

LOTTE SHOPPING CO., LTD.

Condensed Separate Interim Financial Statements

**September 30, 2015 and 2014**

(Unaudited)

(With Independent Auditors' Review Report Thereon)

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# Independent Auditors' Review Report

Based on a report originally issued in Korean

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

## **Reviewed financial statements**

We have reviewed the accompanying condensed separate interim financial statements of Lotte Shopping Co., Ltd. (the "Company"), which comprise the condensed separate interim statement of financial position as of September 30, 2015, the condensed separate interim statements of comprehensive income for the three-month and nine-month periods ended September 30, 2015 and 2014, the condensed separate interim statements of changes in equity and cash flows for the nine-month periods ended September 30, 2015 and 2014 and notes, comprising a summary of significant accounting policies and other explanatory information.

## **Management's responsibility**

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

## **Auditors' review responsibility**

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

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

## **Conclusion**

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

### Other matters

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

The separate statement of financial position of the Company as of December 31, 2014, and the related separate statements of comprehensive income, changes in equity and cash flows for the year then ended, which are not accompanying this report, were audited by us in accordance with Korean Standards on Auditing and our report thereon, dated March 10, 2015, expressed an unqualified opinion. The accompanying condensed separate statement of financial position of the Company as of December 31, 2014 presented for comparative purposes, is consistent, in all material respects, with the audited separate financial statements from which it has been derived.

KPMG Samjong Accounting Corp.  
Seoul, Korea  
November 12, 2015

<p>This report is effective as of November 12, 2015, the review report date. Certain subsequent events or circumstances, which may occur between the review report date and the time of reading this report, could have a material impact on the accompanying condensed separate interim financial statements and notes thereto. Accordingly, the readers of the review report should understand that the above review report has not been updated to reflect the impact of such subsequent events or circumstances, if any.</p>
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# LOTTE SHOPPING CO., LTD.

## Condensed Separate Interim Statements of Financial Position

As of September 30, 2015 and December 31, 2014

(Unaudited)

		Korean won (millions)	
	Notes	September 30, 2015	December 31, 2014
Assets			
Cash and cash equivalents	6,34,37 ₩	411,417	917,846
Trade and other receivables	4,6,36,37	855,628	603,278
Other financial assets	5,6,21,37	690,551	308,218
Inventories	7	2,063,468	2,106,771
Other non-financial assets	8	124,961	108,944
Total current assets		4,146,025	4,045,057
Investments in subsidiaries, associates and joint ventures			
	9,10,11,36	5,820,568	5,715,133
Other financial assets	5,6,21,37	1,334,694	1,273,268
Property and equipment	12	13,518,825	13,623,200
Investment property	13	300,011	324,745
Goodwill	14	634,268	634,401
Intangible assets, net	14	418,394	439,289
Other non-financial assets	8	744,669	762,886
Total non-current assets		22,771,429	22,772,922
Total assets ₩		26,917,454	26,817,979

See accompanying notes to the condensed separate interim financial statements.

# LOTTE SHOPPING CO., LTD.

## Condensed Separate Interim Statements of Financial Position, Continued

As of September 30, 2015 and December 31, 2014

(Unaudited)

		Korean won (millions)	
	Notes	September 30, 2015	December 31, 2014
<b>Liabilities</b>			
Borrowings and debentures, net of issuance costs	6,16,37 ₩	1,210,690	1,485,528
Trade and other payables	6,15,36,37	3,617,218	3,951,159
Other financial liabilities	6,21,37	373,996	368,328
Income taxes payable		10,763	160,307
Unearned revenues	17	54,633	99,293
Provisions	18	20,197	1,906
Other non-financial liabilities	19	798,837	777,295
<b>Total current liabilities</b>		<b>6,086,334</b>	<b>6,843,816</b>
Borrowings and debentures, net of issuance costs	6,16,37	3,378,249	2,794,740
Other financial liabilities	6,21,37	66,028	81,461
Employee benefit liabilities	20	114,615	59,026
Deferred tax liabilities		1,091,037	1,069,434
Unearned revenues	17	3,390	3,599
Other non-financial liabilities	19	7,178	1,139
<b>Total non-current liabilities</b>		<b>4,660,497</b>	<b>4,009,399</b>
<b>Total liabilities</b>		<b>10,746,831</b>	<b>10,853,215</b>
<b>Equity</b>			
Common stock of ₩5,000 par value			
Authorized - 60,000,000 shares			
Issued and outstanding – 31,490,892 shares	1,22	157,454	157,454
Capital surplus	22	3,962,094	3,962,094
Hybrid securities	23	269,118	269,118
Capital adjustments	24	(1,806)	(1,806)
Retained earnings	25	11,684,626	11,464,811
Accumulated other comprehensive income	26	99,137	113,093
<b>Total equity</b>		<b>16,170,623</b>	<b>15,964,764</b>
<b>Total liabilities and equity</b>	₩	<b>26,917,454</b>	<b>26,817,979</b>

See accompanying notes to the condensed separate interim financial statements.

# LOTTE SHOPPING CO., LTD.

## Condensed Separate Interim Statements of Comprehensive Income

For the three and nine-month periods ended September 30, 2015 and 2014

(Unaudited)

		Korean won (millions, except for earnings per share)			
		2015		2014	
	Notes	Three-month period	Nine-month period	Three-month period	Nine-month period
Sales	28,35,36 ₩	3,995,843	11,903,984	3,883,026	11,794,582
Cost of sales	7,28,31,36	(2,719,826)	(8,070,587)	(2,623,703)	(7,995,074)
<b>Gross profit</b>		<u>1,276,017</u>	<u>3,833,397</u>	<u>1,259,323</u>	<u>3,799,508</u>
Selling, general and administrative expenses	29,31,36	(1,114,896)	(3,367,153)	(1,014,071)	(3,043,457)
<b>Operating profit</b>		<u>161,121</u>	<u>466,244</u>	<u>245,252</u>	<u>756,051</u>
Other income	30,36	6,093	24,542	104,598	125,638
Other expenses	30,36	(17,528)	(52,627)	(33,240)	(60,031)
Finance income	32	126,252	220,026	48,812	154,502
Finance costs	32	(163,303)	(274,149)	(71,765)	(138,674)
<b>Profit before income tax</b>		<u>112,635</u>	<u>384,036</u>	<u>293,657</u>	<u>837,486</u>
Income tax expense	33	(27,666)	(90,342)	(71,092)	(201,653)
<b>Profit for the period</b>		<u>84,969</u>	<u>293,694</u>	<u>222,565</u>	<u>635,833</u>
<b>Other comprehensive income (loss):</b>	26				
<b>Items that will never be reclassified to profit or loss:</b>					
Remeasurements of net defined benefit liabilities	20	(9,488)	(6,944)	(2,386)	(8,462)
Income tax on items that will never be reclassified to profit or loss		<u>2,296</u>	<u>1,680</u>	<u>578</u>	<u>2,048</u>
<b>Total items that will never be reclassified to profit or loss</b>		<u>(7,192)</u>	<u>(5,264)</u>	<u>(1,808)</u>	<u>(6,414)</u>
<b>Items that are or may be reclassified subsequently to profit or loss:</b>					
Net change in unrealized fair value of available-for-sale financial assets	26	(16,568)	(162)	18,947	46,754
Effective portion of unrealized changes in fair values of cash flow hedges	21,26	(8,610)	(18,250)	(985)	(2,692)
Income tax on items that are or may be reclassified subsequently to profit or loss		<u>6,093</u>	<u>4,456</u>	<u>(4,347)</u>	<u>(10,663)</u>
<b>Total items that are or may be reclassified subsequently to profit or loss</b>		<u>(19,085)</u>	<u>(13,956)</u>	<u>13,615</u>	<u>33,399</u>
<b>Other comprehensive income (loss) for the period, net of tax</b>		<u>(26,277)</u>	<u>(19,220)</u>	<u>11,807</u>	<u>26,985</u>
<b>Total comprehensive income for the period</b>		<u>58,692</u>	<u>274,474</u>	<u>234,372</u>	<u>662,818</u>
<b>Earnings per share</b>	27				
- Basic earnings per share (in won)		2,769	9,616	7,424	21,194
- Diluted earnings per share (in won)	₩	<u>2,769</u>	<u>9,616</u>	<u>7,230</u>	<u>19,863</u>

See accompanying notes to the condensed separate interim financial statements.

LOTTE SHOPPING CO., LTD.

Condensed Separate Interim Statements of Changes in Equity

For the nine-month periods ended September 30, 2015 and 2014

(Unaudited)

		Korean won (millions)						
		Capital stock	Capital surplus	Hybrid securities	Capital adjustments	Retained earnings	Accumulated other comprehensive income	Total equity
Balance at January 1, 2014	₩	157,454	3,962,094	269,118	(1,806)	10,979,307	90,105	15,456,272
Total comprehensive income (loss) for the period								
Profit for the period		-	-	-	-	635,833	-	635,833
Other comprehensive income (loss):								
Net change in unrealized fair value of available-for-sale financial assets		-	-	-	-	-	35,440	35,440
Effective portion of unrealized changes in fair values of cash flow hedges		-	-	-	-	-	(2,041)	(2,041)
Remeasurements of net defined benefit liabilities		-	-	-	-	(6,414)	-	(6,414)
Subtotal		-	-	-	-	(6,414)	33,399	26,985
Total comprehensive income (loss) for the period		-	-	-	-	629,419	33,399	662,818
Transactions with owners of the Company, recognized directly in equity:								
Interest payment of hybrid securities		-	-	-	-	(9,511)	-	(9,511)
Dividends		-	-	-	-	(44,328)	-	(44,328)
Subtotal		-	-	-	-	(53,839)	-	(53,839)
Balance at September 30, 2014	₩	157,454	3,962,094	269,118	(1,806)	11,554,887	123,504	16,065,251

See accompanying notes to the condensed separate interim financial statements.



LOTTE SHOPPING CO., LTD.

Condensed Separate Interim Statements of Changes in Equity, Continued

For the nine-month periods ended September 30, 2015 and 2014

(Unaudited)

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

See accompanying notes to the condensed separate interim financial statements.

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

**For the nine-month periods ended September 30, 2015 and 2014**

(Unaudited)

		Korean won (millions)	
		2015	2014
<b>Cash flows from operating activities</b>			
Profit for the period	₩	293,694	635,833
Income tax expense		90,342	201,653
Post-employment benefits expense		53,670	49,892
Long-term employee benefits expense		2,301	3,340
Depreciation		403,530	362,454
Amortization		69,755	66,492
Loss on foreign currency translation		136,030	73
Loss on foreign currency transactions		12,124	3,340
Loss on disposal of property and equipment		5,260	22,537
Loss on disposal of intangible assets		2	-
Reversal of bad debt expenses		53	(20)
Other bad debt expenses		9	2,313
Impairment loss of other non-current assets		437	-
Loss on valuation of financial liabilities at fair value through profit or loss		10,585	-
Loss on disposal of available-for-sale financial assets		792	-
Loss on valuation of derivative instruments		12,210	10,573
Loss on redemption of debentures		-	131
Rental expenses (Amortization of discount on deposit, etc.)		41,723	36,354
Loss on disposal of investments in subsidiaries, associates and joint ventures		351	10,729
Gain on valuation of financial liabilities at fair value through profit or loss		-	(5,912)
Gain on foreign currency translation		(496)	(24,804)
Gain on foreign currency transactions		(57)	(1)
Gain on disposal of property and equipment		(1,390)	(99,338)
Gain on valuation of derivative instruments		(141,535)	(29,694)
Gain on transaction of derivative instruments		-	(3,340)
Gain on redemption of debentures		-	(17,397)
Reversal of impairment of other non-financial assets		(5)	-
Gain on disposal of available-for-sale financial assets		(152)	(662)
Rental income		(1,686)	(1,944)
Interest expense		102,097	113,899
Interest income		(39,849)	(41,308)
Dividend income		(38,433)	(31,500)
Trade receivables		(216,474)	105,636
Other receivables		(29,163)	6,167
Other financial assets		34,215	(90,571)
Inventories		43,303	(115,023)
Other non-financial assets		(48,154)	(65,366)
Trade payables		(129,711)	(63,995)
Other payables		(189,916)	(58,879)
Other financial liabilities		(14,436)	89,634
Other non-financial liabilities		146,197	94,451
Unearned revenues		(5,540)	(11,489)
Provisions		18,786	13,330
Payment of post-employment benefits and long-term employee benefits		(32,186)	(34,512)
Plan assets		21,182	27,158
Income tax paid		(186,894)	(394,096)
<b>Net cash provided by operating activities</b>	₩	<b>422,571</b>	<b>766,138</b>

*See accompanying notes to the condensed separate interim financial statements.*

**LOTTE SHOPPING CO., LTD.**

**Condensed Separate Interim Statements of Cash Flows, Continued**

**For the nine-month periods ended September 30, 2015 and 2014**

(Unaudited)

		Korean won (millions)	
		2015	2014
<b>Cash flows from investing activities</b>			
Proceeds from sale of short-term financial assets	₩	347,183	22,487
Collection of short-term loans		7,426	8,300
Proceeds from sale of available-for-sale financial assets		38,716	13,990
Proceeds from sale of investments in subsidiaries, associates and joint ventures		1,941	181
Proceeds from disposal of property and equipment		79,245	747,282
Proceeds from disposal of other intangible assets		592	2,462
Decrease of other assets		-	4
Cash inflows from capital distribution from subsidiaries and associates		5,714	750
Purchase of short-term financial assets		(722,351)	(12,683)
Purchase of long-term financial instruments		(2,000)	-
Increase of short-term loans		(26)	-
Purchase of available-for-sale financial assets		(6,303)	(29,505)
Purchase of investments in subsidiaries, associates and joint ventures		(113,445)	(151,315)
Acquisition of property and equipment		(560,304)	(932,540)
Acquisition of other intangible assets		(46,106)	(38,089)
Cash outflows from business combination		-	(27,463)
Interest received		16,519	18,495
Dividends received		33,490	31,500
<b>Net cash used in investing activities</b>	₩	<b>(919,709)</b>	<b>(346,144)</b>

