

(g) Level 3 fair values

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

Description		Korean won (millions)	
		March 31, 2016	December 31, 2015
Beginning of the period	₩	173,426	112,217
Gain (loss) included in finance costs			
- Loss on valuation of derivative instruments		(913)	167
Gain (loss) included in OCI			
- Net change in unrealized fair value of available-for-sale financial assets		-	7,262
Purchases		-	137,912
Disposal		-	(84,132)
End of the period	₩	172,513	173,426

(h) Sensitivity analysis

For the fair values of available-for-sale financial assets and stock options, reasonably possible changes as of March 31, 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	₩	103,395	(74,647)	8,177	50,869

(ii) Stock options (liability-classified)

Description		Korean won (millions)			
		Discount rate		Stock price volatility	
		10% Decrease	10% Increase	1% Decrease	1% Increase
Stock options	₩	(5,384)	5,430	(23)	27

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7. Inventories

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

		Korean won (millions)					
		March 31, 2016			December 31, 2015		
		Acquisition cost	Allowance for valuation	Book value	Acquisition cost	Allowance for valuation	Book value
Merchandise	₩	3,013,251	(22,319)	2,990,932	2,952,329	(21,290)	2,931,039
Finished goods		14,315	(4,651)	9,664	17,579	(4,798)	12,781
Goods in process		705	-	705	969	-	969
Raw materials		565	(24)	541	973	(125)	848
Subsidiary materials		-	-	-	23	-	23
Supplies		1,677	-	1,677	2,244	-	2,244
Materials-in-transit		8,584	-	8,584	2,149	-	2,149
Unsold apartment units		26,221	-	26,221	29,412	-	29,412
Unfinished apartment units		295,097	-	295,097	286,532	-	286,532
Total	₩	<u>3,360,415</u>	<u>(26,994)</u>	<u>3,333,421</u>	<u>3,292,210</u>	<u>(26,213)</u>	<u>3,265,997</u>

(b) For the three-month periods ended March 31, 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
Cost of goods sold:			
- Amount of inventories recognized as cost of goods sold	₩	4,644,612	4,475,694
- Changes of allowance for valuation losses of inventories		781	386

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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8. Other Non-financial Assets

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

Description	Korean won (millions)	
	March 31, 2016	December 31, 2015
Current:		
Advance payments	₩ 103,479	132,282
Prepaid expenses	221,822	174,145
Prepaid value added tax	76,247	78,909
Others	58	60
Subtotal	401,606	385,396
Non-current:		
Long-term advance payments	234,775	183,727
Long-term prepaid expenses (*)	1,091,773	1,226,136
Others	4,094	3,942
Subtotal	1,330,642	1,413,805
Total	₩ 1,732,248	1,799,201

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

9. Non-current assets held for sale

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

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

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

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10. Investments in Associates

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

Company	Location	Major operation	Ownership (%)	Korean won (millions)	
				Balance at March 31, 2016	
Lotte Station Building Co., Ltd.	Korea	Distribution	25.00	₩	116,318
Daehong Communications Co., Ltd.	Korea	Advertisement agency	34.00		136,326
Lotte Capital Co., Ltd.	Korea	Capital	22.36		201,086
Lotteria Co., Ltd.	Korea	Restaurant chain	38.68		233,235
FRL Korea Co., Ltd.	Korea	Retail	49.00		177,495
Lotte Asset Development Co., Ltd.	Korea	Real estate development	39.14		49,151
Lotte Trading Co., Ltd.	Korea	Product brokerage	27.68		130,870
Lotte Europe Holdings B.V.	Netherlands	Holding company	26.98		2,761
Coralis S.A.	Luxembourg	Holding company	45.00		9,588
Others					146,284
Total				₩	1,203,114

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

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10. Investments in Associates, Continued

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

Korean won (millions)								
2016								
Company	Beginning balance	Adjustment to					Balance at March 31, 2016	
		Acquisition	Dividends	Net income (loss)	Capital adjustment	Others		
Lotte Station Building Co., Ltd.	₩ 121,725	-	(7,382)	2,195	(217)	(3)	116,318	
Daehong Communications Co., Ltd.	135,243	-	(680)	496	1,358	(91)	136,326	
Lotte Capital Co., Ltd.	195,323	-	(2,234)	11,288	(3,010)	(281)	201,086	
Lotteria Co., Ltd.	239,270	-	-	(6,652)	1,197	(580)	233,235	
FRL Korea Co., Ltd.	187,626	-	-	(5,868)	(4,263)	-	177,495	
Lotte Asset Development Co., Ltd.	49,316	-	-	592	(3)	(754)	49,151	
Lotte Trading Co., Ltd.	124,077	-	-	(237)	7,028	2	130,870	
Lotte Europe Holdings B.V.	-	-	-	2,733	28	-	2,761	
Coralis S.A.	11,923	4,474	-	(6,933)	124	-	9,588	
Others	131,252	18,270	-	(2,539)	(589)	(110)	146,284	
Total	₩ 1,195,755	22,744	(10,296)	(4,925)	1,653	(1,817)	1,203,114	

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

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10. Investments in Associates, Continued

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

Company	Korean won (millions)							
	2016							
	Current asset	Non-current asset	Current liabilities	Non-current liabilities	Sales	Operating income (loss)	Other comprehensive income (loss)	Total comprehensive income (loss)
Lotte Station Building Co., Ltd.	₩ 280,837	444,533	250,889	9,209	159,939	12,644	(877)	7,903
Daehong Communications Co., Ltd.	220,950	457,213	228,022	55,779	94,165	340	4,567	5,925
Lotte Capital Co., Ltd. (*)	6,579,292	-	5,676,918	-	205,460	66,397	(14,675)	37,184
Lotteria Co., Ltd.	272,530	844,955	354,285	191,907	279,786	2,073	4,186	7,146
FRL Korea Co., Ltd.	419,553	142,484	199,334	469	242,074	(5,735)	(8,699)	(20,674)
Lotte Asset Development Co., Ltd.	401,586	242,384	124,426	393,284	39,884	1,951	(137)	1,146
Lotte Trading Co., Ltd.	250,245	966,315	290,028	182,447	171,469	(240)	45,663	44,699
Lotte Europe Holdings B.V.	78,114	434,516	251,741	238,286	24,053	1,554	102	20,637
Coralis S.A.	32,615	400,082	119,672	326,188	6,644	(3,191)	275	(15,127)

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

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

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

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

Company	Korean won (millions)	
	March 31, 2016	
	Unrecognized losses for the period	Unrecognized accumulated losses
Lotte Incheon Development Co., Ltd.	₩ (1,013)	(3,121)

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11. Joint Ventures

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

Company	Location	Major operation	Ownership (%)	Korean won (millions) Balance at March 31, 2016
D-Cinema of Korea Co., Ltd.	Korea	Film equipment	50.00	₩ 2,605
STL Co., Limited	Korea	Retail	50.00	499
LOTTE JTB Co., Ltd.	Korea	Travel business	50.00	-
Shenyang SL Cinema Investment Management Co., Ltd.	China	Cinema	49.00	981
Shandong Luckypai TV Shopping	China	TV Home Shopping	49.00	9,931
Yunnan Maile TV Shopping Media Co., Ltd.	China	TV Home Shopping	49.00	3,861
Chongqing Yujia Co., Ltd.	China	TV Home Shopping	49.00	-
International Business Center Company Limited	Vietnam	Distribution	50.00	61,494
Total				₩ 79,371

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

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11. Joint Ventures, Continued

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

Korean won (millions)					
2016					
Company	Beginning balance	Adjustment to			Balance at March 31, 2016
		Net income (loss)	Capital adjustment	Others	
D-Cinema of Korea Co., Ltd.	₩ 1,725	880	-	-	2,605
STL Co., Limited	606	(107)	-	-	499
LOTTE JTB Co., Ltd.	-	-	-	-	-
Shenyang SL Cinema Investment Management Co., Ltd.	962	35	(16)	-	981
Shandong Luckypai TV Shopping	10,092	-	-	(161)	9,931
Yunnan Maile TV Shopping Media Co., Ltd.	4,195	(277)	-	(57)	3,861
Chongqing Yujia Co., Ltd.	-	-	-	-	-
International Business Center Company Limited	61,516	1,146	(174)	(994)	61,494
Total	₩ 79,096	1,677	(190)	(1,212)	79,371

