

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2011 and 2010

(With Independent Auditors' Report Thereon)

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Independent Auditors' Report

Based on a report originally issued in Korean

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

We have audited the accompanying consolidated statements of financial position of Lotte Shopping Co., Ltd. and its subsidiaries (the "Group") as of December 31, 2011, 2010 and January 1, 2010, and the related consolidated statements of comprehensive income, consolidated statements of changes in equity and cash flows for the years ended December 31, 2011 and 2010. Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Korean International Financial Reporting Standards. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of certain subsidiaries including Korea Seven Co., Ltd., whose financial statements represent 9.38%, 8.85% and 7.34% of the consolidated total assets as of December 31, 2011, 2010 and January 1, 2010, respectively, and 17.54% and 17.91% of the consolidated total sales for the years ended December 31, 2011 and 2010, respectively. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for those companies, is based solely on the reports of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

In our opinion, based on our audits and other auditors' reports, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Group as of December 31, 2011, 2010 and January 1, 2010 and its financial performance and its cash flows for the years ended December 31, 2011 and 2010, in accordance with Korean International Financial Reporting Standards.

Without qualifying our opinion, we draw attention to the following:

The procedures and practices utilized in the Republic of Korea to audit such consolidated financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying consolidated financial statements are for use by those knowledgeable about Korean auditing standards and their application in practice.

KPMG Samjong Accounting Corp.
Seoul, Korea
March 14, 2012

This report is effective as of March 14, 2012, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

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

As of December 31, 2011, 2010 and January 1, 2010

	Notes	Korean won (millions)		
		December 31, 2011	December 31, 2010	January 1, 2010
Assets				
Cash and cash equivalents	5,8,31,33	₩ 1,958,204	1,242,426	998,865
Trade and other receivables	5,6,8,38	636,502	461,341	359,373
Other financial assets	5,7,8,22,31,38	7,732,819	6,487,294	4,606,799
Inventories	9	2,042,285	1,669,798	1,360,126
Income tax refund receivable		983	506	195
Other current non-financial assets	10,38	357,367	167,895	123,518
Total current assets		12,728,160	10,029,260	7,448,876
Investments in associates	11	940,720	869,505	671,946
Other financial assets	5,7,8,22,31,38	1,651,237	1,609,875	1,413,512
Property, plant and equipment, net	12	13,153,613	12,651,614	11,396,268
Investment property	13	640,896	632,798	743,572
Goodwill	14	2,067,205	2,050,139	999,009
Other intangible assets, net	14	639,812	217,004	119,783
Other non-financial assets	10	1,182,998	1,066,825	903,793
Deferred tax assets	32	56,479	64,510	49,990
Total non-current assets		20,332,960	19,162,270	16,297,873
Total assets		₩ 33,061,120	29,191,530	23,746,749

See accompanying notes to the consolidated financial statements.

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

As of December 31, 2011, 2010 and January 1, 2010

	Notes	Korean won (millions)		
		December 31, 2011	December 31, 2010	January 1, 2010
Liabilities				
Borrowings and debentures, net of debenture issuance costs	5,8,17,31,38	₩ 3,447,284	3,336,879	1,878,777
Trade and other payables	5,8,15,38	4,724,017	4,036,750	3,269,020
Other financial liabilities	5,8,16,22,31	471,507	429,583	300,448
Income tax payables	32	184,153	285,563	161,204
Unearned revenues	18	184,365	163,904	146,912
Provisions	19	38,016	33,330	24,422
Other current non-financial liabilities	20	861,666	716,702	651,415
Total current liabilities		9,911,008	9,002,711	6,432,198
Borrowings and debentures, net of debentures issuance costs	5,8,17,31,38	6,738,647	5,058,546	3,457,841
Other financial liabilities	5,8,16,22,31,38	165,276	119,485	35,425
Employee benefit liabilities	21	157,267	143,522	101,261
Deferred tax liabilities	32	1,336,596	1,166,143	1,119,696
Long-term unearned revenues	18	21,411	21,906	19,587
Provisions	19	35,392	37,157	30,245
Other non-financial liabilities	20	16,518	62	1,471
Total non-current liabilities		8,471,107	6,546,821	4,765,526
Total liabilities		18,382,115	15,549,532	11,197,724
Equity				
Common stock of ₩5,000 par value Authorized - 60,000,000 shares Issued and outstanding - 29,043,374 shares	1,23	145,217	145,217	145,217
Capital surplus	23	3,622,183	3,622,183	3,622,183
Capital adjustments		(30,867)	(16,097)	(16,271)
Retained earnings	24	10,091,896	9,211,526	8,235,315
Accumulated other comprehensive income	25	137,806	146,581	101,652
Stockholders' equity attributable to owners of the Company		13,966,235	13,109,410	12,088,096
Non-controlling interests		712,770	532,588	460,929
Total equity		14,679,005	13,641,998	12,549,025
Total liabilities and equity	₩	33,061,120	29,191,530	23,746,749