*See accompanying notes to the condensed separate interim financial statements.*

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

**For the nine-month periods ended September 30, 2015 and 2014**

(Unaudited)

		Korean won (millions)	
		<b>2015</b>	<b>2014</b>
<b>Cash flows from financing activities</b>			
Proceeds from short-term borrowings	₩	-	150,000
Proceeds from issuance of debentures		1,236,356	398,979
Proceeds from long-term borrowings		-	99,100
Repayment of short-term borrowings		(150,000)	-
Redemption of current portion of long-term debt		(946,078)	(942,483)
Payment of hybrid securities interests		(9,511)	(9,511)
Interest paid		(80,953)	(91,493)
Dividend paid		(59,104)	(44,328)
<b>Net cash used in financing activities</b>	₩	<b>(9,290)</b>	<b>(439,736)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(506,428)</b>	<b>(19,742)</b>
<b>Cash and cash equivalents at January 1</b>		<b>917,846</b>	<b>582,493</b>
<b>Impact of foreign currency exchange rates on cash and cash equivalents</b>		<b>(1)</b>	<b>-</b>
<b>Cash and cash equivalents at September 30</b>	₩	<b>411,417</b>	<b>562,751</b>

*See accompanying notes to the condensed separate interim financial statements.*

# LOTTE SHOPPING CO., LTD.

## Notes to the Condensed Separate Interim Financial Statements

September 30, 2015 and 2014

(Unaudited)

### 1. General Description of Reporting Entity

#### (a) Organization and description of the Company

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

The stockholders of the Company as of September 30, 2015 are as follows:

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

### 2. Basis of Accounting

#### (a) Statement of compliance

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

These condensed separate interim financial statements were prepared in accordance with K-IFRS No. 1034 ‘*Interim Financial Reporting*’ as part of the period covered by the Company’s K-IFRS annual separate financial statements. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Company since the last annual separate financial statements as at and for the year ended December 31, 2014.

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

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

September 30, 2015 and 2014

(Unaudited)

**2. Basis of Accounting, Continued**

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

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

In preparing these condensed separate interim financial statements, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the separate financial statements as of and for the year ended December 31, 2014.

**3. Significant Accounting Policies**

Except as described below, the accounting policies applied by the Company in these condensed separate interim financial statements are the same as those applied by the Company in its separate financial statements as of and for the year ended December 31, 2014. The following accounting policies for emissions rights are also expected to be reflected in the Company's separate financial statements as of and for the year ending December 31, 2015.

**(a) Emissions Rights**

The Company accounts for greenhouse gases emission right and the relevant liability as below pursuant to the *Act on Allocation and Trading of Greenhouse Gas Emission* which became effective in 2015.

**(i) Greenhouse Gases Emission Right**

Greenhouse Gases Emission Right consists of emission allowances which are allocated from the government free of charge or purchased from the market. The cost includes any directly attributable costs incurred during the normal course of business.

Emission rights held for the purpose of performing the obligation is classified as an intangible asset and is initially measured at cost and are carried at cost less accumulated impairment losses after initial recognition. Emission rights held for short-swing profits are classified as current asset and are measured at fair value with any changes in fair value recognized as profit or loss in the respective reporting period.

The Company derecognizes an emission right asset when the emission allowance is unusable, disposed or submitted to government in which the future economic benefits are no longer expected to be probable.

**(ii) Emission liability**

Emission liability is a present obligation of submitting emission rights to the government with regard to emission of greenhouse gas. Emission liability is recognized when outflows of resources in performing the obligation is probable and the costs required to perform the obligation are reliably estimable. Emission liability is an amount of estimated obligations for emission rights to be submitted to the government for the performing period. The emission liability is measured based on the expected quantity of emission for the performing period in excess of emission allowance in possession and the unit price for such emission rights in the market at the end of the reporting period.

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

September 30, 2015 and 2014

(Unaudited)

4. Trade and Other Receivables

Trade and other receivables as of September 30, 2015 and December 31, 2014 are summarized as follows:

		Korean won (millions)	
		September 30, 2015	December 31, 2014
Trade receivables	₩	693,997	481,791
Other receivables		167,491	127,286
Allowance for doubtful accounts		(5,860)	(5,799)
Total	₩	855,628	603,278

5. Restricted Deposits

Restricted deposits included in current and non-current other financial assets as of September 30, 2015 and December 31, 2014 are summarized as follows:

		Korean won (millions)	
		September 30, 2015	December 31, 2014
Description	Depository		
Current:			
Time deposits	BUSAN BANK	₩ 2,851	2,683
Special deposits	Industrial Bank of Korea and others	98,000	98,000
Non-current:			
Time deposits	BUSAN BANK	2,000	-
Special deposits	Shinhan Bank and others	16	16
Available-for-sale financial assets	Gyeongsangnam-do Metropolitan Government and others	33,203	34,916
Total		₩ 136,070	135,615

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

September 30, 2015 and 2014

(Unaudited)

6. Fair Value of Financial Instruments

- (a) The carrying amount and the fair value of financial instruments as of September 30, 2015 and December 31, 2014 are summarized as follows:

		Korean won (millions)			
		September 30, 2015		December 31, 2014	
		Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	Cash and cash equivalents	₩ 411,417	411,417	917,846	917,846
Loans and receivables (*1)	Current:				
	Trade and other receivables	855,628	855,628	603,278	603,278
	Short-term financial instruments	475,851	475,851	100,683	100,683
	Short-term loans	6,500	6,500	8,100	8,100
	Accrued income	2,537	2,537	3,200	3,200
	Deposits	139,430	139,430	195,484	195,484
	Non-current:				
	Long-term financial instruments	2,000	2,000	-	-
	Opening a checking account deposit	16	16	16	16
	Long-term loans	46,200	46,200	55,000	55,000
	Deposits	831,580	831,580	770,898	770,898
	Subtotal	2,359,742	2,359,742	1,736,659	1,736,659
Available-for-sale financial assets	Marketable available-for-sale equity securities (*2)	207,269	207,269	224,099	224,099
	Non-marketable available-for-sale equity securities (*3)	119,720	119,720	103,068	103,068
	Equity securities valued by acquisition cost (*4)	76,552	76,552	75,066	75,066
	Non-marketable debt securities (*5)	119	119	32,546	32,546
	Subtotal	403,660	403,660	434,779	434,779
Derivative assets held for the purpose of hedging	Current derivative assets-hedge	66,233	66,233	751	751
	Non-current derivative assets-hedge	51,238	51,238	12,575	12,575
	Subtotal	117,471	117,471	13,326	13,326
	Total	₩ 3,292,290	3,292,290	3,102,610	3,102,610



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

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(Unaudited)

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

- (a) The carrying amount and the fair value of financial instruments as of September 30, 2015 and December 31, 2014 are summarized as follows:, continued

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

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

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

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

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

- (b) Other financial assets as of September 30, 2015 and December 31, 2014 are summarized as follows:

Account	Korean won (millions)	
	September 30, 2015	December 31, 2014
Current:		
Short-term financial instruments	₩ 475,851	100,683
Short-term loans	6,500	8,100
Accrued income	2,537	3,200
Deposits	139,430	195,484
Derivative assets held for the purpose of hedging	66,233	751
Subtotal	690,551	308,218
Non-current:		
Long-term financial instruments	2,000	-
Opening a checking account deposit	16	16
Available-for-sale financial assets	403,660	434,779
Long-term loans	46,200	55,000
Deposits	831,580	770,898
Derivative assets held for the purpose of hedging	51,238	12,575
Subtotal	1,334,694	1,273,268
Total	₩ 2,025,245	1,581,486

# LOTTE SHOPPING CO., LTD.

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(Unaudited)

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

(c) Available-for-sale financial assets as of September 30, 2015 and December 31, 2014 are summarized as follows:

Description	Korean won (millions)				December 31,
	September 30, 2015				2014
	Number of shares	Percentage of ownership	Acquisition cost	Carrying amount	Carrying amount
<b>Marketable available-for-sale financial assets:</b>					
BNK Financial Group Inc. (Formerly, BS Financial Group Inc.)	6,561,494	2.80%	₩ 42,042	89,892	95,142
Shinhan Financial Group Co., Ltd.	311,118	0.07%	2,247	12,880	13,829
LOTTE FOOD CO., LTD.	47,180	3.45%	10,167	49,492	27,364
momo.com Inc.	7,319,420	5.15%	35,956	51,554	85,187
Others			2,752	3,451	2,577
Subtotal			93,164	207,269	224,099
<b>Non-marketable available-for-sale financial assets:</b>					
Lotte Aluminum Co., Ltd.	125,016	12.05%	55,881	86,924	71,375
LOTTE Logistics Corp.	66,308	4.64%	4,000	11,493	10,278
Lotte Properties (Shenyang) Limited	29,928,756	17.93%	41,919	41,919	41,919
Government and public bonds			119	119	32,546
Others			63,666	55,936	54,562
Subtotal			165,585	196,391	210,680
Total			₩ 258,749	403,660	434,779

LOTTE SHOPPING CO., LTD.

Notes to the Condensed Separate Interim Financial Statements

September 30, 2015 and 2014

(Unaudited)

6. Fair Value of Financial Instruments, Continued

- (d) The carrying amount and the fair value of financial liabilities as of September 30, 2015 and December 31, 2014 are summarized as follows:

		Korean won (millions)			
		September 30, 2015		December 31, 2014	
		Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities at fair value through profit or loss	Overseas convertible bonds	₩ 115,909	115,909	105,325	105,325
	Current derivative liabilities held for the purpose of trading	12,670	12,670	-	-
	Non-current derivative liabilities held for the purpose of trading	24,539	24,539	27,883	27,883
	Subtotal	153,118	153,118	133,208	133,208
Financial liabilities based on amortized cost (*)	Current:				
	Trade and other payables	3,617,218	3,617,218	3,951,159	3,951,159
	Short-term borrowings	200,000	200,000	350,000	350,000
	Current portion of long-term borrowings	-	-	276,042	276,042
	Current portion of debentures	894,781	894,781	859,486	859,486
	Financial guarantee liabilities	5,447	5,447	5,736	5,736
	Accrued expenses	148,107	148,107	139,469	139,469
	Current portion of deposits received	207,068	207,068	222,692	222,692
	Non-current:				
	Long-term borrowings	199,220	199,220	99,322	99,322
	Debentures	3,179,029	3,179,029	2,590,093	2,590,093
	Deposits received	39,258	39,258	34,818	34,818
	Subtotal	8,490,128	8,490,128	8,528,817	8,528,817
Derivative liabilities held for the purpose of hedging	Current derivative liabilities-hedge	704	704	431	431
	Non-current derivative liabilities-hedge	2,231	2,231	18,760	18,760
	Subtotal	2,935	2,935	19,191	19,191
Total		₩ 8,646,181	8,646,181	8,681,216	8,681,216

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

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

September 30, 2015 and 2014

(Unaudited)

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

(e) Other financial liabilities as of September 30, 2015 and December 31, 2014 are summarized as follows:

		Korean won (millions)	
		September 30, 2015	December 31, 2014
Current:			
Derivative liabilities held for the purpose of trading	₩	12,670	-
Derivative liabilities held for the purpose of hedging		704	431
Financial guarantee liabilities		5,447	5,736
Accrued expenses		148,107	139,469
Deposits received		207,068	222,692
Subtotal		373,996	368,328
Non-current:			
Derivative liabilities held for the purpose of trading		24,539	27,883
Derivative liabilities held for the purpose of hedging		2,231	18,760
Deposit received		39,258	34,818
Subtotal		66,028	81,461
Total	₩	440,024	449,789

LOTTE SHOPPING CO., LTD.  
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(Unaudited)

6. Fair Value of Financial Instruments, Continued

(f) The fair value hierarchy

The fair value measurements classified by fair value hierarchy as of September 30, 2015 are as follows:

Description		Korean won (millions)			Total
		Level I	Level II	Level III	
Available-for-sale financial assets	₩	207,269	119	119,721	327,109
Derivative assets		-	117,471	-	117,471
Total financial assets		<u>207,269</u>	<u>117,590</u>	<u>119,721</u>	<u>444,580</u>
Financial liabilities at fair value through profit or loss		-	115,909	-	115,909
Derivative liabilities		-	2,935	37,209	40,144
Total financial liabilities	₩	<u>-</u>	<u>118,844</u>	<u>37,209</u>	<u>156,053</u>

The fair value measurements classified by fair value hierarchy as of December 31, 2014 are as follows:

Description		Korean won (millions)			Total
		Level I	Level II	Level III	
Available-for-sale financial assets	₩	224,099	32,546	103,068	359,713
Derivative assets		-	13,326	-	13,326
Total financial assets		<u>224,099</u>	<u>45,872</u>	<u>103,068</u>	<u>373,039</u>
Financial liabilities at fair value through profit or loss		-	105,325	-	105,325
Derivative liabilities		-	34,745	12,329	47,074
Total financial liabilities	₩	<u>-</u>	<u>140,070</u>	<u>12,329</u>	<u>152,399</u>

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

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

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(Unaudited)

6. Fair Value of Financial Instruments, Continued

(g) Level 3 fair values

Changes in Level 3 fair values for the nine-month period ended September 30, 2015 and for the year ended December 31, 2014 are as follows:

Description		Korean won (millions)	
		2015	2014
Beginning of the period	₩	90,739	184,103
Transfer into Level 3		(15,554)	-
Transfer out of Level 3		-	(29,119)
Loss included in finance costs			
Loss on valuation of derivative instruments		(9,326)	(2,589)
Gain (loss) included in OCI			
Net change in unrealized fair value of available-for-sale financial assets		16,653	(5,030)
Purchases		-	6,073
Disposal		-	(12,898)
Reclassification to investment in associates		-	(49,801)
End of the period	₩	82,512	90,739