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

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11. Joint Ventures, Continued

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

Korean won (millions)								
2016								
Company	Current asset	Non-current asset	Current liabilities	Non-current liabilities	Sales	Operating income (loss)	Other comprehensive income (loss)	Total comprehensive income (loss)
D-Cinema of Korea Co., Ltd. ₩	24,593	7,833	26,908	307	3,532	1,460	-	1,760
STL Co., Limited	3,686	1,096	3,243	541	3,968	(164)	-	(213)
LOTTE JTB Co.,Ltd	19,127	3,232	26,324	2,995	5,697	885	-	772
Shenyang SL Cinema Investment Management Co., Ltd.	977	1,520	500	-	512	71	(33)	39
Shandong Luckypai TV Shopping	43,186	3,725	26,643	-	-	-	-	-
Yunnan Maile TV Shopping Media Co., Ltd.	8,603	7,965	9,106	-	6,823	(649)	-	(566)
Chongqing Yujia Co., Ltd.	1,237	328	31,019	-	4	(68)	-	(136)
International Business Center Company Limited	15,354	53,634	31,672	994	5,776	2,881	(349)	1,944
Korean won (millions)								
2015								
Company	Current asset	Non-current asset	Current liabilities	Non-current liabilities	Sales	Operating income (loss)	Other comprehensive income (loss)	Total comprehensive income (loss)
D-Cinema of Korea Co., Ltd. ₩	25,784	9,289	13,777	17,845	22,747	9,553	-	6,931
STL Co., Limited	3,436	1,186	2,978	434	13,724	(1,187)	-	(1,458)
LOTTE JTB Co.,Ltd	15,500	3,441	23,709	2,965	18,998	(13,551)	-	(15,980)
Shenyang SL Cinema Investment Management Co., Ltd.	884	1,586	513	-	1,454	(37)	35	75
Shandong Luckypai TV Shopping	47,014	3,583	32,252	-	24,086	(310)	-	(260)
Yunnan Maile TV Shopping Media Co., Ltd.	14,528	2,580	10,477	-	29,944	1,315	-	394
Chongqing Yujia Co., Ltd.	1,622	385	32,252	-	38,025	(12,329)	-	(11,418)
International Business Center Company Limited	13,831	54,857	32,701	1,609	23,577	12,664	(1,996)	6,384

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

Korean won (millions)		
March 31, 2016		
Company	Unrecognized losses for the period	Unrecognized accumulated losses
LOTTE JTB Co.,Ltd ₩	-	(3,536)
Chongqing Yujia Co., Ltd.	(66)	(66)
Total ₩	(66)	(3,602)

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12. Property, Plant and Equipment

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

Korean won (millions)								
March 31, 2016					December 31, 2015			
	Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Book value	Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Book value
Land	₩ 7,964,593	-	-	7,964,593	7,991,801	-	-	7,991,801
Buildings	7,254,570	(2,214,444)	-	5,040,126	7,229,462	(2,169,376)	-	5,060,086
Structures	355,614	(106,892)	-	248,722	354,383	(102,766)	-	251,617
Machinery	274,774	(147,999)	(413)	126,362	265,792	(144,192)	(417)	121,183
Vehicles	8,406	(5,866)	(50)	2,490	8,541	(5,759)	(50)	2,732
Display fixtures	735,007	(450,759)	(8,367)	275,881	727,796	(432,687)	(9,440)	285,669
Furniture and fixtures	3,802,800	(2,743,657)	(5,582)	1,053,561	3,739,494	(2,648,079)	(5,587)	1,085,828
Tools and equipment	187,166	(105,170)	(3,438)	78,558	186,219	(103,005)	(3,492)	79,722
Other PP&E	271,432	(93,237)	(24,169)	154,026	257,741	(90,634)	(23,618)	143,489
Construction-in-progress	693,075	-	-	693,075	679,473	-	-	679,473
Finance lease assets	75,625	(18,088)	(1,743)	55,794	82,957	(23,679)	(1,771)	57,507
Total	₩ 21,623,062	(5,886,112)	(43,762)	15,693,188	21,523,659	(5,720,177)	(44,375)	15,759,107

(b) Changes in property, plant and equipment for the three-month period ended March 31, 2016 are as follows:

Korean won (millions)							
2016							
	Book value as of January 1, 2016	Acquisitions	Depreciation	Impairment	Disposals	Others (*)	Book value as of March 31, 2016
Land	₩ 7,991,801	-	-	-	(2,549)	(24,659)	7,964,593
Buildings	5,060,086	2,311	(51,466)	-	(12,554)	41,749	5,040,126
Structures	251,617	59	(3,968)	-	-	1,014	248,722
Machinery	121,183	5,949	(5,014)	-	(32)	4,276	126,362
Vehicles	2,732	-	(241)	-	(7)	6	2,490
Display fixtures	285,669	14,642	(23,824)	-	(444)	(162)	275,881
Furniture and fixtures	1,085,828	53,932	(107,004)	-	(588)	21,393	1,053,561
Tools and equipment	79,722	5,523	(5,082)	(2)	(3,061)	1,458	78,558
Other PP&E	143,489	8,537	(3,879)	(2)	-	5,881	154,026
Construction-in-progress	679,473	132,283	-	-	(3,494)	(115,187)	693,075
Finance lease assets	57,507	67	(2,620)	-	-	840	55,794
Total	₩ 15,759,107	223,303	(203,098)	(4)	(22,729)	(63,391)	15,693,188

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

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12. Property, Plant and Equipment, Continued

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

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

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

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13. Investment Property

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

Korean won (millions)						
March 31, 2016			December 31, 2015			
	Acquisition cost	Accumulated depreciation	Book value	Acquisition cost	Accumulated depreciation	Book value
Land	₩ 393,593	-	393,593	223,494	-	223,494
Buildings	404,797	(95,947)	308,850	387,646	(90,158)	297,488
Total	₩ 798,390	(95,947)	702,443	611,140	(90,158)	520,982

(b) Changes in investment property for the three-month period ended March 31, 2016 are as follows:

Korean won (millions)					
2016					
	Book value as of January 1, 2016	Depreciation	Disposals	Others (*)	Book value as of March 31, 2016
Land	₩ 223,494	-	-	170,099	393,593
Buildings	297,488	(3,103)	(3,469)	17,934	308,850
Total	₩ 520,982	(3,103)	(3,469)	188,033	702,443

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

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

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

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

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14. Goodwill and Intangible Assets

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

Korean won (millions)								
March 31, 2016					December 31, 2015			
	Acquisition cost	Accumulated amortization	Accumulated impairment losses	Book value	Acquisition cost	Accumulated amortization	Accumulated impairment losses	Book value
Goodwill	₩ 3,571,012	-	(855,591)	2,715,421	3,571,160	-	(855,591)	2,715,569
Industrial property rights	144,195	(6,228)	-	137,967	144,015	(5,999)	-	138,016
Rights to use facility	525,109	(151,081)	(2)	374,026	524,464	(144,449)	(2)	380,013
Membership	39,959	-	(5,542)	34,417	39,674	-	(5,532)	34,142
Other intangible assets	508,578	(203,338)	(4,390)	300,850	672,647	(357,448)	(4,550)	310,649
Total	₩ 4,788,853	(360,647)	(865,525)	3,562,681	4,951,960	(507,896)	(865,675)	3,578,389

(b) Changes in goodwill and intangible assets for the three-month period ended March 31, 2016 are as follows:

Korean won (millions)						
2016						
	Book value as of January 1, 2016	Acquisition	Amortization	Impairment	Others (*)	Book value as of March 31, 2016
Goodwill	₩ 2,715,569	150	-	-	(298)	2,715,421
Industrial property rights	138,016	222	(271)	-	-	137,967
Rights to use facility	380,013	485	(6,632)	-	160	374,026
Membership	34,142	285	-	(10)	-	34,417
Other intangible assets	310,649	14,014	(25,945)	(57)	2,189	300,850
Total	₩ 3,578,389	15,156	(32,848)	(67)	2,051	3,562,681

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

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14. Goodwill and Intangible Assets, Continued

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

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

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

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15. Trade and Other Payables