See accompanying notes to the consolidated financial statements.

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

For the years ended December 31, 2011 and 2010

		Korean won (millions, except for earnings per share)	
	<i>Notes</i>	2011	2010
Sales	27,35,36,38	₩ 22,253,088	19,017,744
Cost of sales	27,29,38	(15,251,394)	(13,088,638)
Gross profit		7,001,694	5,929,106
Selling, general and administrative expenses	28,29	(5,182,852)	(4,271,095)
Other operating income	28	59,220	97,360
Other operating expense	28	(215,162)	(157,637)
Operating income	30,35	1,662,900	1,597,734
Finance income	31	257,265	180,281
Finance expense	31	(426,657)	(312,035)
Equity method income of investments in associates	11	61,733	74,243
Profit before income tax		1,555,241	1,540,223
Income tax expense	32	(542,641)	(404,173)
Profit from continuing operations		1,012,600	1,136,050
Discontinued operations			
Loss from discontinued operations, net of tax of nil		-	(32,401)
Profit for the year		₩ 1,012,600	1,103,649
Other comprehensive income, net of tax:	25		
Change in fair value of available-for-sale financial assets		11,928	75,095
Exchange differences on translating foreign operations		39,152	(6,690)
Effective portion of changes in fair value of cash flow hedges		25,460	(20,488)
Defined benefit plan actuarial losses		(10,993)	(27,765)
Change in equity of equity method investments		(49,393)	22,471
Tax effects		(16,169)	(13,687)
Other comprehensive income (loss) for the year, net of tax		(15)	28,936
Total comprehensive income for the year		₩ 1,012,585	1,132,585
Profit attributable to:			
- Owners of the Company		931,815	1,034,705
- Non-controlling interests		80,785	68,944
		1,012,600	1,103,649
Total comprehensive income attributable to:			
- Owners of the Company		916,316	1,058,753
- Non-controlling interests		96,269	73,832
		1,012,585	1,132,585
Earnings per share in won	26		
- Basic and diluted earnings per share – Continuing operations		32,084	36,742
- Basic and diluted loss per share – Discontinued operations		-	(1,116)
		₩ 32,084	35,626

See accompanying notes to the consolidated financial statements.

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

For the years ended December 31, 2011 and 2010

		Korean won (millions)							
		Capital stock	Capital surplus	Capital adjustments	Retained earnings	Accumulated other comprehensive income	Stockholders' equity attributable to owners of the Company	Non-controlling interests	Total equity
Balance at January 1, 2010	₩	145,217	3,622,183	(16,271)	8,235,315	101,652	12,088,096	460,929	12,549,025
Total comprehensive income for the year									-
Profit for the year		-	-	-	1,034,705	-	1,034,705	68,944	1,103,649
Other comprehensive income:									
Change in fair value of available-for-sale financial assets		-	-	-	-	49,988	49,988	4,990	54,978
Exchange differences on translating foreign operations		-	-	-	-	(7,310)	(7,310)	619	(6,691)
Effective portion of changes in fair value of cash flow hedges		-	-	-	-	(12,795)	(12,795)	(779)	(13,574)
Defined benefit plan actuarial losses		-	-	-	(20,881)	-	(20,881)	(852)	(21,733)
Change in equity of equity method investments		-	-	-	-	15,046	15,046	910	15,956
Sub total		-	-	-	(20,881)	44,929	24,048	4,888	28,936
Total comprehensive income for the year		-	-	-	1,013,824	44,929	1,058,753	73,832	1,132,585
Transactions with owners of the Company, recognized directly in equity:									
Dividends to owners of the Company		-	-	-	(36,304)	-	(36,304)	-	(36,304)
Business combination and others		-	-	174	(1,309)	-	(1,135)	(2,173)	(3,308)
Balance at December 31, 2010	₩	<u>145,217</u>	<u>3,622,183</u>	<u>(16,097)</u>	<u>9,211,526</u>	<u>146,581</u>	<u>13,109,410</u>	<u>532,588</u>	<u>13,641,998</u>