(h) Sensitivity analysis

For the fair values of available-for-sale financial assets, stock options and embedded derivatives, reasonably possible changes as of September 30, 2015 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	5,996	(4,746)	2,042	4,347

(ii) Stock options (liability – classified)

Description	Korean won (millions)			
	Stock price		Stock price volatility	
	10% Decrease	10% Increase	1% Decrease	1% Increase
Stock options	(5,358)	5,398	(48)	62

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

September 30, 2015 and 2014

(Unaudited)

6. Fair Value of Financial Instruments, Continued

(h) Sensitivity analysis, continued

(iii) Embedded derivatives

Description	Korean won (millions)	
	Stock price volatility	
	1% Decrease	1% Increase
Exchange rights	(45)	61

7. Inventories

(a) Inventories as of September 30, 2015 and December 31, 2014 are summarized as follows:

		Korean won (millions)					
		September 30, 2015			December 31, 2014		
		Acquisition cost	Allowance for inventory valuation	Book value	Acquisition cost	Allowance for inventory valuation	Book value
Merchandise	₩	2,068,724	(15,208)	2,053,516	2,081,026	(6,177)	2,074,849
Finished goods		4,180	(969)	3,211	3,821	(928)	2,893
Goods in process		331	-	331	292	-	292
Raw materials		250	-	250	157	-	157
Subsidiary materials		20	-	20	9	-	9
Supplies		153	-	153	517	-	517
Materials-in-transit		3,878	-	3,878	2,206	-	2,206
Unfinished apartment units		465	-	465	9,787	-	9,787
Lots		1,644	-	1,644	16,061	-	16,061
Total	₩	2,079,645	(16,177)	2,063,468	2,113,876	(7,105)	2,106,771

(b) During the three and nine-month periods ended September 30, 2015 and 2014, 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)			
		2015		2014	
		Three-month period	Nine-month period	Three-month period	Nine-month period
Cost of goods sold:					
- Amount of inventories recognized as cost of goods sold	₩	2,614,290	7,857,557	2,530,019	7,789,249
- Changes of allowance for valuation losses of inventories		1,410	9,072	(28)	(3,488)

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

September 30, 2015 and 2014

(Unaudited)

**8. Other Non-financial Assets**

Other non-financial assets as of September 30, 2015 and December 31, 2014 are summarized as follows:

		Korean won (millions)	
		September 30, 2015	December 31, 2014
Current:			
Advance payments	₩	38,925	40,068
Prepaid expenses		86,036	68,876
Subtotal		124,961	108,944
Non-current:			
Long-term advance payments		129,444	131,155
Long-term prepaid expenses (*)		615,225	631,731
Subtotal		744,669	762,886
Total	₩	869,630	871,830

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



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September 30, 2015 and 2014

(Unaudited)

9. Investments in Associates

The details of investments in associates as of September 30, 2015 and December 31, 2014 are summarized as follows:

Company	Location	Principal business	Percentage of ownership (%)	September 30, 2015	
					Korean won (millions) Balance at September 30
Lotte Station Building Co., Ltd.	Korea	Distribution	25.00	₩	157,380
Daehong Communications Co., Ltd.	Korea	Advertisement agency	34.00		28,785
Lotte Capital Co., Ltd.	Korea	Capital	22.36		77,413
Lotteria Co., Ltd.	Korea	Restaurant chain	38.68		112,864
FRL Korea Co., Ltd.	Korea	Retail	49.00		24,827
Lotte Asset Development Co., Ltd.	Korea	Real estate development	39.14		72,890
Zara Retail Korea Co., Ltd.	Korea	Retail	20.00		16,106
LOTTE Giants Co., Ltd.	Korea	Baseball club	30.00		823
Lotte Europe Holdings B.V.	Netherlands	Holding company	26.98		99,672
Coralis S.A.	Luxembourg	Holding company	45.00		55,131
S.M.CONTENTES INVESTMENT	Korea	Film producing company	25.00		1,750
Capital One Diversity Cinema Fund	Korea	Film producing company	20.00		364
UNION INVESTMENT PARTNERS	Korea	Film producing company	26.67		4,000
Capital One Middle-Low Budget Cinema Fund	Korea	Film producing company	25.00		3,000
Hubei XL Cinema Co., Ltd.	China	Cinema	49.00		9,423
Hemisphere Film Investors II LLC (*1)	America	Film producing company	100.00		21,026
TW No.14 Culture Contents Fund	Korea	Film producing company	30.00		6,000
Leading Asia Contents Fund	Korea	Film producing company	21.01		4,000
Shandong Longzhile Cinema Co., Ltd.	China	Cinema	49.00		7,173
Lotte Incheon Development Co., Ltd.	Korea	Real estate lease	37.50		15,000
Lotte Trading Co., Ltd.	Korea	Product brokerage	27.68		92,782
Eunpyeong PFV	Korea	Real estate development	20.11		3,500
Lotte Incheon Town Co., Ltd. (*2)	Korea	Real estate lease	35.00		3,500
Total				₩	817,409

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

(\*2) During 2015, the investment was reclassified from subsidiary to associate due to the decrease in percentage of ownership.

LOTTE SHOPPING CO., LTD.  
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September 30, 2015 and 2014

(Unaudited)

9. Investments in Associates, Continued

The details of associates as of September 30, 2015 and December 31, 2014 are summarized as follows:, continued

Company	Location	Principal business	Percentage of ownership (%)	December 31, 2014	
					Korean won (millions) Balance at December 31
Lotte Station Building Co., Ltd.	Korea	Distribution	25.00	₩	157,380
Daehong Communications Co., Ltd.	Korea	Advertisement agency	34.00		28,785
LOTTE.COM INC. (*1)	Korea	Distribution	34.39		11,610
Lotte Capital Co., Ltd.	Korea	Capital	22.36		77,413
Lotteria Co., Ltd.	Korea	Restaurant chain	38.68		112,864
FRL Korea Co., Ltd.	Korea	Retail	49.00		24,827
Lotte Asset Development Co., Ltd.	Korea	Real estate development	39.14		53,319
Zara Retail Korea Co., Ltd.	Korea	Retail	20.00		16,106
LOTTE Giants Co., Ltd.	Korea	Baseball club	30.00		823
Lotte Europe Holdings B.V. (*2)	Netherlands	Holding company	30.97		88,817
Coralis S.A.	Luxembourg	Holding company	45.00		55,131
S.M.CONTENTS INVESTMENT	Korea	Film producing company	25.00		1,750
Capital One Diversity Cinema Fund	Korea	Film producing company	20.00		1,000
UNION INVESTMENT PARTNERS	Korea	Film producing company	26.67		4,000
Capital One Middle-Low Budget Cinema Fund	Korea	Film producing company	25.00		3,000
Hubei XL Cinema Co., Ltd.	China	Cinema	49.00		9,423
Hemisphere Film Investors II LLC (*3)	America	Film producing company	100.00		26,740
TW No.14 Culture Contents Fund	Korea	Film producing company	30.00		6,000
Leading Asia Contents Fund	Korea	Film producing company	21.01		4,000
Shandong Longzhile Cinema Co., Ltd.	China	Cinema	49.00		6,736
Lotte Incheon Development Co., Ltd.	Korea	Real estate lease	37.50		15,000
Lotte Trading Co., Ltd.	Korea	Product brokerage	27.68		92,782
Eunpyeong PFV	Korea	Real estate development	20.11		3,500
Total				₩	801,006

(\*1) During 2015, the investment was reclassified from associate to subsidiary upon acquisition of additional interests.

(\*2) The Company performed impairment test for the investment in the investee and estimated recoverable amount based on valuation from external valuation agency. As a result of the impairment test, the Company recognized an impairment loss of ₩51,661 million in 2014.

(\*3) The Company is a non-managing partner of Hemisphere Film Investors II LLC and does not have power to govern its financial and operation policies, but has significant influence on the entity.

# LOTTE SHOPPING CO., LTD.

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### 10. Joint Ventures

When the Company has rights to the net assets of the joint venture entity, the Company classifies the investment as a joint venture. The details of joint ventures as of September 30, 2015 and December 31, 2014 are summarized as follows:

September 30, 2015				
Company	Location	Principal business	Percentage of ownership (%)	Korean won (millions) Balance at September 30, 2015
D-Cinema of Korea Co., Ltd.	Korea	Film equipment	50.00	₩ -
Shenyang SL Cinema Investment Management Co., Ltd.	China	Cinema	49.00	1,496
STL Co., Limited	Korea	Retail	50.00	4,000
Total				₩ 5,496
December 31, 2014				
Company	Location	Principal business	Percentage of ownership (%)	Korean won (millions) Balance at December 31, 2014
D-Cinema of Korea Co., Ltd.	Korea	Film equipment	50.00	₩ -
Shenyang SL Cinema Investment Management Co., Ltd.	China	Cinema	49.00	1,496
STL Co., Limited	Korea	Retail	50.00	4,000
Total				₩ 5,496

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11. Investments in Subsidiaries

(a) The details of subsidiaries of the Company as of September 30, 2015 and December 31, 2014 are as follows:

Subsidiaries	Location	Products or services	Fiscal year	Percentage of ownership (%) (*1)	September 30, 2015	
					Korean won (millions)	Balance at September 30, 2015
Lotte Card Co., Ltd.	Korea	Credit card, financing	Dec. 31	93.78	₩	1,000,090
Woori Home Shopping & Television Co., Ltd.	Korea	TV Home Shopping	Dec. 31	53.03		393,213
Korea Seven Co., Ltd.	Korea	Distribution	Dec. 31	51.14		82,473
Lotte Gimhae Development Co., Ltd.	Korea	Service company	Dec. 31	100.00		300
Lotte Suwon Station Shopping Town Co., Ltd.	Korea	Real estate development	Dec. 31	95.00		94,810
Lotte Songdo Shopping Town Co., Ltd.	Korea	Real estate development	Dec. 31	56.30		60,000
NCF Co., Ltd.	Korea	Apparel manufacturing	Dec. 31	99.80		20,059
CS Mart Co., Ltd.	Korea	Distribution	Dec. 31	99.95		255,826
LOTTE Himart Co., Ltd. (*2)	Korea	Consumer electronics retail	Dec. 31	65.25		1,248,068
Lotte Department Store Masan Co., LTD.	Korea	Distribution	Dec. 31	100.00		16,500
Lotte Members Co., Ltd (*4)	Korea	Business support service	Dec. 31	93.78		12,065
LOTTE.COM INC (*5)	Korea	E-commerce business	Dec. 31	50.01		23,177
Lotte Shopping Holdings (Hong Kong) Co., Ltd. (*6)	Hong Kong	Holding company	Dec. 31	100.00		773,173
LOTTE SHOPPING HOLDINGS (SINGAPORE) PTE. LTD.	Singapore	Holding company	Dec. 31	100.00		339,146
Lotte Vietnam Shopping Co., Ltd.	Vietnam	Distribution	Dec. 31	100.00		125,243
Qingdao LOTTE Mart Commercial Co., Ltd.	China	Distribution	Dec. 31	53.84		-
LOTTE MART COMPANY LIMITED	China	Distribution	Dec. 31	100.00		111,636
Liaoning LOTTE Mart Co., Ltd.	China	Distribution	Dec. 31	40.00		-
PT. LOTTE SHOPPING INDONESIA	Indonesia	Distribution	Dec. 31	55.00		214,068
LOTTE CINEMA VIETNAM CO., LTD.	Vietnam	Cinema	Dec. 31	90.00		15,066
LOTTE PROPERTIES (CHENGDU) HK LIMITED	Hong Kong	Holding company	Dec. 31	73.46		160,391
Lotte (China) Management Co., Ltd.	China	Managing company	Dec. 31	70.00		6,232
LOTTE HOTEL & RETAIL VIETNAM PTE. LTD.	Singapore	Holding company	Dec. 31	20.00		14,185
LHSC Limited	Cayman Islands	Holding company	Dec. 31	16.02		31,942
					₩	<u>4,997,663</u>

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

(a) The details of subsidiaries of the Company as of September 30, 2015 and December 31, 2014 are as follows:, continued

Subsidiaries	Location	Products or services	Fiscal year	Percentage of ownership (%) (*1)	December 31, 2014	
					Korean won (millions)	Balance at December 31, 2014
Lotte Card Co., Ltd.	Korea	Credit card, financing	Dec. 31	93.78	₩	1,012,153
Woori Home Shopping & Television Co., Ltd.	Korea	TV Home Shopping	Dec. 31	53.03		393,213
Korea Seven Co., Ltd.	Korea	Distribution	Dec. 31	51.14		82,473
Lotte Gimhae Development Co., Ltd.	Korea	Service company	Dec. 31	100.00		300
Lotte Suwon Station Shopping Town Co., Ltd.	Korea	Real estate development	Dec. 31	95.00		94,810
Lotte Songdo Shopping Town Co., Ltd.	Korea	Real estate development	Dec. 31	56.30		60,000
NCF Co., Ltd.	Korea	Apparel manufacturing	Dec. 31	98.30		19,716
CS Mart Co., Ltd.	Korea	Distribution	Dec. 31	99.95		255,826
LOTTE Himart Co., Ltd. (*2)	Korea	Consumer electronics retail	Dec. 31	65.25		1,248,068
Lotte Incheon Town Co., Ltd. (*3)	Korea	Real estate lease	Dec. 31	100.00		50
Lotte Department Store Masan Co., Ltd.	Korea	Distribution	Dec. 31	100.00		4,500
Lotte Shopping Holdings (Hong Kong) Co., Ltd. (*6)	Hong Kong	Holding company	Dec. 31	100.00		720,125
LOTTE SHOPPING HOLDINGS (SINGAPORE) PTE. LTD.	Singapore	Holding company	Dec. 31	100.00		336,974
Lotte Vietnam Shopping Co., Ltd.	Vietnam	Distribution	Dec. 31	100.00		125,243
Qingdao LOTTE Mart Commercial Co., Ltd.	China	Distribution	Dec. 31	53.84		-
LOTTE MART COMPANY LIMITED	China	Distribution	Dec. 31	100.00		111,636
Liaoning LOTTE Mart Co., Ltd. (*6)	China	Distribution	Dec. 31	40.00		-
PT. LOTTE SHOPPING INDONESIA	Indonesia	Distribution	Dec. 31	55.00		214,068
LOTTE CINEMA VIETNAM CO., LTD.	Vietnam	Cinema	Dec. 31	90.00		15,066
LOTTE PROPERTIES (CHENGDU) HK LIMITED	Hong Kong	Holding company	Dec. 31	73.46		160,391
Lotte (China) Management Co., Ltd.	China	Managing company	Dec. 31	70.00		6,232
LOTTE HOTEL & RETAIL VIETNAM PTE. LTD.	Singapore	Holding company	Dec. 31	20.00		14,185
LHSC Limited	Cayman Islands	Holding company	Dec. 31	16.02		31,942
Lotte Shopping Reit Management Singapore PTE. LTD.	Singapore	Real estate lease	Dec. 31	100.00		1,660
					₩	<u>4,908,631</u>