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

		Korean won (millions)	
		March 31, 2016	December 31, 2015
Trade payables	₩	3,656,742	3,725,603
Other payables		1,600,552	1,740,304
Total	₩	<u>5,257,294</u>	<u>5,465,907</u>

16. Borrowings and Debentures

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

		Korean won (millions)	
		March 31, 2016	December 31, 2015
Current:			
Short-term borrowings	₩	1,500,058	1,789,819
Current portion of long-term borrowings		650,533	467,765
Current portion of discount on long-term borrowings		(303)	(124)
Current portion of long-term debentures		1,555,983	2,030,280
Current portion of discount on debentures		(499)	(1,727)
Exchange rights adjustment		(106)	(18,874)
Subtotal		<u>3,705,666</u>	<u>4,267,139</u>
Non-current:			
Long-term borrowings		1,598,794	1,857,614
Discount on long-term borrowings		(573)	(1,076)
Long-term debentures		8,534,212	7,994,640
Discount on debentures		(31,368)	(34,740)
Subtotal		<u>10,101,065</u>	<u>9,816,438</u>
Total	₩	<u>13,806,731</u>	<u>14,083,577</u>

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16. Borrowings and Debentures, Continued

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

Lender	Details	Annual interest rate (%)	Korean won (millions)	
			March 31, 2016	December 31, 2015
Korea Development Bank and others	General	1.77~7.85	₩ 841,058	846,819
Shinhan Bank and others	Financial notes	1.75~5.74	659,000	943,000
Total			₩ 1,500,058	1,789,819

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

Lender	Details	Annual interest rate (%)	Korean won (millions)	
			March 31, 2016	December 31, 2015
Shinhan Bank and others	Local currency	1.91~6.90	₩ 927,739	1,006,095
Lotte Co., Ltd. (Japan) and others	Foreign currency	1.95~8.75	1,321,588	1,319,284
Subtotal			2,249,327	2,325,379
Less: Discount on borrowings			(876)	(1,200)
Subtotal			2,248,451	2,324,179
Less: Current portion of long-term borrowings, net of discount			(650,230)	(467,641)
Total			₩ 1,598,221	1,856,538

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16. Borrowings and Debentures, Continued

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

Description	Maturity	Interest rate (%)	Korean won (millions)	
			March 31, 2016	December 31, 2015
59-2nd placed	Aug. 07, 2017	3.20	₩ 230,000	230,000
59-3rd placed	Aug. 07, 2019	3.33	200,000	200,000
61th placed	Mar. 21, 2018	3.05	100,000	100,000
62th placed	Jun. 21, 2018	2.80	110,000	110,000
63-1st placed	Jul. 02, 2017	2.79	200,000	200,000
63-2nd placed	Jul. 02, 2019	3.08	200,000	200,000
64-1st placed (foreign currency)	May 25, 2018	3M USD Libor+0.50	173,025	175,800
64-2nd placed (foreign currency)	May 25, 2018	3M USD Libor	115,350	117,200
64-3rd placed (foreign currency)	May 25, 2018	3M USD Libor+0.02	115,350	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	173,025	175,800
67-2nd placed (foreign currency)	Aug. 17, 2018	3M USD Libor+0.02	115,350	117,200
67-3rd placed (foreign currency)	Aug. 06, 2018	3M USD Libor+0.60	115,350	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	115,350	-
69-2nd placed (foreign currency)	Jan. 29, 2019	3M USD Libor+0.02	115,350	-
1st placed (Global bond)	Apr. 07, 2016	3.88	461,400	468,800
2nd placed (Global bond)	May 09, 2017	3.38	461,400	468,800
USD convertible bonds (*1)	Jul. 05, 2016	-	22,081	22,340
JPY convertible bonds (*1)	Jul. 05, 2016	-	96,594	91,100
Exchangeable bonds (*2)	Jan. 24, 2018	-	13,800	321,200
Korea Seven Co., Ltd. (foreign currency)	Apr. 18, 2016	3M USD Libor+0.50	34,605	35,160
Korea Seven Co., Ltd. (convertible bonds)	May 08, 2018	-	7,920	7,920
Lotte Card Co., Ltd.	Multiple	1.79~3.86	5,434,245	5,264,040
LOTTE Himart Co., Ltd.	Multiple	2.08~3.04	650,000	620,000
LOTTE Himart Co., Ltd. (Foreign currency)	Mar. 29, 2016	-	-	35,160
Subtotal			10,090,195	10,024,920
Less: Discount on debentures			(31,867)	(36,467)
Less: Exchange rights adjustment			(106)	(18,874)
Total book value			10,058,222	9,969,579
Less: Current portion of debentures, net of discount			(1,555,378)	(2,009,679)
Total			₩ 8,502,844	7,959,900

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16. Borrowings and Debentures, Continued

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

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

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

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16. Borrowings and Debentures, Continued

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

- | | |
|---|--|
| (a) Type of bonds: | Registered overseas unsecured exchangeable bonds |
| (b) Total face value of bonds(KRW): | 13,800,000,000 |
| (c) Bond interest rate | |
| Coupon rate (%): | - |
| Yield to maturity (%): | - |
| (d) Date of bond maturity: | January 24, 2018 |
| (e) Principal redemption method: | |
| i. Redemption on maturity date: Redemption in lump sum on the maturity date for the principal amount of bonds for which a condition for early redemption has not occurred and the exchange right has not been exercised. Early redemption: The Company has a call option, whereas bond holders have a put option. | |
| ii. Early redemption: Lotte Shopping Co., Ltd. ("Lotte Shopping") has a call option, whereas bond holders have a put option. | |
| (f) Put option by bondholders: | |
| The put option can be exercised if any of the following conditions occurs: | |
| On the third anniversary of the date of payment (January 25, 2016); | |
| i. If any change of control occurs in the LOTTE Himart; or | |
| ii. The issued stocks of the Company are delisted from the stock exchange or their transaction is suspended for 30 consecutive transaction days or longer. | |
| (g) Call option by the Company: | |
| The call option can be exercised if any of the following conditions occurs: | |
| i. If the closing price of LOTTE Himart Co., Ltd for 20 transactional days in 30 consecutive transaction days reaches 130% or more of the exchange price between 3 years from the issuance date (January 24, 2013) and 30 business days to the maturity date; | |
| ii. If the balance of bonds that has not been redeemed reaches less than 10% of the sum of the total issued amount (clean up call); or | |
| iii. Any additional tax burden arises due to the amendments of the related laws and regulations. | |
| (h) Matters relating to exchange: | |
| i. Exchange ratio (%): | 100 |
| ii. Exchange price (KRW per share): | 90,780 |
| iii. Type of shares to be issued following exchange: | Common shares of LOTTE Himart Co., Ltd. |
| iv. Period to apply for exchange: | |
| Start date: | March 5, 2013 |
| End date: | January 15, 2018 |
| v. Matters for the adjustment of exchange price: | |
| In case when a condition for re-adjustment of the exchange price has occurred, such as a stock dividend, the exchange price will be adjusted in accordance with the provisions in the relevant bonds purchase agreement. | |

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16. Borrowings and Debentures, Continued

(e) Maturities of long-term borrowings and debentures as of March 31, 2016 are scheduled as follows:

		Korean won (millions)		
		Borrowings	Debentures	Total
Within 1 year	₩	650,533	1,555,983	2,206,516
1 ~ 2 years		794,645	2,717,032	3,511,677
2 ~ 3 years		664,545	3,407,180	4,071,725
3 ~ 4 years		17,604	1,200,000	1,217,604
More than 4 years		122,000	1,210,000	1,332,000
Total	₩	2,249,327	10,090,195	12,339,522

17. Unearned Revenues

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

		Korean won (millions)	
		March 31, 2016	December 31, 2015
Current:			
Membership point	₩	94,045	93,222
Other points		80,324	85,018
Unearned rental income		9,063	8,492
Others		34,165	30,842
Subtotal		217,597	217,574
Non-current:			
Unearned rental income		11,166	8,086
Subtotal		11,166	8,086
Total	₩	228,763	225,660

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18. Provisions

(a) Changes in provisions for the three-month period ended March 31, 2016 are as follows:

		Korean won (millions)		
		2016		
		Beginning balance	Increase	Utilization
				Balance as of March 31, 2016
Current:				
Provision for bonus points reward program	₩	27,962	13,206	(15,567)
Provision for bonus payable		8,525	14,786	(17,238)
Provision for sales return		9,023	7,618	(9,008)
Other provisions (*1)		14,849	7,874	(1,021)
Subtotal		60,359	43,484	(42,834)
Non-current:				
Provision for unused credit card limits (*2)		27,291	4,750	-
Other provisions		5,167	-	-
Subtotal		32,458	4,750	-
Total	₩	92,817	48,234	(42,834)
				98,217

(*1) Other provisions include provisions for litigation, provision for closing up stores and and others. During 2015, Qingdao LOTTE Mart Commercial Co., Ltd., which is a subsidiary of the Company, closed five discount stores. In connection with closing the stores, the Group estimated the expenditures that have incurred in connection with the closures and recognized other provision of ₩5,331 million as of March 31, 2016.