See accompanying notes to the consolidated financial statements.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Changes in Equity, Continued

For the years ended December 31, 2011 and 2010

	Korean won (millions)							
	Capital stock	Capital surplus	Capital adjustments	Retained earnings	Accumulated other comprehensive income (loss)	Stockholders' equity attributable to owners of the Company	Non-controlling interests	Total equity
Balance at January 1, 2011	₩ 145,217	3,622,183	(16,097)	9,211,526	146,581	13,109,410	532,588	13,641,998
Total comprehensive income for the year:								
Profit for the year	-	-	-	931,815	-	931,815	80,785	1,012,600
Other comprehensive income:								
Change in fair value of available-for-sale financial assets	-	-	-	-	(20,323)	(20,323)	12,337	(7,986)
Exchange differences on translating foreign operations	-	-	-	-	37,394	37,394	1,612	39,006
Effective portion of changes in fair value of cash flow hedges	-	-	-	-	16,730	16,730	896	17,626
Defined benefit plan actuarial losses	-	-	-	(6,724)	-	(6,724)	(1,115)	(7,839)
Change in equity of equity method investments	-	-	-	-	(42,576)	(42,576)	1,754	(40,822)
Sub total	-	-	-	(6,724)	(8,775)	(15,499)	15,484	(15)
Total comprehensive income for the year	-	-	-	925,091	(8,775)	916,316	96,269	1,012,585
Transactions with owners of the Company, recognized directly in equity:								
Dividends to owners of the Company	-	-	-	(43,565)	-	(43,565)	(10,077)	(53,642)
Capital increase from non-controlling interest	-	-	-	-	-	-	91,664	91,664
Other	-	-	(14,770)	(1,156)	-	(15,926)	2,326	(13,600)
Balance at December 31, 2011	₩ 145,217	3,622,183	(30,867)	10,091,896	137,806	13,966,235	712,770	14,679,005

See accompanying notes to the consolidated financial statements.

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

For the years ended December 31, 2011 and 2010

	Korean won (millions)	
	2011	2010
Cash flows from operating activities		
Profit for the year	₩ 1,012,600	₩ 1,103,649
Income tax expense	542,641	404,173
Post-employment benefits	77,273	58,266
Long-term employee benefits	7,587	17,700
Depreciation	482,002	408,249
Amortization	77,902	39,343
Loss on foreign currency translation	84,194	99,822
Loss on disposal of property, plant and equipment	24,148	36,501
Loss on disposition of derivative instruments	19,904	27
Loss on valuation of derivative instruments	35,305	22,600
Equity method loss of investments in associates	25,600	17,697
Rental expenses	30,761	26,928
Other expenses	112,743	101,597
Gain on foreign currency translation	(1,008)	(24,620)
Gain on disposal of property, plant and equipment	(10,303)	(55,792)
Equity method gain of investments in associates	(87,333)	(91,940)
Gain on transaction of derivative instruments	(26,492)	(10,052)
Gain on valuation of derivative instruments	(18,978)	(57,657)
Other income	(76,505)	(15,793)
Income of card business	(659,640)	(606,692)
Cost of card business	380,156	372,350
Interest expense	191,325	178,794
Interest income	(105,673)	(79,222)
Dividends income	(6,448)	(3,318)
Trade receivables	(117,433)	(80,459)
Other receivables	(66,539)	(32,506)
Other financial assets	(1,113,285)	(1,924,291)
Inventories	(384,965)	(268,694)
Other non-financial assets	(264,602)	(278,060)
Trade payables	427,897	621,105
Other payables	240,286	57,954
Other financial liabilities	58,284	79,001
Unearned revenues	20,158	11,777
Provisions	(9,665)	(5,745)
Other non-financial liabilities	147,480	83,072
Payment of post-employment benefits	(48,194)	(90,563)
Plan assets	(42,196)	7,644
Income tax paid	(491,470)	(297,308)
Interest received	621,403	508,123
Interest paid	(218,343)	(163,302)
Dividends received	421	50
Net cash provided by operating activities	₩ <u>870,998</u>	<u>170,408</u>

See accompanying notes to the consolidated financial statements.