# LOTTE SHOPPING CO., LTD.

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### 11. Investments in Subsidiaries, Continued

- (\*1) Percentage of ownership represents ownership held by the Company. Percentage of ownership described in note 36 represents ownership held by the Company and its subsidiaries.
- (\*2) During 2013, the Company issued exchangeable bonds which are exchangeable to common stocks of LOTTE Himart Co., Ltd. The total number of the exchangeable common stocks for the issued bonds is 3,538,224 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 50.26%. 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 September 30, 2015, the total number of the common stocks of LOTTE Himart Co., Ltd. under securities lending agreements is 1,180,384 shares. The Company does not have voting right and disposal of the lent shares is restricted.
- (\*3) During 2015, the investment was reclassified from subsidiary to associate due to the decrease in percentage of ownership.
- (\*4) During 2015, Lotte Members Co., Ltd. split off from Lotte Card Co., Ltd.
- (\*5) During 2015, the investment was reclassified from associate to subsidiary upon acquisition of additional interests.
- (\*6) The Company performed impairment test and used discounted cash flow model for determining recoverable amount. As a result of the impairment test, the Company recognized an impairment loss of ₩279,189 million in 2014.
- (b) The fair value of marketable securities of the Company's investments in subsidiaries as of September 30, 2015 and December 31, 2014 are summarized as follows:

Description		Korean won (millions)	
		September 30, 2015	December 31, 2014
LOTTE Himart Co., Ltd.	₩	1,019,697	1,039,721

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12. Property and Equipment

(a) Property and equipment as of September 30, 2015 and December 31, 2014 are summarized as follows:

Korean won (millions)						
September 30, 2015			December 31, 2014			
Acquisition cost	Accumulated depreciation	Book value	Acquisition cost	Accumulated depreciation	Book value	
Land	₩ 7,598,875	-	7,598,875	7,564,061	-	7,564,061
Buildings	6,067,339	(1,847,495)	4,219,844	6,026,151	(1,714,220)	4,311,931
Structures	332,171	(93,813)	238,358	328,262	(83,290)	244,972
Machinery	86,034	(40,968)	45,066	84,654	(35,658)	48,996
Vehicles	5,288	(3,218)	2,070	4,991	(2,787)	2,204
Display fixtures	208,096	(141,577)	66,519	196,059	(125,556)	70,503
Furniture and fixtures	2,776,176	(1,962,554)	813,622	2,588,540	(1,738,207)	850,333
Tools and equipment	484	(484)	-	484	(484)	-
Construction-in-progress	534,471	-	534,471	530,200	-	530,200
Total	₩ 17,608,934	(4,090,109)	13,518,825	17,323,402	(3,700,202)	13,623,200

(b) Changes in property and equipment for the nine-month period ended September 30, 2015 are as follows:

Korean won (millions)						
2015						
Book value as of January 1	Acquisitions	Depreciation	Disposals	Others (*)	Book value as of September 30	
Land	₩ 7,564,061	3,840	-	(37,280)	68,254	7,598,875
Buildings	4,311,931	10,014	(123,899)	(152,210)	174,008	4,219,844
Structures	244,972	-	(10,547)	(62)	3,995	238,358
Machinery	48,996	584	(5,450)	(4)	940	45,066
Vehicles	2,204	418	(553)	-	1	2,070
Display fixtures	70,503	8,929	(17,723)	(112)	4,922	66,519
Furniture and fixtures	850,333	96,135	(242,548)	(1,695)	111,397	813,622
Tools and equipment	-	-	-	-	-	-
Construction-in-progress	530,200	362,531	-	(16,489)	(341,771)	534,471
Total	₩ 13,623,200	482,389	(400,720)	(207,790)	21,746	13,518,825

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

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(Unaudited)

**12. Property and Equipment, Continued**

(c) Changes in property and equipment for the year ended December 31, 2014 are as follows:

		Korean won (millions)					
		<b>2014</b>					
	Book value as of January 1	Acquisitions	Increase from business combination	Depreciation	Disposals	Others (*)	Book value as of December 31
Land	₩ 7,739,014	7,441	-	-	(513,260)	330,866	7,564,061
Buildings	4,104,700	9,266	-	(161,001)	(398,259)	757,225	4,311,931
Structures	193,130	640	-	(13,563)	(55,628)	120,393	244,972
Machinery	44,148	2,521	-	(5,738)	(1)	8,066	48,996
Vehicles	2,015	899	-	(651)	(49)	(10)	2,204
Display fixtures	50,049	13,285	-	(19,017)	(248)	26,434	70,503
Furniture and fixtures	794,308	135,906	1,571	(289,409)	(2,419)	210,376	850,333
Tools and equipment	-	-	-	-	-	-	-
Construction-in- progress	743,497	1,215,445	-	-	(203)	(1,428,539)	530,200
Total	₩ 13,670,861	1,385,403	1,571	(489,379)	(970,067)	24,811	13,623,200

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

(d) There are no impairment losses and reversals of impairment losses for the nine-month period ended September 30, 2015 and for the year ended December 31, 2014.



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**13. Investment Property**

(a) Investment property as of September 30, 2015 and December 31, 2014 are summarized as follows:

		Korean won (millions)					
		September 30, 2015			December 31, 2014		
		Acquisition cost	Accumulated depreciation	Book value	Acquisition cost	Accumulated depreciation	Book value
Land	₩	217,902	-	217,902	221,515	-	221,515
Buildings		135,357	(53,248)	82,109	164,600	(61,370)	103,230
Total	₩	353,259	(53,248)	300,011	386,115	(61,370)	324,745

(b) Changes in investment property for the nine-month period ended September 30, 2015 are as follows:

		Korean won (millions)				
		2015				
		Book value as of January 1	Acquisitions	Depreciation	Others (*)	Book value as of September 30
Land	₩	221,515	-	-	(3,613)	217,902
Buildings		103,230	-	(2,810)	(18,311)	82,109
Total	₩	324,745	-	(2,810)	(21,924)	300,011

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

(c) Changes in investment property for the year ended December 31, 2014 are as follows:

		Korean won (millions)				
		2014				
		Book value as of January 1	Acquisitions	Depreciation	Others (*)	Book value as of December 31
Land	₩	248,255	-	-	(26,740)	221,515
Buildings		106,606	-	(4,612)	1,236	103,230
Total	₩	354,861	-	(4,612)	(25,504)	324,745

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

(d) There are no impairment losses and reversals of impairment losses for the nine-month period ended September 30, 2015 and for the year ended December 31, 2014.

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**14. Intangible Assets and Goodwill**

(a) Intangible assets and goodwill as of September 30, 2015 and December 31, 2014 are summarized as follows:

		Korean won (millions)							
		September 30, 2015				December 31, 2014			
		Acquisition cost	Accumulated amortization	Accumulated impairment losses	Book value	Acquisition cost	Accumulated amortization	Accumulated impairment losses	Book value
Goodwill	₩	641,003	-	(6,735)	634,268	641,486	-	(7,085)	634,401
Industrial property rights		5,326	(4,257)	-	1,069	4,944	(3,775)	-	1,169
Rights to use facility		524,362	(137,795)	-	386,567	524,376	(117,883)	-	406,493
Membership		16,260	-	-	16,260	15,889	-	-	15,889
Other intangible assets (*)		189,564	(174,906)	(160)	14,498	141,443	(125,545)	(160)	15,738
Total	₩	1,376,515	(316,958)	(6,895)	1,052,662	1,328,138	(247,203)	(7,245)	1,073,690

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

(b) Changes in intangible assets and goodwill for the nine-month period ended September 30, 2015 are as follows:

		Korean won (millions)					
		2015					Book value as of September 30
		Book value as of January 1	Acquisitions	Amortization	Disposals	Others (*)	
Goodwill	₩	634,401	40	-	(211)	38	634,268
Industrial property rights		1,169	155	(482)	-	227	1,069
Rights to use facility		406,493	-	(19,912)	(14)	-	386,567
Membership		15,889	536	-	(165)	-	16,260
Other intangible assets		15,738	23,122	(49,361)	-	24,999	14,498
Total	₩	1,073,690	23,853	(69,755)	(390)	25,264	1,052,662

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

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**14. Intangible Assets and Goodwill, Continued**

(c) Changes in intangible assets and goodwill for the year ended December 31, 2014 are as follows:

		Korean won (millions)							
		2014							
		Book value as of January 1	Acquisitions	Increase from business combination	Amortization	Impairment	Disposals	Others (*)	Book value as of December 31
Goodwill	₩	627,451	-	5,563	-	(517)	(759)	2,663	634,401
Industrial property rights		1,538	306	-	(675)	-	-	-	1,169
Rights to use facility		452,081	-	-	(27,763)	-	(18,339)	514	406,493
Membership		15,539	337	-	-	-	-	13	15,889
Other intangible assets		11,647	57,352	8,100	(61,370)	-	-	9	15,738
Total	₩	1,108,256	57,995	13,663	(89,808)	(517)	(19,098)	3,199	1,073,690

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

**15. Trade and Other Payables**

Trade and other payables as of September 30, 2015 and December 31, 2014 are summarized as follows:

		Korean won (millions)	
		September 30, 2015	December 31, 2014
Trade payables	₩	2,785,349	2,915,028
Other payables		831,869	1,036,131
Total	₩	3,617,218	3,951,159

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**16. Borrowings and Debentures**

(a) Borrowings and debentures as of September 30, 2015 and December 31, 2014 are summarized as follows:

		Korean won (millions)	
		September 30, 2015	December 31, 2014
Current:			
Short-term borrowings	₩	200,000	350,000
Current portion of long-term borrowings		-	276,042
Current portion of long-term debentures		1,034,360	859,920
Discount on debentures		(1,963)	(434)
Exchange rights adjustment		(21,707)	-
Subtotal		1,210,690	1,485,528
Non-current:			
Long-term borrowings		199,679	100,000
Discount on long-term borrowings		(459)	(678)
Long-term debentures		3,183,950	2,730,605
Discount on debentures		(4,921)	(6,783)
Exchange rights adjustment		-	(28,404)
Subtotal		3,378,249	2,794,740
Total	₩	4,588,939	4,280,268

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**16. Borrowings and Debentures, Continued**

(b) Short-term borrowings as of September 30, 2015 and December 31, 2014 are summarized as follows:

Lender	Annual interest rate (%)		Korean won (millions)	
			September 30, 2015	December 31, 2014
Shinhan Bank	91days CD rate+0.15	₩	200,000	350,000
Total		₩	200,000	350,000

(c) Long-term borrowings as of September 30, 2015 and December 31, 2014 are summarized as follows:

Lender	Annual interest rate (%)	Maturity		Korean won (millions)	
				September 30, 2015	December 31, 2014
Lotte Co., Ltd. (Japan)	3M JPY Tibor+1.129	Aug. 31, 2018	₩	99,679	92,014
Mizuho Bank, Ltd.	- 2.67	- Mar. 17, 2017		- 100,000	184,028 100,000
Subtotal				199,679	376,042
Less: Discount on borrowings				(459)	(678)
Subtotal				199,220	375,364
Less: Current portion of long-term borrowings, net of discount				-	(276,042)
Total			₩	199,220	99,322

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**16. Borrowings and Debentures, Continued**

(d) Debentures as of September 30, 2015 and December 31, 2014 are summarized as follows:

Description	Maturity	Interest rate (%)	Korean won (millions)	
			September 30, 2015	December 31, 2014
54-2nd placed	Mar. 12, 2015	-	₩ -	400,000
59-1st placed	Aug. 07, 2015	-	-	350,000
59-2nd placed	Aug. 07, 2017	3.20	230,000	230,000
59-3rd placed	Aug. 07, 2019	3.33	200,000	200,000
60th placed (foreign currency)	Dec. 13, 2015	3M USD Libor+0.68	119,450	109,920
61st placed	Mar. 21, 2018	3.05	100,000	100,000
62nd placed	Jun. 21, 2018	2.80	110,000	110,000
63-1st placed	Jul. 02, 2017	2.79	200,000	200,000
63-2nd placed	Jul. 02, 2019	3.08	200,000	200,000
64-1st placed (foreign currency)	May 25, 2018	3M USD Libor+0.50	179,175	164,880
64-2nd placed (foreign currency)	May 25, 2018	3M USD Libor	119,450	109,920
64-3rd placed (foreign currency)	May 25, 2018	3M USD Libor+0.02	119,450	109,920
65-1st placed	Mar. 03, 2020	2.26	160,000	-
65-2nd placed	Mar. 03, 2022	2.45	240,000	-
66-1st placed	Jun. 23, 2020	2.40	130,000	-
66-2nd placed	Jun. 23, 2022	2.64	50,000	-
66-3rd placed	Jun. 23, 2025	2.98	140,000	-
67-1st placed (foreign currency)	Aug. 17, 2018	3M USD Libor+0.60	179,175	-
67-2nd placed (foreign currency)	Aug. 17, 2018	3M USD Libor+0.02	119,450	-
67-3rd placed (foreign currency)	Aug. 06, 2018	3M USD Libor+0.60	119,450	-
68th placed	Jul. 31, 2020	2.40	110,000	-
1st placed (Global bond)	Apr. 07, 2016	3.88	477,800	439,680
2nd placed (Global bond)	May 09, 2017	3.38	477,800	439,680
USD convertible bonds (*1)	Jul. 05, 2016	-	22,714	20,744
JPY convertible bonds (*1)	Jul. 05, 2016	-	93,196	84,581
Exchangeable bonds (*2)	Jan. 24, 2018	-	321,200	321,200
Subtotal			4,218,310	3,590,525
Less: Discount on debentures			(6,884)	(7,217)
Less: Exchange rights adjustment			(21,707)	(28,404)
Total book value			4,189,719	3,554,904
Less: Current portion of debentures, net of discount			(1,010,690)	(859,486)
Total			₩ 3,179,029	2,695,418

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**16. Borrowings and Debentures, Continued**

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

- (a) Type of bonds: Registered overseas unsecured convertible bonds
- (b) Total face value of bonds:
  - USD Bonds: 19,200,000
  - JPY Bonds: 9,560,000,000
  - Total (in won): 149,412,924,000
- (c) Exchange Rate
  - USD Fixed Exchange Rate: exchange rate of KRW 1,083.50/USD 1.00
  - JPY Fixed Exchange Rate: exchange rate of KRW 13.4529/JPY 1.00
- (d) Bond interest rate
  - Coupon rate (%): -
  - Yield to maturity (%): 0 (overseas convertible bonds without guarantee in U.S. dollars)  
(0.25) (overseas convertible bonds without guarantee in Japanese yen)
- (e) Date of bond maturity: July 5, 2016
- (f) Principal redemption method:
  - i. Redemption on the maturity date: Redemption in lump sum on the maturity date for the principal amount of bonds for which a condition for early redemption has not occurred and the conversion right has not been exercised.
  - ii. Early redemption: The Company has a call option, whereas bond holders have a put option.
- (g) Put option by bondholders:
  - The put option can be exercised if any of the following conditions occurs:
    - i. On the third anniversary of the date of payment (July 5, 2014);
    - ii. If any change of control occurs in the Company; or
    - iii. The issued stocks of the Company are unlisted from the stock exchange or their transaction is suspended for 30 consecutive transaction days or longer.
- (h) Call option by the Company:
  - The call option can be exercised if any of the following conditions occurs:
    - i. If the closing price for 20 transactional days in 30 consecutive transaction days reaches 130% or more of the conversion price between 3 years from the issuance date and 30 business days to the maturity date;
    - ii. If the balance of bonds that has not been redeemed reaches less than 10% of the sum of the total issued amount (clean up call); or
    - iii. Any additional tax burden arises due to the amendments of the related laws and regulations.
- (i) Matters relating to conversion:
  - i. Conversion ratio (%): 100
  - ii. Conversion price (KRW per share) (\*): 647,979
  - iii. Method to decide conversion price:
    - While following Article 5-22 of the Regulations on Issuance, Public Disclosure, etc. of Securities, 23.8% conversion premium was applied to the closing price of the shares listed on the Korea Exchange on the day of conversion price determination.
  - iv. Type of shares to be issued following conversion: Registered common shares
  - v. Period to apply for conversion:
    - Start date: July 5, 2012
    - End date: 7 business days prior to the maturity date
  - vi. Matters for the adjustment of conversion price:
    - In the case where a condition for re-adjustment of the conversion price has occurred, such as share dilution, the conversion price will be adjusted in accordance with the provisions in the relevant bonds purchase agreement.

(\*) On March 20, 2015, 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 ₩650,000 to ₩647,979.

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### 16. Borrowings and Debentures, Continued

(\*2) The Company issued five-year bonds in 2013 which are exchangeable to shares of LOTTE Himart Co., Ltd. The terms and conditions are summarized as follows:

- |  |  |
|--|--|
| (a) Type of bonds:   | Registered overseas unsecured exchangeable bonds |
| (b) Total face value of bonds (KRW):   | 321,200,000,000                                  |
| (c) Bond interest rate   |  |
| Coupon rate (%):   | 0%   |
| Yield to maturity (%):   | 0%   |
| (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.                                       |  |
| ii. Early redemption: The Company has a call option, whereas bond holders have a put option.   |  |
| (f) Put option by bondholders:   |  |
| The put option can be exercised if any of the following conditions occurs:   |  |
| i. On the third anniversary of the date of payment (January 24, 2016);   |  |
| ii. If any change of control occurs in the LOTTE Himart; or  |  |
| iii. The issued stocks of the Company are delisted from the stock exchange or their transaction is suspended for 30 consecutive transaction days or longer.  |  |
| (g) Call option by the Company:  |  |
| The call option can be exercised if any of the following conditions occurs:  |  |
| i. If the closing price of LOTTE Himart Co., Ltd. for 20 transactional days in 30 consecutive transaction days reaches 130% or more of the exchange price between 3 years from the issuance date (January 24, 2016) and 30 business days to the maturity date; |  |
| ii. If the balance of bonds that has not been redeemed reaches less than 10% of the sum of the total issued amount (clean up call); or   |  |
| iii. Any additional tax burden arises due to the amendments of the related laws and regulations.   |  |
| (h) Matters relating to exchange:  |  |
| i. Exchange ratio (%):   | 100  |
| ii. Exchange price (KRW per share):  | 90,780   |
| iii. Type of shares to be issued following exchange:   | Common shares of LOTTE Himart Co., Ltd.          |
| iv. Period to apply for exchange:  |  |
| Start date:  | March 5, 2013                                    |
| End date:  | January 15, 2018                                 |
| v. Matters for the adjustment of exchange price:   |  |
| In case when a condition for re-adjustment of the exchange price has occurred, such as a stock dividend, the exchange price will be adjusted in accordance with the provisions in the relevant bonds purchase agreement.                                       |  |



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**16. Borrowings and Debentures, Continued**

(e) Maturities of long-term borrowings and debentures as of September 30, 2015 are scheduled as follows:

		Korean won (millions)	
		Borrowings	Debentures
Within 1 year	₩	-	1,034,360
1 ~ 2 years		100,000	907,800
2 ~ 3 years		99,679	1,046,150
3 ~ 4 years		-	400,000
More than 4 years		-	830,000
Total	₩	199,679	4,218,310

**17. Unearned Revenues**

The details of unearned revenues as of September 30, 2015 and December 31, 2014 are as follows:

		Korean won (millions)	
		September 30, 2015	December 31, 2014
Current:			
Membership points (*1)	₩	-	39,104
Other points (*2)		47,594	54,181
Unearned rental income		1,566	1,780
Others		5,473	4,228
Subtotal		54,633	99,293
Non-current:			
Unearned rental income		3,390	3,599
Total	₩	58,023	102,892

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

(\*2) Other points are primarily related to promotional gift certificates issued upon sales.

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18. Provisions

Changes in provisions for the nine-month period ended September 30, 2015 and for the year ended December 31, 2014 are as follows:

		Korean won (millions)			
		2015			
		Book value as of January 1	Increase	Utilization	Book value as of September 30
Current:					
Provision for bonus points reward program (note 17)	₩	496	-	(496)	-
Provision for bonus payable		-	49,804	(30,422)	19,382
Provision for sales return		1,410	815	(1,410)	815
Total	₩	1,906	50,619	(32,328)	20,197

  

		Korean won (millions)			
		2014			
		Book value as of January 1	Increase	Utilization	Book value as of December 31
Current:					
Provision for bonus points reward program	₩	679	1,263	(1,446)	496
Provision for bonus payable		-	41,884	(41,884)	-
Provision for sales return		1,676	1,410	(1,676)	1,410
Total	₩	2,355	44,557	(45,006)	1,906

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**19. Other Non-financial Liabilities**

Other non-financial liabilities as of September 30, 2015 and December 31, 2014 are summarized as follows:

		Korean won (millions)	
		September 30, 2015	December 31, 2014
Current:			
Withholdings	₩	36,688	33,922
Withholdings of value added tax		40,509	53,123
Advances received (*)		721,640	690,250
Subtotal		798,837	777,295
Non-current:			
Others		7,178	1,139
Total	₩	806,015	778,434

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

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**20. Employee Benefits**

- (a) Details of defined benefit liabilities as of September 30, 2015 and December 31, 2014 are summarized as follows:

		Korean won (millions)	
		September 30, 2015	December 31, 2014
Present value of defined benefit obligations	₩	414,326	373,496
Fair value of plan assets		(336,087)	(350,514)
Total	₩	78,239	22,982

- (b) Details of present value of other long-term employee benefits as of September 30, 2015 and December 31, 2014 are summarized as follows:

		Korean won (millions)	
		September 30, 2015	December 31, 2014
Present value of other long-term employee benefits	₩	36,376	36,044

- (c) Changes in the present value of defined benefit obligations for the nine-month period ended September 30, 2015 and for the year ended December 31, 2014 are as follows:

		Korean won (millions)	
		2015	2014
Beginning of the period	₩	373,496	325,767
Current service costs		52,268	65,289
Interest costs		9,991	15,741
Remeasurements:			
- Gain from change in demographic assumptions		-	(3,206)
- Gain from change in financial assumptions		-	(2,318)
- Loss (gain) from experience adjustments		4,671	4,310
Payments		(30,250)	(39,622)
Others		4,150	7,535
End of the period	₩	414,326	373,496

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20. Employee Benefits, Continued

- (d) Changes in fair value of plan assets for the nine-month period ended September 30, 2015 and for the year ended December 31, 2014 are as follows:

		Korean won (millions)	
		2015	2014
Beginning of the period	₩	350,514	309,887
Return on plan assets		8,589	13,324
Actuarial loss		(2,273)	(4,859)
Employer contribution		2,507	61,272
Payments		(23,689)	(31,883)
Others		439	2,773
End of the period	₩	336,087	350,514

- (e) The components of plan assets as of September 30, 2015 and December 31, 2014 are summarized as follows:

		Korean won (millions)	
		September 30, 2015	December 31, 2014
Principal-guaranteed insurance policies	₩	336,049	350,470
Others		38	44
Total	₩	336,087	350,514

- (f) Expenses recognized for the three-month and nine-month periods ended September 30, 2015 and 2014 are as follows:

		Korean won (millions)			
		2015		2014	
		Three-month period	Nine-month period	Three-month period	Nine-month period
Current service costs	₩	17,782	52,268	16,520	48,234
Interest costs		3,549	9,991	3,935	11,385
Return on plan assets		(2,836)	(8,589)	(3,195)	(9,727)
Contributions to defined contribution plans		6	43	-	-
Long-term employee benefits		600	2,301	1,784	3,340
Total	₩	19,101	56,014	19,044	53,232

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**21. Derivative Instruments and Hedge Accounting**

(a) Details of derivatives outstanding as of September 30, 2015 are as follows:

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

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

(b) Details of currency swaps, as of September 30, 2015 are as follows:

Type	Description	Principal amount (thousands)		Fixed exchange rate (won)	Variable rate	Swap rate	Maturity
Currency swap	60th placed (foreign currency)	USD	100,000	1,087.00	3M USD Libor+0.68	2.50%	December 13, 2015
	64-1st placed (foreign currency)	USD	150,000	1,105.90	3M USD Libor+0.50	2.24%	May 25, 2018
	64-2nd placed (foreign currency)	USD	100,000	1,105.90	3M USD Libor	2.25%	May 25, 2018
	64-3rd placed (foreign currency)	USD	100,000	1,109.80	3M USD Libor+0.02	2.25%	May 25, 2018
	67-1st placed (foreign currency)	USD	150,000	1,165.80	3M USD Libor+0.60	2.07%	August 17, 2018
	67-2nd placed (foreign currency)	USD	100,000	1,169.00	3M USD Libor+0.02	2.05%	August 17, 2018
	67-3rd placed (foreign currency)	USD	100,000	1,171.00	3M USD Libor+0.60	1.90%	August 06, 2018
	2nd placed (Global bond)	USD	100,000		3.38%	3.75%	May 09, 2017
		USD	100,000	1,135.70		3.70%	
	1st placed	USD	50,000	1,044.12	Not applicable	Not applicable	April 05, 2016
	(Global bond)	USD	50,000	1,049.90			
		USD	20,000	1,043.60			
		USD	30,000	1,043.10			
		USD	50,000	1,049.00			
Currency forward		USD	100,000	1,106.65			
		USD	50,000	1,106.35			
		USD	50,000	1,106.15			
	2nd placed (Global bond)	USD	100,000	1,095.66	Not applicable	Not applicable	May 04, 2017
		USD	60,000	1,093.80			
		USD	40,000	1,094.12			
	USD convertible bonds	USD	19,200	1,103.40	Not applicable	Not applicable	June 30, 2016
	JPY convertible bonds	JPY	3,441,456	9.2927	Not applicable	Not applicable	July 01, 2016
		JPY	3,000,000	9.2918			
		JPY	3,000,000	9.2942			
	Short term borrowings	KR		Not applicable	91days CD rate+0.20%	2.81%	April 20, 2016
		W	100,000		91days CD rate+0.18%	1.95%	May 29, 2017
		KR			91days CD rate+0.15%	1.17%	September 23, 2016
		W	200,000				