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

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18. Provisions, Continued

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

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

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

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

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19. Other Non-financial Liabilities

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

		Korean won (millions)	
		March 31, 2016	December 31, 2015
Current:			
Withholdings	₩	81,103	86,466
Withholdings of value added tax		69,374	96,059
Advances received		1,189,108	1,055,057
Other liabilities		1,050	1,955
Subtotal		1,340,635	1,239,537
Non-current:			
Other liabilities		108,119	103,378
Total	₩	1,448,754	1,342,915

20. Employee Benefits

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

		Korean won (millions)	
		March 31, 2016	December 31, 2015
Present value of defined benefit obligations	₩	671,142	640,058
Fair value of plan assets		(594,266)	(601,989)
Total	₩	76,876	38,069

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

		Korean won (millions)	
		March 31, 2016	December 31, 2015
Present value of other long-term employee benefits	₩	44,061	43,222

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20. Employee Benefits, Continued

- (c) Changes in employee benefits for the three-month period ended March 31, 2016 and for the year ended December 31, 2015 are as follows:

		Korean won (millions)	
		2016	2015
Beginning of the period	₩	640,058	525,909
Current service costs		28,782	109,805
Past service costs		-	66
Interest costs		4,806	21,168
Remeasurements :			
- Loss from change in demographic assumptions		-	(10,581)
- Gain from change in financial assumptions		-	19,420
- Loss from experience adjustments		9,207	3,356
Payments		(12,991)	(50,054)
Business combination		-	15,596
Others		1,280	5,373
End of the period	₩	<u>671,142</u>	<u>640,058</u>

- (d) Changes in fair value of plan assets for the three-month period ended March 31, 2016 and for the year ended December 31, 2015 are as follows:

		Korean won (millions)	
		2016	2015
Beginning of the period	₩	601,989	486,054
Return on plan assets		4,429	16,425
Actuarial loss		(1,620)	(5,262)
Employer contribution		796	129,264
Payments		(11,220)	(40,088)
Business combination		-	14,188
Others		(108)	1,408
End of the period	₩	<u>594,266</u>	<u>601,989</u>

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

		Korean won (millions)	
		March 31, 2016	December 31, 2015
Principal guaranteed insurance policies	₩	594,077	601,797
Others		<u>189</u>	<u>192</u>
Total	₩	<u>594,266</u>	<u>601,989</u>

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20. Employee Benefits, Continued

(f) Expenses recognized for the three-month periods ended March 31, 2016 and 2015 are as follows:

		Korean won (millions)	
		2016	2015
Current service costs	₩	28,782	26,533
Interest costs		4,806	4,604
Return on plan assets		(4,429)	(4,152)
Contributions to defined contribution plans		544	584
Long-term employee benefits		2,588	2,344
Total	₩	32,291	29,913

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21. Derivative Instruments and Hedge Accounting

(a) Details of derivatives outstanding as of March 31, 2016 are as follows:

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

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

Purpose	Type	Korean won (millions)			
		March 31, 2016		December 31, 2015	
		Assets	Liabilities	Assets	Liabilities
Trade	Stock option	₩ -	25,521	-	24,608
Cash flow hedge	Currency swap	64,605	42,374	101,273	11,516
	Interest swap	-	5,294	47	4,431
	Currency forward	51,720	-	61,067	-
	Total	₩ 116,325	73,189	162,387	40,555

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21. Derivative Instruments and Hedge Accounting, Continued

(c) Changes in the fair value of derivative instruments for the three-month period ended March 31, 2016 are as follows:

Purpose	Type	Related accounts	Korean won (millions)
Trade	Stock option	Loss on valuation of derivative instruments	₩ (913)
Cash flow hedge	Currency swap	Loss on valuation of derivative instruments	(26,599)
		Unrealized loss on valuation of derivative instruments	(18,685)
		Loss on valuation of derivatives instruments (card business)	(19,305)
	Interest swap	Loss on valuation of derivatives instruments (card business)	(3)
		Unrealized Loss on valuation of derivative instruments	(923)
	Currency forward	Loss on valuation of derivative instruments	(6,356)
		Unrealized loss on valuation of derivative instruments	(2,990)

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22. Capital Stock and Capital Surplus

- (a) Pursuant to its amended Articles of Incorporation, the Company's authorized capital stock is 60,000,000 shares, which consist of common shares and preferred shares each with a par value of ₩5,000 per share. The Company is authorized to issue non-voting preferred shares of up to one-fourth of the Company's total issued and outstanding capital stock. Holders of preferred shares may, upon a resolution of the board of directors at the time of the issuance of the preferred shares, be entitled to receive dividends prior to the holders of common shares. The preferred shares will be automatically converted to common shares within ten years of issuance as determined by the Company's board of directors. However, if the holders of preferred shares do not receive the minimum dividends as prescribed, the prescribed conversion date will be extended to the time when all such minimum dividend amount is paid to the holders of preferred shares. As of March 31, 2016, the Company has not issued any preferred stock and 31,490,892 shares of common stock were issued and outstanding as of March 31, 2016.
- (b) Capital surplus as of March 31, 2016 and December 31, 2015 consists of the following:

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

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23. Hybrid securities classified as equity

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

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

(*) Details of hybrid securities are as follows:

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

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

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24. Capital Adjustments

As of January 1, 2013, the Company merged with Lotte Midopa Co., Ltd. In connection with the merger, the Company issued 1,933,873 shares of common stocks in exchange for 51,475,843 shares of Lotte Midopa Co., Ltd. which the Company had held and 228 shares of treasury stocks of Lotte Midopa Co., Ltd. The Company recognized the acquisition cost of the treasury stocks as zero ("0"). In addition, the Company acquired 4,815 shares of fractional shares for ₩1,806 million in 2013 and, as a result, the Company holds 1,938,688 shares of treasury stocks as of March 31, 2016.

25. Retained Earnings

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

	Korean won (millions)	
	March 31, 2016	December 31, 2015
Legal reserve	₩ 195,917	190,006
Voluntary reserve	10,810,052	11,190,052
Unappropriated retained earnings	874,378	513,605
	₩ 11,880,347	11,893,663

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26. Accumulated Other Comprehensive Income

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

		Korean won (millions)			
		2016			
		Beginning balance	Changes for the period	Tax effects for the period	Balance as of March 31, 2016
Net change in unrealized fair value of available for-sale financial assets	₩	90,698	8,653	(2,122)	97,229
Exchange rate differences on translating foreign operations		(32,385)	3,355	32	(28,998)
Effective portion of unrealized changes in fair values of cash flow hedges		(12,264)	(22,518)	4,391	(30,391)
Change in equity of equity method investments		49,453	1,480	(435)	50,498
Total	₩	95,502	(9,030)	1,866	88,338
		Korean won (millions)			
		2015			
		Beginning balance	Changes for the year	Tax effects for the year	Balance as of December 31, 2015
Net change in unrealized fair value of available for-sale financial assets	₩	145,678	(76,939)	21,959	90,698
Exchange rate differences on translating foreign operations		(70,788)	38,458	(55)	(32,385)
Effective portion of unrealized changes in fair values of cash flow hedges		(10,950)	(3,050)	1,736	(12,264)
Change in equity of equity method investments		42,896	12,131	(5,574)	49,453
Total	₩	106,836	(29,400)	18,066	95,502

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27. Earnings per Share

(a) Basic earnings per share

(i) Basic earnings per share for the three-month periods ended March 31, 2016 and 2015 are as follows:

		Korean won (millions, except per share amount)	
		2016	2015
Profit for the period attributable to the owners of the Company	₩	57,975	106,189
Interests of hybrid securities, net of tax		(3,272)	(3,175)
Weighted average number of common shares outstanding		29,552,204	29,552,204
Basic earnings per share	₩	1,851	3,486

(ii) Weighted average number of ordinary shares

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

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27. Earnings per Share, Continued

(b) Diluted earnings per share

(i) Diluted earnings per share for three-month periods ended March 31, 2016 and 2015 are as follows:

		Korean won (millions, except per share amount)	
		2016	2015
Profit for the period attributable to the owners of the Company (basic)	₩	57,975	106,189
Interests of hybrid securities, net of tax		(3,272)	(3,175)
Effect of convertible bonds, net of tax (*)		(196)	728
Effect of exchange of exchangeable bond, net of tax (*)		-	(1,513)
Diluted profit attributable to ordinary shareholders		54,507	102,229
Diluted weighted average number of ordinary shares		29,584,327	29,782,165
Diluted earnings per share (in won)	₩	1,842	3,433

(*) For the three-month period ended March 31, 2016, the shares related to JPY convertible bonds, Korea Seven Co., Ltd.'s convertible bonds and the exchangeable bonds were excluded from diluted earnings per share calculation as their effect would have been anti-dilutive.