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

For the years ended December 31, 2011 and 2010

	Korean won (millions)	
	2011	2010
Cash flows from investing activities		
Decrease of deposits	₩ 604,560	1,105,345
Decrease of loans	40,231	30,531
Sale of available-for-sale financial assets	77,235	9,943
Sale of investments in associates	2,166	1,030
Proceeds from disposal of property, plant and equipment	141,074	483,645
Proceeds from disposal of intangible assets	1,042	535
Decrease of other non-financial assets	4,672	67,538
Increase of short-term financial assets	(903,838)	(1,042,113)
Increase of loans	(19,149)	(65,045)
Purchase of available-for-sale financial assets	(30,324)	(60,834)
Purchase of investments in associates	(63,735)	(105,456)
Purchase of investment properties	(3,350)	(36,409)
Acquisition of property, plant and equipment	(1,592,148)	(1,165,585)
Acquisition of intangible assets	(82,026)	(137,480)
Acquisition of other investments	(10,331)	(96,686)
Business combinations, net of cash acquired	-	(1,811,059)
Interest received	64,462	52,483
Dividends received	12,895	8,425
Net cash used in investing activities	₩ <u>(1,756,564)</u>	<u>(2,761,192)</u>

See accompanying notes to the consolidated financial statements.

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

For the years ended December 31, 2011 and 2010

		Korean won (millions)	
		2011	2010
Cash flows from financing activities			
Proceeds from borrowings	₩	7,104,970	14,401,792
Proceeds from issuance of debentures		3,495,255	2,937,098
Capital contribution from non-controlling interests		89,258	47,305
Repayment of borrowings		(7,827,431)	(12,609,582)
Redemption of debentures		(1,024,169)	(1,674,883)
Cash outflows from other financing activities		(1,123)	(5,082)
Acquisition of additional ownership in subsidiaries		(19,699)	-
Interest paid		(168,033)	(220,947)
Dividends paid		(53,642)	(45,442)
Net cash provided by financing activities	₩	1,595,386	2,830,259
Net increase in cash and cash equivalents		709,820	239,475
Cash and cash equivalents at beginning of the year		1,242,426	998,865
Impact of foreign currency exchange rates on cash and cash equivalents		(137)	(262)
Exchange differences on translating foreign operations		6,095	4,348
Cash and cash equivalents at end of the year	₩	1,958,204	1,242,426

See accompanying notes to the consolidated financial statements.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2011 and 2010

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 a clothing retail division. The Company 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 December 31, 2011 are as follows:

Stockholder	Number of shares	Ownership (%)
Shin, Dong Bin	4,237,627	14.60%
Shin, Dong Ju	4,235,883	14.60%
Shin, Kyuk Ho	293,877	1.00%
Shin, Young Ja	232,818	0.80%
Hotel Lotte Co., Ltd.	2,781,947	9.60%
Korea Fuji Film Co., Ltd.	2,474,543	8.50%
Lotte Confectionery Co., Ltd.	2,474,543	8.50%
Lotte Data Communication Company	1,515,653	5.20%
Lotte Chilsung Beverage Co., Ltd.	1,237,272	4.30%
Lotte Engineering & Construction Co., Ltd.	300,019	1.00%
Hotel Lotte Pusan Co., Ltd.	246,720	0.90%
Others	9,012,472	31.00%
Total	29,043,374	100.00%

(b) Description of Subsidiaries

The consolidated financial statements of the Company comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities") and the Group's interest in associates and jointly controlled entities. A summary of the subsidiaries of the Company as of December 31, 2011, 2010 and January 1, 2010 is as follows:

Subsidiaries	December 31, 2011			
	Location	Products or services	Fiscal year	Percentage of ownership (%)
Lotte Midopa Co., Ltd.	Korea	Distribution	Dec. 31	79.01
Lotte Card Co., Ltd.	Korea	Credit card, capital	Dec. 31	92.54
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
Chungnam Smartcard Co., Ltd.	Korea	Electronic banking business	Dec. 31	100.00
Woori Home Shopping & Television Co., Ltd.	Korea	Distribution	Dec. 31	53.03