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

- (c) Changes in the fair value of derivative instruments for the nine-month period ended September 30, 2015 are as follows:

Description	Type of derivatives	Related accounts	Korean won (millions)
	Currency swap	Gain on valuation of derivative instruments	₩ 71,150
		Unrealized loss on valuation of derivative instruments	(13,922)
Cash flow hedge	Interest rate swap	Unrealized loss on valuation of derivative instruments	(214)
	Currency forward	Gain on valuation of derivative instruments	67,501
		Unrealized loss on valuation of derivative instruments	(4,114)
Purpose of trading	Embedded derivatives	Gain on valuation of derivative instruments	2,884
	Stock options	Loss on valuation of derivative instruments	(12,210)

**22. Capital Stock and Capital Surplus**

- (a) Pursuant to its amended Articles of Incorporation, the Company's authorized capital stock is 60,000,000 shares, which consist of common shares and preferred shares each with a par value of ₩5,000 per share. The Company is authorized to issue non-voting preferred shares of up to one-fourth of the Company's total issued and outstanding capital stock. Holders of preferred shares may, upon a resolution of the board of directors at the time of the issuance of the preferred shares, be entitled to receive dividends prior to the holders of common shares. The preferred shares will be automatically converted to common shares within ten years of issuance as determined by the Company's board of directors. However, if the holders of preferred shares do not receive the minimum dividends as prescribed, the prescribed conversion date will be extended to the time when all such minimum dividend amounts are paid to the holders of preferred shares. As of September 30, 2015, the Company has not issued any preferred stock and 31,490,892 shares of common stock were issued and outstanding.
- (b) Capital surplus as of September 30, 2015 and December 31, 2014 consists of the following:

		Korean won (millions)	
		September 30, 2015	December 31, 2014
Additional paid-in capital	₩	3,786,431	3,786,431
Others		175,663	175,663
	₩	3,962,094	3,962,094



# LOTTE SHOPPING CO., LTD.

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### 23. Hybrid Securities Classified as Equity

Hybrid securities classified as equity as of September 30, 2015 and December 31, 2014 are as follows:

	Date of issue	Date of maturity	Interest rate (%)		Korean won (millions)	
					September 30, 2015	December 31, 2014
Hybrid security 1-1 (*)	2013-11-15	2043-11-15	4.723	₩	240,000	240,000
Hybrid security 1-2 (*)	2013-11-15	2043-11-15	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 ~ 2018-11-15: 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, September 30, September 30, December 30 of each calendar year (Conditional deferral of interest payments is available to the Company)
Others	The Company can call the hybrid security at year 5 and interest payment date afterwards. The hybrid security holder's preference in the event of liquidation is the same as the preference stock holders; higher than the common stock holders but lower than other creditors.	

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

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### 24. Capital Adjustments

As of January 1, 2013, the Company merged with Lotte Midopa Co., Ltd. In connection with the merger, the Company issued 1,933,873 shares of common stocks in exchange for 51,475,843 shares of Lotte Midopa Co., Ltd. which the Company had held and 228 shares of treasury stocks of Lotte Midopa Co., Ltd. The Company recognized the acquisition cost of the treasury stocks as zero ("0"). In addition, the Company acquired 4,815 shares of fractional shares for ₩1,806 million and, as a result, the Company holds 1,938,688 shares of treasury stocks as of September 30, 2015.

### 25. Retained Earnings

Details of retained earnings as of September 30, 2015 and December 31, 2014 are as follows:

		Korean won (millions)	
		September 30, 2015	December 31, 2014
Legal reserve	₩	190,007	184,096
Voluntary reserve		11,190,052	10,730,052
Unappropriated retained earnings		304,567	550,663
Total	₩	11,684,626	11,464,811

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26. Accumulated Other Comprehensive Income

Changes in accumulated other comprehensive income (loss) for the nine-month period ended September 30, 2015 and for the year ended December 31, 2014 are as follows:

		Korean won (millions)				
		<b>2015</b>				
		Beginning balance	Changes for the period	Reclassification adjustments	Tax effects for the period	Balance as of September 30
Net change in unrealized fair value of available- for-sale financial assets	₩	122,717	184	(346)	39	122,594
Effective portion of unrealized changes in fair values of cash flow hedges		(9,624)	(18,680)	430	4,417	(23,457)
Total	₩	113,093	(18,496)	84	4,456	99,137

  

		Korean won (millions)				
		<b>2014</b>				
		Beginning balance	Changes for the year	Reclassification adjustments	Tax effects for the year	Balance as of December 31
Net change in unrealized fair value of available- for-sale financial assets	₩	90,486	44,107	(1,586)	(10,290)	122,717
Effective portion of unrealized changes in fair values of cash flow hedges		(381)	(15,828)	3,634	2,951	(9,624)
Total	₩	90,105	28,279	2,048	(7,339)	113,093

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**27. Earnings per Share**

(a) Basic earnings per share

(i) Basic earnings per share for the three-month and nine-month periods ended September 30, 2015 and 2014 are as follows:

Korean won (millions, except per share amount)				
	2015		2014	
	Three-month period	Nine-month period	Three-month period	Nine-month period
Profit for the period	₩ 84,969	293,694	222,565	635,833
Interests of hybrid securities	(3,152)	(9,511)	(3,183)	(9,511)
Weighted average number of common shares outstanding	29,552,204	29,552,204	29,552,204	29,552,204
Basic earnings per share	₩ 2,769	9,616	7,424	21,194

(ii) Weighted average number of ordinary shares

Number of shares				
	2015		2014	
	Three-month period	Nine-month period	Three-month period	Nine-month period
Issued ordinary shares at January 1	31,490,892	31,490,892	31,490,892	31,490,892
Effect of treasury shares	(1,938,688)	(1,938,688)	(1,938,688)	(1,938,688)
Weighted average number of ordinary shares	29,552,204	29,552,204	29,552,204	29,552,204

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27. Earnings per Share, Continued

(b) Diluted earnings per share

(i) Diluted earnings per share for the three-month and nine-month periods ended September 30, 2015 and 2014 are as follows:

	Korean won (millions, except per share amount)			
	2015		2014	
	Three-month period	Nine-month period	Three-month period	Nine-month period
Profit for the period	84,969	293,694	222,565	635,833
Interests of hybrid securities	(3,152)	(9,511)	(3,183)	(9,511)
Effect of conversion of convertible bonds (*)	-	-	(4,136)	(17,569)
Diluted profit attributable to ordinary shareholders	81,817	284,183	215,246	608,753
Diluted weighted average number of ordinary shares	29,552,204	29,552,204	29,770,708	30,646,922
Diluted earnings per share	2,769	9,616	7,230	19,863

(\*) For the nine-month period ended September 30, 2015, the shares related to USD convertible bonds and JPY convertible bonds were excluded from diluted earnings per share calculation as their effect would have been anti-dilutive. For the three-month period ended September 30, 2014, the shares related to USD convertible bonds were excluded from diluted earnings per share calculation as their effect would have been anti-dilutive.

(ii) Weighted average number of ordinary shares

	Number of shares			
	2015		2014	
	Three-month period	Nine-month period	Three-month period	Nine-month period
Basic weighted average number of ordinary shares	29,552,204	29,552,204	29,552,204	29,552,204
Effect of conversion of convertible bonds (*)	-	-	218,504	1,094,718
Diluted weighted average number of ordinary shares	29,552,204	29,552,204	29,770,708	30,646,922

(\*) For the nine-month period ended September 30, 2015, the shares related to USD convertible bonds and JPY convertible bonds were excluded from diluted earnings per share calculation as their effect would have been anti-dilutive. For the three-month period ended September 30, 2014, the shares related to USD convertible bonds were excluded from diluted earnings per share calculation as their effect would have been anti-dilutive.

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**27. Earnings per Share, Continued**

(b) Diluted earnings per share, continued

(iii) Potential ordinary shares from conversion of convertible bonds as of September 30, 2015 are as follows:

		USD Bonds	JPY Bonds
Principal amount (in millions of won) (*1)	₩	20,803	128,610
Conversion price (in won) (*2)		647,979	647,979
Number of potential ordinary shares		32,105	198,478

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

(\*2) On March 20, 2015, 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 ₩650,000 to ₩647,979.

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### 28. Sales and Cost of Sales

(a) Details of sales for the three-month and nine-month periods ended September 30, 2015 and 2014 are as follows:

		Korean won (millions)			
		2015		2014	
		Three-month period	Nine-month period	Three-month period	Nine-month period
Sales - merchandise	₩	3,884,314	11,632,038	3,786,519	11,630,416
Sales-merchandise in direct management		3,601,948	10,799,579	3,512,383	10,745,238
Specific sales - merchandise		282,366	832,459	274,136	885,178
Discount store sales – merchandise		413,316	1,194,709	368,353	1,133,239
Sales allowance and discount		138,643	375,332	98,936	272,626
Reserve for returned goods unsold and deferred sales		50,624	157,868	49,106	153,536
Cost of specific merchandise sold		224,049	661,509	220,311	707,077
Sales - finished goods		2,625	7,609	2,792	9,087
Others		522,220	1,459,046	462,068	1,288,318
Total	₩	3,995,843	11,903,984	3,883,026	11,794,582

(b) Details of cost of sales for the three-month and nine-month periods ended September 30, 2015 and 2014 are as follows:

		Korean won (millions)			
		2015		2014	
		Three-month period	Nine-month period	Three-month period	Nine-month period
Cost of merchandise sold	₩	2,636,074	7,854,617	2,550,260	7,804,165
Cost of products sold		1,521	3,883	1,522	4,593
Cost of other operating revenue		82,231	212,087	71,921	186,316
Total	₩	2,719,826	8,070,587	2,623,703	7,995,074

# LOTTE SHOPPING CO., LTD.

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### 29. Selling, General and Administrative Expenses

Details of selling, general and administrative expenses for the three-month and nine-month periods ended September 30, 2015 and 2014 are as follows:

Korean won (millions)				
	2015		2014	
	Three-month period	Nine-month period	Three-month period	Nine-month period
Salaries	₩ 216,836	631,125	210,961	603,316
Retirement and termination benefits	18,478	53,650	17,236	49,824
Long-term employee benefits	600	2,301	1,784	3,338
Employee welfare	42,308	125,378	39,179	119,355
Education and training	2,783	7,778	3,297	8,580
Travel	4,526	14,378	5,289	15,840
Maintenance fee for car	230	727	265	800
Insurance premium	2,320	6,917	2,103	6,057
Taxes and dues	7,244	122,557	7,112	108,784
Entertainment expense	964	2,390	896	2,351
Supplies and stationery	14,476	41,869	15,528	42,234
Publication expense	273	780	279	773
Communications	2,547	7,619	2,682	8,089
Utilities	78,069	192,718	75,915	181,014
Maintenance	5,425	19,746	6,482	20,982
Rent	161,986	471,602	117,903	335,891
Depreciation	134,155	403,530	120,793	362,454
Amortization of intangible assets	7,336	22,084	7,711	22,696
Commissions and fees	113,603	335,069	100,979	308,233
Service commission expenses	172,243	512,004	157,569	470,030
Advertising	33,754	108,946	35,371	116,049
Samples expenses	20	48	6	40
Sales commission	49,516	149,094	38,868	129,360
Sales promotion expenses	35,932	107,073	36,889	104,181
Decoration	2,189	8,299	2,318	6,496
Bad debt expenses (Reversal of bad debt expenses)	59	53	(3)	(20)
Transportation	5,831	15,971	5,059	13,173
Research and development expenses	89	196	67	154
Compensation expenses	649	1,538	512	1,343
Others	455	1,713	1,021	2,040
Total	₩ 1,114,896	3,367,153	1,014,071	3,043,457



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30. Other Incomes and Expenses

Details of other income and expenses for the three-month and nine-month periods ended September 30, 2015 and 2014 are as follows:

		Korean won (millions)			
		2015		2014	
		Three-month period	Nine-month period	Three-month period	Nine-month period
<b>Other income:</b>					
Gain on foreign currency transactions	₩	215	736	176	368
Gain on foreign currency translation		332	496	292	115
Gain on disposal of property and equipment		782	1,390	98,770	99,338
Reversal of impairment loss of other non-current assets		4	5	-	-
Others (*1)		4,760	21,915	5,360	25,817
Total	₩	6,093	24,542	104,598	125,638
<b>Other expenses:</b>					
Loss on foreign currency transactions	₩	487	773	114	245
Loss on foreign currency translation		24	35	-	73
Loss on disposal of property and equipment		337	5,260	21,811	22,537
Loss on disposal of intangible assets		-	2	-	-
Impairment loss of non-current assets		-	437	-	-
Donation		1,525	8,627	1,744	6,967
Other bad debt expenses (Reversal of other bad debt expenses)		(7)	9	218	2,313
Taxes and dues		1,507	1,647	103	499
Others (*2)		13,655	35,837	9,250	27,397
Total	₩	17,528	52,627	33,240	60,031

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

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

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### 31. Nature of Expenses

Details of nature of expenses for the three-month and nine-month periods ended September 30, 2015 and 2014 are as follows:

		Korean won (millions)			
		2015		2014	
		Three-month period	Nine-month period	Three-month period	Nine-month period
Purchase of inventories	₩	2,776,737	7,766,004	2,788,414	7,910,620
Changes in inventories		(171,470)	44,612	(241,403)	(127,890)
Employee benefits expense		278,517	813,260	269,414	776,499
Rent		161,986	471,602	117,903	335,891
Depreciation and amortization		169,264	473,285	139,574	428,946
Sales commissions		49,516	149,094	38,868	129,360
Sales promotion expenses		35,932	107,073	36,889	104,181
Commissions		113,605	335,077	100,985	308,252
Service commission expenses		172,243	512,004	157,569	470,030
Advertising expenses		44,049	130,631	35,371	116,049
Utilities		78,069	192,718	75,915	181,014
Taxes and dues		7,244	122,557	7,112	108,784
Others		119,030	319,823	111,163	296,795
Total	₩	<u>3,834,722</u>	<u>11,437,740</u>	<u>3,637,774</u>	<u>11,038,531</u>