(ii) Diluted weighted average number of ordinary shares

		Number of shares	
		2016	2015
Basic weighted average number of ordinary shares		29,552,204	29,552,204
Effect of conversion of convertible bonds (*)		32,123	229,961
Diluted weighted average number of ordinary shares		29,584,327	29,782,165

(*) For the three-month period ended March 31, 2016, the shares related to JPY convertible bonds were excluded from diluted earnings per share calculation as their effect would have been anti-dilutive.

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27. Earnings per Share, Continued

(b) Diluted earnings per share, continued

(iii) Potential ordinary shares from conversion of convertible bonds as of March 31, 2016 are as follows:

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

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

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

28. Sales and Cost of Sales

(a) Details of sales for the three-month periods ended March 31, 2016 and 2015 are as follows:

		Korean won (millions)	
		2016	2015
Sales of merchandise	₩	5,952,085	5,765,810
Sales of products		17,006	13,518
Other operating revenue		844,006	811,544
Revenue of card business		365,779	344,501
Total	₩	7,178,876	6,935,373

(b) Details of cost of sales for the three-month periods ended March 31, 2016 and 2015 are as follows:

		Korean won (millions)	
		2016	2015
Cost of merchandise sold	₩	4,637,027	4,461,336
Cost of products sold		9,658	8,321
Cost of other operating revenue		94,290	99,156
Cost of card business		216,898	196,216
Total	₩	4,957,873	4,765,029

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29. Selling, general and administrative expenses:

Details of selling, general and administrative expenses for the three-month periods ended March 31, 2016 and 2015 are as follows:

	Korean won (millions)	
	2016	2015
Salaries	₩ 362,656	342,377
Retirement and termination benefits	29,603	27,455
Other employee benefits	2,575	2,344
Employee welfare	78,933	76,092
Education and training	4,727	4,215
Travel	9,470	9,328
Maintenance fee for car	920	986
Insurance premium	5,344	4,767
Taxes and dues	23,648	22,583
Entertainment expenses	3,480	3,152
Supplies and stationery	21,153	18,468
Communications	11,050	10,578
Utilities	100,466	99,717
Maintenance	22,000	21,266
Rent	290,496	263,521
Depreciation	200,610	202,723
Amortization of intangible assets	23,727	19,199
Commissions and fees	304,112	294,675
Service commission expenses	230,267	216,396
Advertising	71,414	74,211
Sales promotion expenses	163,515	137,108
Decoration	3,511	4,332
Bad debt expenses	74	130
Transportation	45,669	43,507
Provisions	-	33
Others	3,453	4,001
Total	₩ 2,012,873	1,903,164

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30. Other income and expenses

Details of other income and expenses for the three-month periods ended March 31, 2016 and 2015 are as follows:

		Korean won (millions)	
		2016	2015
Other income:			
Gain on foreign currency transactions	₩	378	680
Gain on foreign currency translation		1,186	97
Gain on disposal of investment property		-	699
Gain on disposal of property, plant and equipment		1,572	839
Reversal of impairment losses on other non-current assets		4	1
Reversal of impairment losses on intangible assets		-	69
Others (*1)		13,725	14,315
Total	₩	16,865	16,700
Other expenses:			
Loss on foreign currency transactions	₩	552	192
Loss on foreign currency translation		129	10
Loss on disposal of property, plant and equipment		1,177	1,510
Impairment loss of property, plant and equipment		4	-
Impairment loss on intangible assets		67	-
Donation		4,094	4,377
Other bad debt expenses			
(Reversal of other bad debt expenses)		(425)	1,341
Taxes and dues		58	3,784
Others (*2)		23,118	36,801
Total	₩	28,774	48,015

(*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 periods ended March 31, 2016 and 2015 are as follows:

		Korean won (millions)	
		2016	2015
Purchase of inventories	₩	4,705,737	4,562,181
Changes in inventories		(70,924)	(94,872)
Employee benefits expense		475,673	450,470
Rent		293,068	269,565
Depreciation and amortization		239,049	233,478
Sales commissions		191,012	191,002
Sales promotion expenses		163,556	137,111
Commissions		229,424	197,487
Service commission expenses		247,445	224,035
Advertising		73,628	74,211
Utilities		101,312	102,234
Taxes and dues		24,018	22,617
Others		297,748	298,674
		<u>6,970,746</u>	<u>6,668,193</u>
Total	₩	<u>6,970,746</u>	<u>6,668,193</u>

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32. Finance Income and Finance Costs

Details of finance income and finance costs for the three-month periods ended March 31, 2016 and 2015 are as follows:

		Korean won (millions)	
		2016	2015
Finance income:			
Interest income	₩	23,197	22,869
Dividend income		1,688	1,770
Gain on foreign currency transactions		435	349
Gain on foreign currency translation		41,268	608
Gain on valuation of financial assets and liabilities at fair value through profit or loss		259	-
Gain on valuation of derivative instruments held for the purpose of hedging		5,099	5,287
Gain on transaction of derivative instruments held for the purpose of hedging		-	25
Gain on disposal of investments in subsidiaries , associates and joint ventures		1,982	12,591
Total	₩	<u>73,928</u>	<u>43,499</u>
Finance costs:			
Interest expense	₩	64,757	62,695
Loss on foreign currency transactions		72	117
Loss on foreign currency translation		7,271	11,394
Loss on valuation of financial assets and liabilities at fair value through profit or loss		5,494	960
Loss on valuation of derivative instruments held for the purpose of hedging		38,054	-
Loss on disposal of available-for-sale financial assets		420	792
Loss on valuation of derivative instruments held for the purpose of trading		913	11,441
Loss on transaction of derivative instruments held for the purpose of hedging		520	239
Loss on redemption of debentures		19,226	-
Loss on disposal of investments in subsidiaries, associates and joint ventures		-	16
Total	₩	<u>136,727</u>	<u>87,654</u>

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33. Income Taxes

Income tax expense was recognized as current tax expense adjusted to current adjustments for prior periods, deferred tax income/expenses by origination and reversal of deferred assets/liabilities and temporary differences, and income tax recognized in other comprehensive income. The Group's effective tax rate for the three-month period ended March 31, 2016 was 49.3% (for the three-month period ended March 31, 2015: 39.8%). The increase in effective tax rate was primarily due to the unrecognized deferred tax assets about impairment loss of investments in subsidiary.