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

December 31, 2011 and 2010

1. General Description of the Parent Group, Continued

(b) Description of Subsidiaries, Continued

December 31, 2011				
Subsidiaries	Location	Products or services	Fiscal year	Percentage of ownership (%)
Korea Seven Co., Ltd.	Korea	Distribution	Dec. 31	51.14
Buy the way Inc.	Korea	Distribution	Dec. 31	100.00
Lotte Boulangerie Co., Ltd.	Korea	Bakery	Dec. 31	90.54
Lotte Square Co., Ltd.	Korea	Distribution	Dec. 31	100.00
NCF Co., Ltd.	Korea	Apparel manufacturing	Dec. 31	94.50
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	58.82
Lotte Vietnam Shopping Co., Ltd.	Vietnam	Distribution	Dec. 31	94.55
Qingdao Lotte Mart Commercial Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Mart Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Shopping Holdings (Singapore), 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 India Pvt., Ltd.	India	Distribution	Dec. 31	100.00
Lotte Hotel & Retail Vietnam Pte. Ltd.	Singapore	Holding company	Dec. 31	60.00
Lotte Shopping Holdings (Hong Kong), Ltd.	Hong Kong	Holding company	Dec. 31	100.00
Lotte Mart China Co., Ltd. and its subsidiaries	China	Distribution	Dec. 31	100.00
Lotte Home Shopping Company Limited	Cayman	Holding company	Dec. 31	88.98
Lucky Pai Ltd. and its subsidiaries	China	Distribution	Dec. 31	73.80
Lotte Business Management (Tianjin) Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Mart Global Sourcing Center Co., Ltd.	China	Trading company	Dec. 31	100.00
Liaoning Lotte Mart Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Cinema Vietnam Co., Ltd.	Vietnam	Cinema	Dec. 31	90.00
Jilin Lotte Mart Co., Ltd.	China	Distribution	Dec. 31	100.00

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

December 31, 2011 and 2010

1. General Description of the Parent Group, Continued

(b) Description of Subsidiaries, Continued

December 31, 2011				
Subsidiaries	Location	Products or services	Fiscal year	Percentage of ownership (%)
PT. Lotte Shopping Plaza Indonesia	Indonesia	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 DatViet Homeshopping Co., Ltd.	Vietnam	Distribution	Dec. 31	63.03
Lottemart Danang Co., Ltd.	Vietnam	Distribution	Dec. 31	100.00
Lottemart C&C India Pvt. Ltd.	India	Distribution	Dec. 31	100.00
The 4th Sprint (*)	Korea	SPC	Dec. 31	0.90
The 2nd Supreme (*)	Korea	SPC	Dec. 31	0.90
The 3rd Supreme (*)	Korea	SPC	Dec. 31	0.90
The 4th Supreme (*)	Korea	SPC	Dec. 31	0.90

(*) The Group possesses substantial risks and rewards of Special Purpose Company (SPC) specializing in factoring credit card sale receivables.

December 31, 2010				
Subsidiaries	Location	Products or services	Fiscal year	Percentage of ownership (%)
Lotte Midopa Co., Ltd.	Korea	Distribution	Dec. 31	79.01
Lotte Card Co., Ltd.	Korea	Credit card, capital Electronic banking	Dec. 31	92.54
eB Card Co., Ltd.	Korea	business Electronic banking	Dec. 31	95.00
Gyeonggi Smartcard Co., Ltd.	Korea	business Electronic banking	Dec. 31	100.00
Inchon Smartcard Co., Ltd.	Korea	business Electronic banking	Dec. 31	100.00
Chungnam Smartcard Co., Ltd.	Korea	business	Dec. 31	100.00
Woori Home Shopping & Television Co., Ltd.	Korea	Distribution	Dec. 31	53.03
Korea Seven Co., Ltd.	Korea	Distribution	Dec. 31	51.44
Buy the way Inc.	Korea	Distribution	Dec. 31	100.00
Lotte Boulangerie Co., Ltd.	Korea	Bakery	Dec. 31	90.54
Lotte Square Co., Ltd.	Korea	Distribution Apparel	Dec. 31	100.00
NCF Co., Ltd.	Korea	manufacturing	Dec. 31	94.50
Lotte Gimhae Development Co., Ltd.	Korea	Service company	Dec. 31	100.00