LOTTE SHOPPING CO., LTD.  
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32. Finance Income and Finance Costs

Details of finance income and finance costs for the three-month and nine-month periods ended September 30, 2015 and 2014 are as follows:

		Korean won (millions)			
		2015		2014	
		Three-month period	Nine-month period	Three-month period	Nine-month period
<b>Finance income:</b>					
Interest income	₩	13,827	39,849	13,843	41,308
Dividend income		5,000	38,433	-	31,500
Gain on foreign currency transactions		57	57	-	-
Gain on foreign currency translation		-	-	-	24,689
Gain on disposal of available-for-sale financial assets		152	152	-	662
Gain on valuation of financial liabilities at fair value through profit or loss		-	-	-	5,912
Gain on valuation of derivative instruments held for the purpose of hedging		106,076	138,651	15,756	5,928
Gain on valuation of derivative instruments held for the purpose of trading		1,140	2,884	1,816	23,766
Gain on transaction of derivative instruments held for the purpose of hedging		-	-	-	3,340
Gain on redemption of debentures		-	-	17,397	17,397
Total	₩	<u>126,252</u>	<u>220,026</u>	<u>48,812</u>	<u>154,502</u>
<b>Finance expenses:</b>					
Interest expense	₩	35,481	102,097	40,093	113,899
Loss on foreign currency transactions		12,050	12,119	-	3,342
Loss on foreign currency translation		105,767	135,995	16,281	-
Loss on valuation of financial liability at fair value through profit or loss		9,041	10,585	14,445	-
Loss on disposal of available-for-sale financial assets		-	792	-	-
Loss on valuation of derivative instruments held for the purpose of hedging		-	-	-	8,543
Loss on valuation of derivative instruments held for the purpose of trading		964	12,210	814	2,030
Loss on redemption of debentures		-	-	131	131
Loss on disposal of investments in subsidiaries, associates and joint ventures		-	351	1	10,729
Total	₩	<u>163,303</u>	<u>274,149</u>	<u>71,765</u>	<u>138,674</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 Company's effective tax rate for the nine-month period ended September 30, 2015 was 23.52% (for the nine-month period ended September 30, 2014: 24.08%).

**34. Statements of Cash Flows**

As of September 30, 2015 and December 31, 2014, the details of cash and cash equivalents are as follows:

		Korean won (millions)	
		September 30, 2015	December 31, 2014
Cash	₩	13,635	17,177
Deposits		31,282	29,671
Other cash equivalents		366,500	870,998
Total	₩	411,417	917,846

LOTTE SHOPPING CO., LTD.  
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**35. Contingent Liabilities and Financial Commitments**

- (a) As of September 30, 2015, the Company has various forms of credit facility commitments with financial institutions as follows:

		Credit line		Amount used under credit facility	
		Korean won (millions), Foreign currency (thousands)		Korean won (millions), Foreign currency (thousands)	
General loan	KRW	100,000	KRW	100,000	
General loan	USD	800	USD	1	
Discount of bill	KRW	550,000	KRW	200,000	
Buyer's credit	KRW	200,000	KRW	7,768	
Bank overdraft	KRW	60,000	KRW	-	
Guarantees	USD	1,200	USD	450	
Letter of credit	USD	13,500	USD	8,114	

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

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

- (c) As of September 30, 2015, the Company is the plaintiff in various lawsuits claiming damages totaling ₩28,081 million and the Company is the defendant in various lawsuits with damage claims totaling ₩23,355 million. The management believes that the ultimate resolutions of other legal actions will not have a material effect on the financial position or operations of the Company.
- (d) The Company has the right to purchase 5.1% of the Hyundai Logistics Co., Ltd. shares held by IGIS I Corporation and in the event the Company does not exercise the call option, IGIS I Corporation has the right to require the Company to purchase 5.1% of Hyundai Logistics Co., Ltd. shares held by IGIS I Corporation. In connection with IGIS I Corporation's borrowings, all IGIS I Corporation shares (₩5,875 million of book value) held by the Company have been in pledge in Mizuho Corporate Bank.

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

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

(a) Details of control and subsidiary relationships with the Company as of September 30, 2015 are as follows:

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

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

Subsidiaries	Location	Products or services	September 30, 2015	
			Fiscal year	Percentage of ownership (%)
Lotte Card Co., Ltd.	Korea	Credit card, financing	Dec. 31	93.78
Lotte Members Co., Ltd.	Korea	Business support service	Dec. 31	93.78
eB Card Co., Ltd.	Korea	Electronic banking business	Dec. 31	95.00
Gyeonggi Smartcard Co., Ltd.	Korea	Electronic banking business	Dec. 31	100.00
Inchon Smartcard Co., Ltd.	Korea	Electronic banking business	Dec. 31	100.00
The 6th Supreme	Korea	SPC	Dec. 31	0.90
The 7th Supreme	Korea	SPC	Dec. 31	0.90
The 8th Supreme	Korea	SPC	Dec. 31	0.90
The 9th Supreme	Korea	SPC	Dec. 31	0.90
Lotte Members China	China	Business support services	Dec. 31	100.00
PT. Lotte members Indonesia	Indonesia	Business support services	Dec. 31	100.00
Lotte Members Vietnam Co., Ltd.	Vietnam	Business support service	Dec. 31	100.00
Woori Home Shopping & Television Co., Ltd.	Korea	TV Home Shopping	Dec. 31	53.03
Lotte DatViet Homeshopping Co., Ltd.	Vietnam	TV Home Shopping	Dec. 31	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.	Korea	Consumer electronics	Dec. 31	65.25

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

(a) Details of control and subsidiary relationships with the Company as of September 30, 2015 are as follows:, continued

Subsidiaries	Location	September 30, 2015		
		Products or services	Fiscal year	Percentage of ownership (%)
Lotte Department Store Masan Co., Ltd.	Korea	Distribution	Dec. 31	100.00
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
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	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

# LOTTE SHOPPING CO., LTD.

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

(a) Details of control and subsidiary relationships with the Company as of September 30, 2015 are as follows:, continued

Subsidiaries	September 30, 2015			
	Location	Products or services	Fiscal year	Percentage of ownership (%)
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



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36. Transactions and Balances with Related Companies, Continued

- (b) Significant transactions which occurred in the normal course of business with related companies for the nine-month periods ended September 30, 2015 and 2014 are summarized as follows:

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

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

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

- (b) Significant transactions which occurred in the normal course of business with related companies for the nine-month periods ended September 30, 2015 and 2014 are summarized as follows:, continued

Related Company	Korean won (millions)				
	2014				
	Sales	Purchases of inventories	Purchases of fixed assets	Other revenue	Other expenses
<b>Shareholders:</b>					
Hotel Lotte Co., Ltd.	₩ 25,648	82	804	-	72,179
Lotte Confectionery Co., Ltd.	12,112	108,925	-	12	4,872
Lotte Chilsung Beverage Co., Ltd.	8,121	56,875	-	29	330
Lotte Engineering & Construction Co., Ltd.	2,943	-	510,297	15	139
Hotel Lotte Pusan Co., Ltd.	4,535	-	80	-	14,510
LOTTE DATA COMMUNICATION COMPANY	12,675	-	23,457	89	42,009
KOREA FUJIFILM CO., LTD.	1,101	199	-	-	-
Subtotal	67,135	166,081	534,638	145	134,039
<b>Subsidiaries:</b>					
Lotte Card Co., Ltd.	3,614	-	-	488	121,692
Woori Home Shopping & Television Co., Ltd.	521	-	-	-	34,367
Korea Seven Co., Ltd.	2,548	-	-	-	16
LOTTE Himart Co., Ltd.(*)	43,984	360	-	71	-
Others	5,591	9,347	-	-	7,470
Subtotal	56,258	9,707	-	559	163,545
<b>Associates:</b>					
Daehong Communications Co., Ltd.	20,234	-	99	-	31,642
Lotteria Co., Ltd.	12,608	5,682	-	-	102
Lotte Station Building Co., Ltd.	9,264	-	-	-	4,372
Lotte Trading Co., Ltd.	6,445	179,612	-	3	46
Others	35,718	27,576	434	-	92,552
Subtotal	84,269	212,870	533	3	128,714
<b>Others:</b>					
LOTTE FOOD CO., LTD.	8,155	73,530	-	32	3,829
Lotte Aluminum Co., Ltd.	1,431	7,072	4,070	1	11,541
Others	17,627	3,413	827	24	110,179
Subtotal	27,213	84,015	4,897	57	125,549
Total	₩ 234,875	472,673	540,068	764	551,847

(\*) Transactions with LOTTE Himart Co., Ltd. include the transfer of inventories from the Company to LOTTE Himart Co., Ltd.

During 2014, the Company disposed of shares of Hotel Lotte Co., Ltd. to Buy the way Inc. for ₩12,348 million and shares of Lotte Boulangerie Co., Ltd. which was the Company's subsidiary to Lotte Confectionery Co., Ltd. for ₩182 million. Meanwhile, the Company acquired shares of Lotte Trading Co., Ltd. from Lotte Chilsung Beverage Co., Ltd., Lotte Engineering & Construction Co., Ltd. and others for ₩42,980 million.

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

- (c) Significant finance transactions with related companies for the nine-month periods ended September 30, 2015 and 2014 are summarized as follows:

Related Company	Korean won (millions)			
	2015			
	Loans	Collection	Capital increase	Capital decrease
<b>Subsidiaries:</b>				
Lotte Shopping Holdings (Hong Kong) Co., Limited	₩ 26	26	53,048	-
LOTTE SHOPPING HOLDINGS (SINGAPORE) PTE. LTD.	-	-	2,173	-
LOTTE.COM INC.	-	-	11,563	-
Lotte Shopping Reit Management Singapore PTE. LTD.	-	-	-	1,305
Lotte Department Store Masan Co., Ltd.	-	-	12,000	-
Subtotal	26	26	78,784	1,305
<b>Associates:</b>				
Lotte Europe Holdings B.V.	-	-	10,855	-
Shandong Longzhile Cinema Co., Ltd.	-	-	437	-
Lotte Incheon Town Co., Ltd.	-	-	3,450	-
Lotte Asset Development Co., Ltd.	-	-	19,571	-
Capital One Diversity Cinema Fund	-	-	-	636
Hemisphere Film Investors II LLC	-	-	-	5,714
Subtotal	-	-	34,313	6,350
Total	₩ 26	26	113,097	7,655

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

- (c) Significant finance transactions with related companies for the nine-month periods ended September 30, 2015 and 2014 are summarized as follows:, continued

Related Company		Korean won (millions)		
		2014		
		Collection	Capital increase	Capital decrease
<b>Subsidiaries:</b>				
Lotte Shopping Holdings (Hong Kong) Co., Limited	₩	-	55,727	-
LOTTE SHOPPING HOLDINGS (SINGAPORE) PTE. LTD.		-	18,307	-
Lotte Shopping Reit Management Singapore PTE. LTD.		300	1,660	-
LOTTE MART COMPANY LIMITED		-	16,593	-
Lotte Department Store Masan Co., LTD.		-	4,200	-
Others		-	486	-
Subtotal		300	96,973	-
<b>Associates:</b>				
Shandong Longzhile Cinema Co., Ltd.		-	4,123	-
Eunpyeong PFV		-	3,500	-
Others		-	858	750
Subtotal		-	8,481	750
<b>Joint ventures</b>				
STL Co., Limited		-	1,500	-
Total	₩	300	106,954	750

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

(d) Account balances with related companies as of September 30, 2015 and December 31, 2014 are summarized as follows:

Related company	Korean won (millions)			
	September 30, 2015			
	Receivables		Payables	
	Trade receivables	Other receivables	Trade payables	Other payables
<b>Shareholders:</b>				
Hotel Lotte Co., Ltd.	₩ 416	54,062	-	16,563
Lotte Confectionery Co., Ltd.	228	1,140	20,788	1,457
Lotte Chilsung Beverage Co., Ltd.	252	332	6,092	4,476
Lotte Engineering & Construction Co., Ltd.	21	4,648	-	98,354
Hotel Lotte Pusan Co., Ltd.	10	9,442	-	3,159
LOTTE DATA COMMUNICATION COMPANY	-	190	-	25,175
KOREA FUJIFILM CO., LTD.	-	-	11	1,465
Subtotal	927	69,814	26,891	150,649
<b>Subsidiaries:</b>				
Lotte Card Co., Ltd.	102,104	212	-	45,299
Woori Home Shopping & Television Co., Ltd.	19,843	256	3	4,228
Korea Seven Co., Ltd.	132	729	-	2,151
LOTTE Himart Co., Ltd.	116	5,400	-	4,615
LOTTE.COM INC.	47,739	-	-	5,819
Others	262	35,108	6,655	22,288
Subtotal	170,196	41,705	6,658	84,400
<b>Associates:</b>				
Daehong Communications Co., Ltd.	2,689	1,215	-	6,938
Lotteria Co., Ltd.	-	466	2,891	7,829
Lotte Station Building Co., Ltd.	5,618	16,179	-	5,216
Lotte Trading Co., Ltd.	52	609	9,056	-
Others	6	7,028	5,065	20,026
Subtotal	8,365	25,497	17,012	40,009
<b>Others:</b>				
LOTTE FOOD CO., LTD.	308	2,226	19,440	7,797
Lotte Aluminum Co., Ltd.	68	192	1,169	3,685
Others	443	4,475	1,119	38,583
Subtotal	819	6,893	21,728	50,065
Total	₩ 180,307	143,909	72,289	325,123

# LOTTE SHOPPING CO., LTD.

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

- (d) Account balances with related companies as of September 30, 2015 and December 31, 2014 are summarized as follows:, continued