34. Consolidated statements of cash flows

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

		Korean won (millions)	
		March 31, 2016	December 31, 2015
Cash	₩	34,273	37,243
Deposits		435,085	587,247
Other cash equivalents		1,150,955	1,126,778
Total	₩	1,620,313	1,751,268

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35. Operating Segments and Geographic Information

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

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

- (b) Information about reportable segments as of and for the three-month periods ended March 31, 2016 and 2015 are as follows:

		Korean won (millions)						
		2016						
		Department stores	Discount stores	Finance business	Consumer electronics retail	Convenience stores	Others	Total
External sales	₩	1,971,205	2,125,614	387,462	887,580	826,125	980,890	7,178,876
Inter-segment sales		7,097	11,503	47,225	120	4,787	62,468	133,200
Total sales	₩	<u>1,978,302</u>	<u>2,137,117</u>	<u>434,687</u>	<u>887,700</u>	<u>830,912</u>	<u>1,043,358</u>	<u>7,312,076</u>
		Korean won (millions)						
		2015						
		Department stores	Discount stores	Finance business	Consumer electronics retail	Convenience stores	Others	Total
External sales	₩	1,953,293	2,095,005	363,954	858,695	698,438	965,988	6,935,373
Inter-segment sales		4,543	10,476	46,235	198	4,471	34,396	100,319
Total sales	₩	<u>1,957,836</u>	<u>2,105,481</u>	<u>410,189</u>	<u>858,893</u>	<u>702,909</u>	<u>1,000,384</u>	<u>7,035,692</u>

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

- (c) Reconciliations of total segment sales and profit to their respective consolidated financial statements line items for the three-month periods ended March 31, 2016 and 2015 are summarized as follows:

		Korean won (millions)			
		2016			
		Sales	Operating profit for the period	Depreciation and amortization	Profit for the period
Department stores	₩	1,978,302	145,257	91,278	142,640
Discount stores		2,137,117	2,067	57,704	(50,691)
Finance business		434,687	32,533	12,477	24,119
Consumer electronics retail		887,700	27,963	13,206	19,037
Convenience stores		830,912	1,551	15,530	2,626
Others		1,043,358	(4,314)	45,228	(59,078)
Segment totals		7,312,076	205,057	235,423	78,653
Elimination of inter-segment amounts		(133,200)	3,073	3,626	(12,626)
Consolidated amounts	₩	7,178,876	208,130	239,049	66,027

		Korean won (millions)			
		2015			
		Sales	Operating profit for the period	Depreciation and amortization	Profit for the period
Department stores	₩	1,957,836	143,472	90,954	131,882
Discount stores		2,105,481	10,224	57,175	(43,076)
Finance business		410,189	42,463	10,982	31,081
Consumer electronics retail		858,893	35,363	13,195	24,405
Convenience stores		702,909	9,046	16,493	(16,047)
Others		1,000,384	30,327	41,071	9,872
Segment totals		7,035,692	270,895	229,870	138,117
Elimination of inter-segment amounts		(100,319)	(3,715)	3,608	(22,680)
Consolidated amounts	₩	6,935,373	267,180	233,478	115,437

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35. Operating Segments and Geographic Information, Continued

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

		Korean won (millions)	
		March 31, 2016	
		Assets	Liabilities
Department stores	₩	16,482,369	9,733,530
Discount stores		9,728,595	2,612,805
Finance business		9,245,891	7,187,226
Consumer electronics retail		2,941,444	1,151,822
Convenience stores		1,116,377	728,116
Others		6,868,244	2,652,982
Segment totals		46,382,920	24,066,481
Elimination of inter-segment assets and liabilities		(943,177)	(943,177)
Adjustments of business combinations		845,512	176,475
Investments in subsidiaries and associates		(5,928,402)	-
Subtotal		(6,026,067)	(766,702)
After consolidated adjustments	₩	40,356,853	23,299,779

		Korean won (millions)	
		December 31, 2015	
		Assets	Liabilities
Department stores	₩	16,704,343	9,886,930
Discount stores		9,742,640	2,678,163
Finance business		9,402,558	7,365,241
Consumer electronics retail		2,905,213	1,122,386
Convenience stores		1,149,742	762,710
Others		6,813,434	2,668,690
Segment totals		46,717,930	24,484,120
Elimination of inter-segment assets and liabilities		(1,041,480)	(1,041,480)
Adjustments of business combinations		851,662	162,884
Investments in subsidiaries and associates		(5,834,746)	-
Subtotal		(6,024,564)	(878,596)
After consolidated adjustments	₩	40,693,366	23,605,524

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35. Operating Segments and Geographic Information, Continued

(e) Sales by geographical areas for three-month periods ended March 31, 2016 and 2015 are summarized as follows:

Region	Korean won (millions)	
	2016	2015
Domestic	₩ 6,602,992	6,322,676
China	363,641	398,599
Vietnam	83,621	68,509
Indonesia	261,822	245,908
Total	₩ 7,312,076	7,035,692

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

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36. Contingent Liabilities and Financial Commitments

(a) As of March 31, 2016, the Group has the following credit facility commitments with financial institutions:

		Credit line Korean won (millions), Foreign currency (thousands)		Amount used under credit facility Korean won (millions), Foreign currency (thousands)
General loan	KRW	1,907,467	KRW	718,167
	CNY	4,545,000	CNY	3,511,003
	VND	3,087,240,000	VND	3,086,972,651
	USD	719,158	USD	718,313
	IDR	2,720,000,000	IDR	1,885,000,000
	HKD	178,000	HKD	178,000
Discount of bill	KRW	1,534,000	KRW	974,000
Buyer's credit	KRW	631,000	KRW	65,884
Bank overdraft	KRW	266,000	KRW	-
	CNY	300,000	CNY	298,518
Guarantee	KRW	9,191	KRW	3,854
Letter of credit and others	USD	36,700	USD	7,612
Others	KRW	67,000	KRW	36

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

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

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36. Contingent Liabilities and Financial Commitments, Continued

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

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

- (c) As of March 31, 2016, the Group is the plaintiff in various lawsuits with damage claims totaling ₩74,393 million and the Group is the defendant in various lawsuits with damage claims totaling ₩95,590 million, among which ₩26,702 million is related to a claim against Lotte Card Co., Ltd., a subsidiary of the Company, related to personal data leaks. The Group cannot reliably estimate the impacts and losses from lawsuit, the first trial of which is ongoing, related to personal data leaks and recognized other provision of ₩4,093 million in regard to the claim. The management believes that the ultimate resolutions of other legal action except 85 lawsuits recognized as an other provision of ₩10,555 million will not have a material effect of the financial position or results of operations of the Group.
- (d) Lotte Card Co., Ltd. has sold certain card assets to SPCs pursuant to the Assets-Backed Securitization Law of the Republic of Korea and assumed the liability to pay the outstanding card assets when the transferred card assets cannot meet the prescribed qualifications in the contract or fall into arrears in accordance with the terms of assets transfer agreement and other contracts. Accordingly, as prescribed in the assets transfer agreement and other contracts, the SPCs have obligations of early redemption of the asset-backed securities when average portfolio earnings ratio during three consecutive settlement periods is lower than the average primary cost ratio or when outstanding balance of adjusted securitized assets is less than the minimum principal balance as of closing date of each settlement period and others.
- (e) The Company has the right to purchase 5.1% of the Hyundai Logistics Co., Ltd. shares held by IGIS I Corporation and in the event the Company does not exercise the call option, IGIS I Corporation has the right to require the Company to purchase 5.1% of Hyundai Logistics Co., Ltd. shares held by IGIS I Corporation. In connection with IGIS I Corporation's borrowings, all IGIS I Corporation shares (₩5,477 million of book value) held by the Company have been in pledge in Mizuho Corporate Bank.
- (f) The Group disposed of land and buildings to structured entities and the Group has been leasing the assets. The details are as follows:
- (i) The Company disposed of land and buildings of 3 stores including Lotte mart Jeju store to KTB Confidence Private Real Estate Investment Trust for ₩220 billion in 2008 and the Company has been leasing the assets. The Company has the options to purchase the assets at a fair value at the end of the lease.
- (ii) The Company disposed of land and buildings of 6 stores including Lotte department store Bundang store to Lotte Retail Real Estate Investment Trust for ₩595 billion in 2010 and 2011, and the Company has been leasing the assets. The Company has the options to purchase the assets at a fair value at the end of the lease.
- (iii) The Company has been leasing the building of Lotte outlet esiapolis store from KB Star Retail Private Real Estate Investment Trust since 2013 and the Company has the preferential right of negotiation to purchase the building.

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36. Contingent Liabilities and Financial Commitments, Continued

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

The Group does not consolidate these structured entities.

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37. Inter-company Transactions and Balances with Consolidated Companies

(a) The Group has provided guarantees for consolidated companies as of March 31, 2016 as follows:

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

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

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

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38. Transactions and Balances with Related Companies

(a) Details of control and subsidiary relationships with the Company as of March 31, 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.