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

December 31, 2011 and 2010

1. General Description of the Parent Group, Continued

(b) Description of Subsidiaries, Continued

Subsidiaries	December 31, 2010			
	Location	Products or services	Fiscal year	Percentage of ownership (%)
Lotte Suwon Station Shopping Town Co., Ltd.	Korea	Real estate development	Dec. 31	95.00
Lotte Vietnam Shopping Co., Ltd.	Vietnam	Distribution	Dec. 31	80.00
Qingdao Lotte Mart Commercial Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Mart Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Shopping Holdings (Singapore), 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 India Pvt., Ltd.	India	Distribution	Dec. 31	100.00
Lotte Shopping Holdings (Hong Kong), Ltd.	Hong Kong	Holding company	Dec. 31	100.00
Lotte Mart China Co., Ltd. and its subsidiaries	China	Distribution	Dec. 31	100.00
Lotte Home Shopping Company Limited	Cayman	Holding company	Dec. 31	88.23
Lucky Pai Ltd. and its subsidiaries	China	Distribution	Dec. 31	63.22
Lotte Business Management (Tianjin) Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Mart Global Sourcing Center Co., Ltd.	China	Trading company	Dec. 31	100.00
Liaoning Lotte Mart Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Cinema Vietnam Co., Ltd.	Vietnam	Cinema	Dec. 31	90.00
The 4th Sprint (*)	Korea	SPC	Dec. 31	0.90
The 1st Supreme (*)	Korea	SPC	Dec. 31	0.90
The 2nd Supreme (*)	Korea	SPC	Dec. 31	0.90

(*) The Group possesses substantial risks and rewards of Special Purpose Company (SPC) specializing in factoring credit card sale receivables.

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

December 31, 2011 and 2010

1. General Description of the Parent Group, Continued

(b) Description of Subsidiaries, Continued

January 1, 2010				
Subsidiaries	Location	Products or services	Fiscal year	Percentage of ownership (%)
Lotte Midopa Co., Ltd.	Korea	Distribution	Dec. 31	79.01
Lotte Card Co., Ltd.	Korea	Credit card, capital	Dec. 31	92.54
Woori Home Shopping & Television Co., Ltd.	Korea	Distribution	Dec. 31	53.03
Korea Seven Co., Ltd.	Korea	Distribution	Dec. 31	50.12
Lotte Boulangerie Co., Ltd.	Korea	Bakery	Dec. 31	95.71
Lotte Krispy Kreme Doughnuts co., Ltd.	Korea	Food manufacturing	Dec. 31	100.00
Lotte Vietnam Shopping Co., Ltd.	Vietnam	Distribution	Dec. 31	80.00
Qingdao Lotte Mart Commercial Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Mart Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Shopping Holdings (Singapore), 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 India Pvt., Ltd.	India	Distribution	Dec. 31	100.00
Lotte Shopping Holdings (Hong Kong), Ltd.	Hong Kong	Holding company	Dec. 31	100.00
Lotte Mart China Co., Ltd. and its subsidiaries	China	Distribution	Dec. 31	100.00
Lotte Business Management (Tianjin) Co., Ltd.	China	Distribution	Dec. 31	100.00
Liaoning Lotte Mart Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Cinema Vietnam Co., Ltd.	Vietnam	Cinema	Dec. 31	90.00
KKD Lotte Holdings Co., Ltd.	Hong Kong	Holding company	Dec. 31	100.00
Krispykreme-lotte(Shanghai)co., Ltd.	China	Food manufacturing	Dec. 31	100.00
KKD(Shanghai)Food. co., Ltd.	China	Bakery	Dec. 31	100.00
The 4th Sprint (*)	Korea	SPC	Dec. 31	0.90
The 1st Supreme (*)	Korea	SPC	Dec. 31	0.90

(*) The Group possesses substantial risks and rewards of Special Purpose Company (SPC) specializing in factoring credit card sale receivables.