Related company	Korean won (millions)			
	December 31, 2014			
	Receivables		Payables	
	Trade receivables	Other receivables	Trade payables	Other payables
<b>Shareholders:</b>				
Hotel Lotte Co., Ltd.	₩ 101	47,916	-	54,826
Lotte Confectionery Co., Ltd.	472	358	15,959	2,040
Lotte Chilsung Beverage Co., Ltd.	112	142	2,552	4,490
Lotte Engineering & Construction Co., Ltd.	44	5,373	-	161,649
Hotel Lotte Pusan Co., Ltd.	-	9,611	-	2,336
LOTTE DATA COMMUNICATION COMPANY	147	1,506	-	11,969
KOREA FUJIFILM CO., LTD.	5	-	10	1,254
Subtotal	881	64,906	18,521	238,564
<b>Subsidiaries:</b>				
Lotte Card Co., Ltd.	45,888	1,920	-	55,497
Woori Home Shopping & Television Co., Ltd.	26,760	250	1	5,020
Korea Seven Co., Ltd.	8	324	-	1,887
LOTTE Himart Co., Ltd.	158	7,433	45	5,024
Others	126	32,692	11,283	7,251
Subtotal	72,940	42,619	11,329	74,679
<b>Associates:</b>				
Daehong Communications Co., Ltd.	4,421	336	-	6,512
Lotteria Co., Ltd.	25	380	469	8,705
Lotte Station Building Co., Ltd.	9,695	14,329	-	6,320
Lotte Trading Co., Ltd.	6	700	6,921	35
Others	61,094	2,137	9,057	33,901
Subtotal	75,241	17,882	16,447	55,473
<b>Others:</b>				
LOTTE FOOD CO., LTD.	228	965	6,950	7,757
Lotte Aluminum Co., Ltd.	24	45	943	3,362
Others	28	2,544	967	25,383
Subtotal	280	3,554	8,860	36,502
Total	₩ 149,342	128,961	55,157	405,218

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

(e) Key management personnel compensation for the nine-month periods ended September 30, 2015 and 2014 are as follows:

		Korean won (millions)	
		2015	2014
Short-term benefits	₩	25,895	21,769
Retirement benefits		6,042	4,320
Other long-term benefits		8	160
Total	₩	31,945	26,249

(f) The Company has provided guarantees for related companies as of September 30, 2015 as follows:

Related company	Guarantee recipient	Type of borrowings	Guaranteed amount (thousands)
<b>Subsidiaries:</b>			
PT. LOTTE Shopping Avenue Indonesia	DBS	Working capital	USD 20,000
Lotte Shopping Holdings (Hong Kong) Co., Limited	Standard Chartered Bank Korea Limited.	Working capital	USD 38,136
	BNP Paribas	Working capital	USD 38,135
	Citibank N.A., Hong Kong Branch	Working capital	USD 38,135
	SMBC	Working capital	USD 38,135
	ING	Working capital	USD 120,214
Lotte Business Management (Tianjin) Co., Ltd.	DBS	Working capital	CNY 200,000
LOTTE DEPARTMENT STORE (TIANJIN) CO., LTD.	DBS	Working capital	CNY 110,000
LOTTE PROPERTIES (CHENGDU) HK LIMITED	Korea Exchange Bank	Working capital	USD 140,000
	Shinhan Bank	Working capital	USD 50,000
<b>Associates:</b>			
Lotte Shopping RUS Ltd.	Korea Exchange Bank	Working capital	USD 5,000
Shandong Longzhile Cinema Co., Ltd.	Shinhan Bank	Working capital	RMB 24,000
<b>Joint ventures:</b>			
International Business Center Company Limited	THe Export-Import Bank of Korea	Working capital	USD 18,500
	KEXIM (Vietnam)	Working capital	USD 1,500

## LOTTE SHOPPING CO., LTD.

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

- (g) The fulfillment of the VPF contract between D-Cinema of Korea Co., Ltd. and Twentieth Century Fox Film Corporation was equally guaranteed by CGV and the Company in October 2008.
- (h) The fulfillment of the loyalty contract between Burger King Japan Co., Ltd. and BK ASIAPAC, PTE. Ltd. was guaranteed by the Company.
- (i) In 2013, the Company, Hotel Lotte Co., Ltd. and Lotte Engineering & Construction Co., Ltd. entered into an agreement to jointly provide financial support for HND able 2nd limited (“HND able”) 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 was collateralized with the assets of Lotte Incheon Development Co., Ltd.
- (j) In 2015, the Company entered into an agreement to provide financial support for Suwon Landmark the Second Co., Ltd. in default of the principal and interest on the Asset Backed Commercial Paper (“ABCP”, ₩250,000 million of par value in maturing in 36 months) issued by Suwon Landmark the Second Co., Ltd. on May 26, 2015, which was collateralized with the assets of LOTTE Suwon Shopping Town CO., LTD.
- (k) In 2015, Lotte Incheon Town Co., Ltd., which is the Company's associate, entered into a land sale and purchase agreement with the government of Incheon city. As a result of the agreement, the Company collected a security deposit of ₩30.6 billion, which was previously paid by the Company to the city government on behalf of Lotte Incheon Town Co., Ltd., from Lotte Incheon Town Co., Ltd.
- (l) In 2013, the Company issued hybrid securities, among which ₩20,000 million is held by Lotte Non-Life Insurance Co., Ltd.



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**37. Risk Management**

(a) Management of financial risks

***Objectives and Policies of the Company***

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

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

***Credit Risk***

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

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

i) Exposure to credit risk

The book value of a financial asset represents its maximum exposure to credit risk. The maximum exposures to credit risk as of September 30, 2015 and December 31, 2014 are as follows:

Account	Korean won (millions)	
	September 30, 2015	December 31, 2014
Cash equivalents (*1)	₩ 397,782	900,669
Trade and other receivables	855,628	603,278
Other financial assets (current)	690,551	308,218
Other financial assets (non-current) (*2)	931,153	871,035
Total	₩ 2,875,114	2,683,200

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

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

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37. Risk Management, Continued

(a) Management of financial risks, continued

ii) Impairment loss

Trade and other receivables, other financial assets (current), and other financial assets (non-current) before deducting allowance for doubtful accounts as of September 30, 2015 and December 31, 2014 are summarized as follows:

		Korean won (millions)			
		September 30, 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	₩	841,583	14,045	5,860	861,488
Other financial assets (current)		690,551	-	34	690,585
Other financial assets (non-current)		931,153	-	3,950	935,103
Total	₩	2,463,287	14,045	9,844	2,487,176

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

		Korean won (millions)			
		December 31, 2014			
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	₩	593,406	9,872	5,799	609,077
Other financial assets (current)		308,218	-	34	308,252
Other financial assets (non-current)		871,035	-	3,950	874,985
Total	₩	1,772,659	9,872	9,783	1,792,314

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

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

(a) Management of financial risks, continued

iii) Allowance for doubtful trade and other receivables

The movement in the allowance for doubtful trade and other receivables for the nine-month period ended September 30, 2015 and for the year ended December 31, 2014 are summarized as follows:

		Korean won (millions)	
		2015	2014
Balance at beginning of the period	₩	5,799	5,160
Impairment loss		106	1,117
Reversal of impairment loss		(45)	(193)
Write-offs		-	(285)
Balance at end of the period	₩	5,860	5,799

The movement in the allowance for doubtful other financial assets (current) for the nine-month period ended September 30, 2015 and for the year ended December 31, 2014 are summarized as follows:

		Korean won (millions)	
		2015	2014
Balance at beginning of the period	₩	34	34
Reversal of impairment loss		-	-
Balance at end of the period	₩	34	34

The movement in the allowance for doubtful other financial assets (non-current) for the nine-month period ended September 30, 2015 and for the year ended December 31, 2014 are summarized as follows:

		Korean won (millions)	
		2015	2014
Balance at beginning of the period	₩	3,950	1,950
Impairment loss		-	2,000
Balance at end of the period	₩	3,950	3,950

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**37. Risk Management, Continued**

(a) Management of financial risks, continued

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

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

		Korean won (millions)				
		<b>September 30, 2015</b>				
Description		Carrying amount	3 months or less	3 ~ 6 months	6 ~ 12 months	More than 1 year
Trade and other receivables	₩	14,045	8,607	3,431	1,079	928

  

		Korean won (millions)				
		<b>December 31, 2014</b>				
Description		Carrying amount	3 months or less	3 ~ 6 months	6 ~ 12 months	More than 1 year
Trade and other receivables	₩	9,872	1,865	2,684	4,448	875

v) Guarantees

As of September 30, 2015 the Company has provided financial guarantees to associates and joint ventures. Should the Company be liable for payment upon default of the subsidiaries, associates and joint ventures, the expected amounts which the Company is liable to pay within 1 year are ₩669,208 million.

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37. Risk Management, Continued

(a) Management of financial risks, continued

**Liquidity Risks**

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

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

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

Aggregate maturities of financial liabilities, including estimated interest, as of September 30, 2015 are as follows:

			Korean won (millions)				
Account		Carrying amount	Contractual cash flows	3 months or less	3 ~ 6 months	6 ~ 12 months	More than 1 year
Current portion of borrowings and debentures	₩	1,210,690	1,255,666	129,864	322,024	803,778	-
Trade and other payables		3,617,218	3,617,218	3,617,218	-	-	-
Other financial liabilities (current) (*)		361,326	361,605	258,481	74,682	28,442	-
Borrowings and debentures		3,378,249	3,680,143	23,726	16,448	41,555	3,598,414
Other financial liabilities (non-current)		66,028	73,431	852	868	1,488	70,223
Total	₩	8,633,511	8,988,063	4,030,141	414,022	875,263	3,668,637

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

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

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**37. Risk Management, Continued**

(a) Management of financial risks, continued

**Market Risks**

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

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

i) Currency risk

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

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

Assets and liabilities denominated in foreign currencies other than the Company's functional currencies as of September 30, 2015 and December 31, 2014 are as follows:

		Korean won (millions)			
		<b>September 30, 2015</b>		<b>December 31, 2014</b>	
		Assets	Liabilities	Assets	Liabilities
USD	₩	5,942	1,934,026	7,252	1,394,744
EUR		17	2,379	32	1,832
JPY		-	192,875	-	360,623
CNY		100	-	332	-
Total	₩	<u>6,059</u>	<u>2,129,280</u>	<u>7,616</u>	<u>1,757,199</u>

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37. Risk Management, Continued

(a) Management of financial risks, continued

The closing rates as of September 30, 2015 and December 31, 2014 and the average rates for the nine-month periods ended September 30, 2015 and 2014 are as follows:

		Average rate		Closing rate	
		2015	2014	September 30, 2015	December 31, 2014
USD	₩	1,122.42	1,041.69	1,194.50	1,099.20
EUR		1,250.87	1,413.10	1,343.93	1,336.52
JPY		9.2816	10.1211	9.9679	9.2014
CNY		179.68	169.00	187.71	177.23

The Company regularly measures exchange risks on Korean won against foreign currency fluctuations. The Company assumes that foreign currency exchange rates fluctuate 10% at the end of reporting period, and others variables are not changed. Sensitivity analysis of income before taxes from changes of foreign currency exchange rate as of September 30, 2015 and December 31, 2014 are summarized as follows:

		Korean won (millions)			
		September 30, 2015		December 31, 2014	
		10% increase	10% decrease	10% increase	10% decrease
USD	₩	583	(583)	(43,243)	43,243
EUR		(236)	236	(180)	180
JPY		(9,968)	9,968	(27,604)	27,604
CNY		10	(10)	33	(33)
Total	₩	(9,611)	9,611	(70,994)	70,994

Borrowings and debentures with currency swaps are not included. The sensitivity analysis above is related to the monetary assets and liabilities, denominated in a currency other than functional currency, as of September 30, 2015 and December 31, 2014.

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**37. Risk Management, Continued**

(a) Management of financial risks, continued

ii) Interest rate risk

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

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

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

		Korean won (millions)	
		September 30, 2015	December 31, 2014
Variable rate instruments:			
Financial assets	₩	54,650	58,500
Financial liabilities		1,254,714	844,279

Sensitivity analysis of interest income and expenses from changes of interest rates as of September 30, 2015 and December 31, 2014 are as summarized as follows:

		Korean won (millions)			
		September 30, 2015		December 31, 2014	
		100bps up	100bps down	100bps up	100bps down
Interest income	₩	547	(547)	585	(585)
Interest expense		997	(997)	-	-

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



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37. Risk Management, Continued

(a) Management of financial risks, continued

iii) Price risk

The Company is exposed to fluctuations of price in available-for-sale financial assets. The book values of the marketable available-for-sale financial assets as of September 30, 2015 and December 31, 2014 are ₩207,269 million and ₩224,099 million, respectively.

The Company assumes that prices of the marketable available-for-sale financial assets fluctuate 10% at the end of reporting period, and others variables are not changed. Sensitivity analysis of other comprehensive income from changes of price as of September 30, 2015 and December 31, 2014 are as summarized as follows:

		Korean won (millions)			
		September 30, 2015		December 31, 2014	
		10% increase	10% decrease	10% increase	10% decrease
Other comprehensive income	₩	20,727	(20,727)	22,410	(22,410)

(b) Capital Management

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

The liabilities to equity ratios and net borrowings to equity ratios as of September 30, 2015 and December 31, 2014 are as follows:

		Korean won (millions)	
		September 30, 2015	December 31, 2014
Liabilities (a)	₩	10,746,831	10,853,215
Equity (b)		16,170,623	15,964,764
Financial instruments (*) (c)		875,633	1,001,352
Borrowings (d)		4,588,939	4,280,268
Liabilities to equity ratio (a/b)		66.46%	67.98%
Net borrowings to equity ratio ((d-c)/b)		22.96%	20.54%

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