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38. Transactions and Balances with Related Companies, Continued

(b) Significant transactions which occurred in the normal course of business with related companies for the three-month periods ended March 31, 2016 and 2015 are summarized as follows:

Related company	Korean won (millions)				
	2016				
	Sales	Purchase of inventories	Purchase of fixed asset	Other revenue	Other expenses
Shareholders:					
Hotel Lotte Co., Ltd.	₩ 28,507	44	-	16	35,693
Lotte Confectionery Co., Ltd.	3,869	43,182	-	-	3,862
Lotte Chilsung Beverage Co., Ltd.	3,717	29,187	-	-	150
Lotte Engineering & Construction Co., Ltd.	2,378	-	33,381	-	114
Hotel Lotte Pusan Co., Ltd.	2,329	-	-	-	4,695
LOTTE DATA COMMUNICATION COMPANY	754	635	26,309	44	48,839
Korea Fuji Film Co., Ltd.	275	94	-	-	13
Subtotal	41,829	73,142	59,690	60	93,366
Associates:					
DAEHONG COMMUNICATIONS INC.	10,270	-	90	-	20,422
Lotte Station Building Co., Ltd.	6,027	-	-	622	1,402
Lotteria Co., Ltd.	5,684	1,392	-	21	155
Lotte Trading Co., Ltd.	1,044	49,072	-	-	41
Others	23,249	17,520	1,962	22	17,414
Subtotal	46,274	67,984	2,052	665	39,434
Others:					
LOTTE FOOD CO., LTD.	5,562	59,444	-	-	2,454
Lotte Aluminum Co., Ltd.	752	4,497	9,347	-	7,946
Lotte Logistics Co., Ltd.	9,845	534,523	518	-	59,296
Others	17,485	8,183	7,435	74	53,503
Subtotal	33,644	606,647	17,300	74	123,199
Total	₩ 121,747	747,773	79,042	799	255,999

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38. Transactions and Balances with Related Companies, Continued

- (b) Significant transactions which occurred in the normal course of business with related companies for the three-month periods ended March 31, 2016 and 2015 are summarized as follows:, continued

Related company	Korean won (millions)				
	2015				
	Sales	Purchase of inventories	Purchase of fixed asset	Other revenue	Other expenses
Shareholders:					
Hotel Lotte Co., Ltd.	₩ 17,765	34	3,267	7	32,652
Lotte Confectionery Co., Ltd.	3,893	43,057	-	52	3,693
Lotte Chilsung Beverage Co., Ltd.	2,551	22,808	-	18	162
Lotte Engineering & Construction Co., Ltd.	1,472	-	112,622	-	96
Hotel Lotte Pusan Co., Ltd.	2,024	-	-	-	4,979
LOTTE DATA COMMUNICATION COMPANY	7,460	628	43,311	44	42,274
Korea Fuji Film Co., Ltd.	425	170	-	-	-
Sub total	<u>35,590</u>	<u>66,697</u>	<u>159,200</u>	<u>121</u>	<u>83,856</u>
Associates:					
DAEHONG COMMUNICATIONS INC.	7,249	-	165	14	21,309
Lotte Station Building Co., Ltd.	5,400	-	-	-	1,571
Lotteria Co., Ltd.	4,514	1,344	-	-	62
Lotte Trading Co., Ltd.	1,558	56,317	-	-	4
Others	25,169	11,595	4,919	1,331	42,315
Sub total	<u>43,890</u>	<u>69,256</u>	<u>5,084</u>	<u>1,345</u>	<u>65,261</u>
Others:					
LOTTE FOOD CO., LTD.	4,610	47,586	-	12	1,945
Lotte Aluminum Co., Ltd.	733	2,734	6,064	1	8,141
Lotte Logistics Co., Ltd.	6,847	436,492	518	9,796	50,043
Others	15,612	7,967	1,574	108	38,945
Sub total	<u>27,802</u>	<u>494,779</u>	<u>8,156</u>	<u>9,917</u>	<u>99,074</u>
Total	<u>₩ 107,282</u>	<u>630,732</u>	<u>172,440</u>	<u>11,383</u>	<u>248,191</u>

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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March 31, 2016 and 2015

(Unaudited)

38. Transactions and Balances with Related Companies, Continued

- (c) Significant financial transactions with related companies for the three-month periods ended March 31, 2016 and 2015 are summarized as follows:

Related company	Korean won (millions)			
	2016			
	Borrowings	Repayment	Capital increase	
Associates:				
LOTTE Accelerator Corporation	₩ -	-	5,000	
BUSAN-LOTTE CREATIVE FILM FUND	-	-	2,500	
Coralis S.A.	-	-	4,474	
LOTTE Giants Co., Ltd.	-	-	9,000	
Stonebridge Innovation Quarter Fund	-	-	1,770	
Lotte Capital Co., Ltd.	5,000	5,772	-	
Subtotal	5,000	5,772	22,744	
Others:				
Lotte Capital Lease & Finance (China) Co., Ltd. and others	4,995	239	-	
Total	₩ 9,995	6,011	22,744	
Related company	Korean won (millions)			
	2015			
	Borrowings	Repayment	Capital increase	Capital decrease
Associates:				
Lotte Europe Holdings B.V	₩ -	-	10,855	-
Lotte Asset Development Co., Ltd.	-	-	19,571	-
Shandong Longzhile Cinema Co., Ltd.	-	-	437	-
Hemisphere Film Investors II LLC	-	-	-	(3,875)
Others	-	-	3,450	(636)
Subtotal	-	-	34,313	(4,511)
Others:				
Lotte Capital Lease & Finance (China) Co., Ltd. and others	12,147	3,966	-	-
Total	₩ 12,147	3,966	34,313	(4,511)

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

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

Related company	Korean won (millions)				
	2016				
	Receivables		Payables		
	Trade receivables	Other receivables	Trade payables	Borrowings	Other payables
Shareholders:					
Hotel Lotte Co., Ltd.	₩ 7,877	69,722	42	-	25,846
Lotte Confectionery Co., Ltd.	476	11,926	20,270	-	2,111
Lotte Chilsung Beverage Co., Ltd.	602	44,706	5,792	-	6,221
Lotte Engineering & Construction Co., Ltd.	-	29,260	-	-	71,958
Hotel Lotte Pusan Co., Ltd.	133	10,340	-	-	1,572
LOTTE DATA COMMUNICATION COMPANY	16	18,395	439	-	45,778
Korea Fuji Film Co., Ltd.	5	89	65	-	586
Subtotal	9,109	184,438	26,608	-	154,072
Associates:					
DAEHONG COMMUNICATIONS INC.	4,097	1,405	2	-	29,345
Lotte Station Building Co., Ltd.	3,106	20,273	-	-	9,061
Lotteria Co., Ltd.	853	1,069	428	-	10,135
Lotte Trading Co., Ltd.	106	904	9,173	-	111
Others	2,431	8,591	11,783	15,000	29,337
Subtotal	10,593	32,242	21,386	15,000	77,989
Others:					
LOTTE FOOD CO., LTD.	873	3,681	21,427	-	7,764
Lotte Aluminum Co., Ltd.	2	16,892	1,375	-	10,512
Lotte Logistics Co., Ltd.	1	2,597	237,971	-	26,599
Others	2,973	101,813	4,998	20,604	67,393
Subtotal	3,849	124,983	265,771	20,604	112,268
Total	₩ 23,551	341,663	313,765	35,604	344,329

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

38. Transactions and Balances with Related Companies, Continued

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

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

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

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(Unaudited)

38. Transactions and Balances with Related Companies, Continued

- (e) The Group has provided guarantees for related companies as of March 31, 2016 as follows:

Related company	Guarantee recipient	Type of borrowings	Guaranteed amount (thousand)
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 KEXIM (Vietnam)	Working capital	USD 18,500
		Working capital	USD 1,500
Others:			
Lotte Properties(Shenyang) Limited	The Export-Import Bank of Korea	Working capital	USD 30,500

- (f) The fulfillment of the VPF contract between D-Cinema of Korea Co., Ltd. and Twentieth Century Fox Film Corporation was equally guaranteed by CGV and the Group in October 2008.
- (g) The fulfillment of the loyalty contract between Burger King Japan Co., Ltd. and BK Asiapac, Pte. Ltd. was guaranteed by the Group.
- (h) The Group entered into an agreement to jointly provide financial support for HND able 2nd limited ("HND able") and Invest Farmland Co., Ltd. in default of the principal and interest on the Asset Backed Commercial Paper ("ABCP"; ₩700,000 million of par value in maturing in 57 months) issued by HND able on May 27, 2013, which is collateralized with the assets of Lotte Incheon Development Co., Ltd. and on the electronics a short-term debenture (₩34,000 million of par value in maturing in 14 months) issued by Lotte Incheon Town Co., Ltd on October 26, 2015.
- (i) In 2015, Lotte Incheon Town Co., Ltd., which is the Group's associate, entered into a land sale and purchase contract with the government of Incheon city. As a result of the contract, the Group collected a security deposit of ₩30,600 million, which was previously paid by the Group to the Incheon city from Lotte Incheon Town Co., Ltd.
- (j) In 2013, the Group issued hybrid securities, among which ₩20,000 million is held by Lotte Non-Life Insurance Co., Ltd.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Condensed Consolidated Interim Financial Statements

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(Unaudited)

39. Risk Management

(a) Management of financial risks

Objectives and Policies of the Group

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

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

Credit Risk

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

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

1) Exposure to credit risk

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

Account	Korean won (millions)	
	March 31, 2016	December 31, 2015
Cash equivalent (*1)	₩ 1,586,040	1,714,025
Trade and other receivables	896,435	918,851
Other financial assets (current)	9,360,872	9,672,512
Other financial assets (non-current) (*2)	1,524,002	1,527,522
Total	₩ 13,367,349	13,832,910

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

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

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

March 31, 2016 and 2015

(Unaudited)

39. Risk Management, Continued

(a) Management of financial risks, continued

2) Impairment loss

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

		Korean won (millions)			
		March 31, 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	₩	844,124	51,846	51,052	947,022
Other financial assets (current)		9,016,572	308,305	233,010	9,557,887
Other financial assets (non-current)		1,524,002	-	4,057	1,528,059
Total	₩	11,384,698	360,151	288,119	12,032,968

(*) The Group sets up an allowance for doubtful account 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	₩	882,488	36,363	51,228	970,079
Other financial assets (current)		9,296,172	316,064	267,265	9,879,501
Other financial assets (non-current)		1,527,522	-	4,057	1,531,579
Total	₩	11,706,182	352,427	322,550	12,381,159

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

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

39. Risk Management, Continued

(a) Management of financial risks, continued

3) Allowance for doubtful trade and other receivables

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

		Korean won (millions)	
		2016	2015
Balance at beginning of the period	₩	51,228	16,131
Impairment loss		289	38,334
Reversal of Impairment loss		(580)	(144)
Write-offs		(38)	(3,310)
Recoveries		21	83
Others		(333)	134
Balance at end of the period	₩	50,587	51,228

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

		Korean won (millions)	
		2016	2015
Balance at beginning of the period	₩	206,990	179,106
Impairment loss		54,106	211,963
Write-offs		(68,240)	(198,400)
Recoveries		4,158	14,321
Balance at end of the period	₩	197,014	206,990

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

		Korean won (millions)	
		2016	2015
Balance at beginning of the year	₩	4,057	4,000
Impairment loss		-	5,400
Write-offs		-	(5,368)
Business combination		-	25
Balance at end of the period	₩	4,057	4,057

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39. Risk Management, Continued

(a) Management of financial risks, continued

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

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

		Korean won (millions)				
		March 31, 2016				
Description		Carrying amount	3 months or less	3 ~ 6 months	6 ~ 12 months	More than 1 year
Trade and other receivables	₩	51,846	31,983	14,238	2,941	2,684
Other financial assets (current)		308,305	306,280	2,025	-	-
Total	₩	<u>360,151</u>	<u>338,263</u>	<u>16,263</u>	<u>2,941</u>	<u>2,684</u>
		Korean won (millions)				
		December 31, 2015				
Description		Carrying amount	3 months or less	3 ~ 6 months	6 ~ 12 months	More than 1 year
Trade and other receivables	₩	36,363	27,275	2,472	3,240	3,376
Other financial assets (current)		316,064	315,324	740	-	-
Total	₩	<u>352,427</u>	<u>342,599</u>	<u>3,212</u>	<u>3,240</u>	<u>3,376</u>

5) Guarantees

As of March 31, 2016, the Group has provided financial guarantees to associates, joint ventures and other related companies. Should the Group be liable for payment upon defaults of the associates, joint ventures and other related companies, the expected amounts which the Group is liable to pay within 1 year are ₩68,284 million.

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39. Risk Management, Continued

(a) Management of financial risks, continued

Liquidity Risks

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

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

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

Aggregate maturities of financial liabilities, including estimated interest, as of March 31, 2016 are as follows:

Description	Korean won (millions)					
	March 31, 2016					
	Carrying amount	Contractual cash flows	3 months or less	3 ~ 6 months	6 ~ 12 months	More than 1 year
Borrowings and debentures (current)	₩ 3,705,666	3,741,009	1,441,044	600,433	1,699,532	-
Trade and other payables	5,257,294	5,257,294	5,204,722	49,365	3,207	-
Other financial liabilities (current)	510,166	516,870	321,671	17,638	177,561	-
Borrowings and debentures (non-current)	10,101,065	10,733,303	60,955	58,330	125,334	10,488,684
Other financial liabilities (non-current)	328,119	416,016	17,654	3,416	17,695	377,251
Total	₩ 19,902,310	20,664,492	7,046,046	729,182	2,023,329	10,865,935

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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(Unaudited)

39. Risk Management, Continued

(a) Management of financial risks, continued

Market Risks

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

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

1) Currency risk

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

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

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

		Korean won (millions)			
		March 31, 2016		December 31, 2015	
		Assets	Liabilities	Assets	Liabilities
USD	₩	12,539	3,252,462	11,685	3,104,347
EUR		182	2,165	65	2,191
JPY		80	200,775	257	188,311
CNY		936	11	1,249	-
Total	₩	13,737	3,455,413	13,256	3,294,849

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

		Average rate		Closing rate	
		2016	2015	March 31, 2016	December 31, 2015
USD	₩	1,201.44	1,100.26	1,153.50	1,172.00
EUR		1,324.87	1,239.34	1,307.43	1,280.53
JPY		10.43	9.23	10.26	9.72
CNY(*)		183.17	176.45	177.69	180.55

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

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39. Risk Management, Continued

(a) Management of financial risks, continued

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

		Korean won (millions)			
		March 31, 2016		December 31, 2015	
		10% increase	10% decrease	10% increase	10% decrease
USD	₩	745	(745)	684	(684)
EUR		(198)	198	(213)	213
JPY		(10,410)	10,410	(9,695)	9,695
CNY		93	(93)	125	(125)
Total	₩	(9,770)	9,770	(9,099)	9,099

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

2) Interest rate risk

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

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

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

		Korean won (millions)	
		March 31, 2016	December 31, 2015
Variable rate instruments:			
Financial assets	₩	771,991	820,038
Financial liabilities		3,776,922	3,424,414

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39. Risk Management, Continued

(a) Management of financial risks, continued

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

		Korean won (millions)			
		March 31, 2016		December 31, 2015	
		100bps up	100bps down	100bps up	100bps down
Interest income	₩	7,720	(7,720)	8,200	(8,200)
Interest expense		7,884	(7,884)	5,900	(5,900)

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

3) Price risk

The Group is exposed to fluctuations of price in available-for-sale financial assets. The book values of the marketable available-for-sale financial assets as of March 31, 2016 and December 31, 2015 are ₩305,809 million and ₩282,887 million, respectively.

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

		Korean won (millions)			
		March 31, 2016		December 31, 2015	
		10% increase	10% decrease	10% increase	10% decrease
Other comprehensive income	₩	30,581	(30,581)	28,289	(28,289)

(b) Capital Management

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

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

		Korean won (millions)	
		March 31, 2016	December 31, 2015
Liabilities (a)	₩	23,299,779	23,605,524
Equity (b)		17,057,074	17,087,842
Financial instruments (*) (c)		2,764,448	2,998,383
Borrowings (d)		13,806,731	14,083,577
Liabilities to equity ratio (a/b)		136.60%	138.14%
Net borrowings to equity ratio ((d-c)/b)		64.74%	64.87%

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