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

December 31, 2011 and 2010

1. General Description of the Parent Group, Continued

(c) Financial Information of Subsidiaries as of December 31, 2011, 2010 and January 1, 2010 are summarized as follows:

Company	December 31, 2011			
	Korean won (millions)			
	Total assets	Total liabilities	Sales	Net income (loss)
Lotte Midopa Co., Ltd.	₩ 1,058,431	219,513	405,798	47,429
Lotte Card Co., Ltd.	7,541,569	6,035,433	1,438,574	184,290
eB Card Co., Ltd.	159,199	98,674	35,340	(6,383)
Gyeonggi Smartcard Co., Ltd.	16,963	6,302	19,596	3,676
Inchon Smartcard Co., Ltd.	15,568	8,326	10,714	1,538
Chungnam Smartcard Co., Ltd.	3,617	5,874	384	(933)
Woori Home Shopping & Television Co., Ltd.	639,604	278,010	636,015	87,399
Korea Seven Co., Ltd.	769,815	562,273	1,353,510	30,618
Buy the way Inc.	260,600	122,162	639,287	22,022
Lotte Boulangerie Co., Ltd.	56,126	49,204	90,569	(3,011)
Lotte Square Co., Ltd.	782,256	239,036	452,352	11,776
NCF Co., Ltd.	32,517	14,297	48,501	4,065
Lotte Gimhae Development Co., Ltd.	603	184	1,846	84
Lotte Suwon Station Shopping Town Co., Ltd.	15,590	952	-	(263)
Lotte Songdo Shopping Town Co., Ltd.	180,492	79,353	-	(354)
Lotte Vietnam Shopping Co., Ltd.	132,728	124,604	61,585	(15,994)
Qingdao Lotte Mart Commercial Co., Ltd.	129,919	80,794	28,135	(20,937)
Lotte Mart Co., Ltd.	194,770	154,246	299,634	(7,879)
Lotte Shopping Holdings (Singapore), Ltd.	239,737	19	-	(39)
PT. Lotte Shopping Indonesia	257,485	144,110	775,122	11,573
PT. Lotte Mart Indonesia	205,347	128,998	105,435	(13,711)
Lotte Shopping India Pvt., Ltd.	6	65	-	(1)
Lotte Hotel & Retail Vietnam Pte. Ltd.	114,300	389	-	(1,362)
Lotte Shopping Holdings (Hong Kong), Ltd.	940,220	33	-	(41)
Lotte Mart China Co., Ltd. and its subsidiaries	766,011	521,157	927,164	1,153
Lotte Home Shopping Company Limited	157,800	17	-	15
Lucky Pai Ltd. and its subsidiaries	39,733	27,147	74,082	(13,043)
Lotte Business Management (Tianjin) Co., Ltd.	34,921	12,664	9,055	(21,141)
Lotte Mart Global Sourcing Center Co., Ltd.	357	1,143	890	(1,307)
Liaoning Lotte Mart Co., Ltd.	33,485	15,465	20,058	(7,407)
Lotte Cinema Vietnam Co., Ltd.	10,972	7,630	3,208	(1,033)
Jilin Lotte Mart Co., Ltd.	23,402	9,814	12,811	(4,043)
PT. Lotte Shopping Plaza Indonesia	14,995	250	-	(1,521)
Lotte Department Store (Shenyang) Co., Ltd.	3,062	7	-	(463)
Lotte International Department Store (Weihai) Co., Ltd.	3,257	6	-	(279)
Lotte DatViet Homeshopping Co., Ltd.	2,749	409	-	(104)
Lottmart Danang Co., Ltd.	5,761	6	-	(4)
Lottmart C&C India Pvt. Ltd.	2,190	-	-	(98)
The 4th Sprint	100,204	100,194	7,488	-
The 2nd Supreme	228,723	233,316	10,902	-
The 3rd Supreme	337,945	346,101	10,773	-
The 4th Supreme	161,054	161,886	731	-

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

December 31, 2011 and 2010

1. General Description of the Parent Group, Continued

(c) Financial Information of Subsidiaries as of December 31, 2011, 2010 and January 1, 2010 are summarized as follows, Continued:

Company	December 31, 2010			
	Korean won (millions)			
	Total assets	Total liabilities	Sales	Net income (loss)
Lotte Midopa Co., Ltd.	₩ 943,001	191,891	388,680	48,909
Lotte Card Co., Ltd.	6,572,277	5,272,846	1,299,319	159,840
eB Card Co., Ltd.	147,129	80,221	17,380	807
Gyeonggi Smartcard Co., Ltd.	20,453	13,468	18,657	3,441
Inchon Smartcard Co., Ltd.	18,112	12,408	12,890	1,710
Chungnam Smartcard Co., Ltd.	3,293	4,618	462	(581)
Woori Home Shopping & Television Co., Ltd.	520,506	233,625	526,587	75,089
Korea Seven Co., Ltd.	633,318	456,172	974,780	15,147
Buy the way Inc.	259,813	128,311	638,697	13,924
Lotte Boulangerie Co., Ltd.	50,256	40,314	77,020	(169)
Lotte Square Co., Ltd.	720,326	188,859	311,672	9,877
NCF Co., Ltd.	29,334	15,169	48,928	3,054
Lotte Gimhae Development Co., Ltd.	515	180	901	35
Lotte Suwon Station Shopping Town Co., Ltd.	2,807	2,827	-	79
Lotte Vietnam Shopping Co., Ltd.	120,598	143,355	46,963	(15,862)
Qingdao Lotte Mart Commercial Co., Ltd.	97,850	49,112	25,059	(16,645)
Lotte Mart Co., Ltd.	137,665	91,439	263,573	(6,077)
Lotte Shopping Holdings (Singapore), Ltd.	149,146	19	-	(38)
PT. Lotte Shopping Indonesia	188,828	87,792	751,016	13,277
PT. Lotte Mart Indonesia	98,428	30,465	23,841	(3,324)
Lotte Shopping India Pvt., Ltd.	11	78	-	(3)
Lotte Shopping Holdings (Hong Kong), Ltd.	867,255	22	-	(94)
Lotte Mart China Co., Ltd. and its subsidiaries	686,599	456,334	905,428	9,717
Lotte Home Shopping Company Limited	147,227	21	-	(22)
Lucky Pai Ltd. and its subsidiaries	53,532	31,646	15,542	(3,085)
Lotte Business Management (Tianjin) Co., Ltd.	20,756	829	-	(2,476)
Lotte Mart Global Sourcing Center Co., Ltd.	753	181	-	-
Liaoning Lotte Mart Co., Ltd.	21,209	10,379	6,949	(3,544)
Lotte Cinema Vietnam Co., Ltd.	6,730	6,890	2,553	(1,602)
The 4th Sprint	200,386	200,376	10,126	-
The 1st Supreme	338,926	341,919	12,440	-
The 2nd Supreme	228,666	239,061	8,431	-

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

December 31, 2011 and 2010

1. General Description of the Parent Group, Continued

(c) Financial Information of Subsidiaries as of December 31, 2011, 2010 and January 1, 2010 are summarized as follows, Continued:

Company	January 1, 2010		
	Korean won (millions)		
	Total assets	Total liabilities	Total Capital
Lotte Midopa Co., Ltd.	₩ 863,668	186,427	677,241
Lotte Card Co., Ltd.	4,588,796	3,441,559	1,147,237
Woori Home Shopping & Television Co., Ltd.	430,189	200,686	229,503
Korea Seven Co., Ltd.	289,257	225,848	63,409
Lotte Boulangerie Co., Ltd.	48,150	38,370	9,780
Lotte Krispy Kreme Doughnuts co., Ltd. (*)	86,218	5,100	81,118
Lotte Vietnam Shopping Co., Ltd.	129,305	137,307	(8,002)
Qingdao Lotte Mart Commercial Co., Ltd.	87,040	56,993	30,047
Lotte Mart Co., Ltd.	129,887	77,962	51,925
Lotte Shopping Holdings (Singapore), Ltd.	118,181	18	118,163
PT. Lotte Shopping Indonesia	165,791	79,477	86,314
PT. Lotte Mart Indonesia	36,538	7	36,531
Lotte Shopping India Pvt., Ltd.	16	80	(64)
Lotte Shopping Holdings (Hong Kong), Ltd.	792,975	47,753	745,222
Lotte Mart China Co., Ltd. and its subsidiaries	627,643	409,031	218,612
Lotte Business Management (Tianjin) Co., Ltd.	6,427	217	6,210
Liaoning Lotte Mart Co., Ltd.	10,845	4	10,841
Lotte Cinema Vietnam Co., Ltd.	5,664	5,573	91
KKD Lotte Holdings Co., Ltd.	4,409	4	4,405
Krispykreme-lotte(Shanghai)co., Ltd.	1,957	460	1,497
KKD (Shanghai)Food. co., Ltd.	201	38	163
The 4th Sprint	200,388	200,378	10
The 1st Supreme	346,535	350,396	(3,861)

(*) The company was established by spin-off from the Group and merged to Lotteria Co., Ltd, an associate of the Group, in 2010.

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

December 31, 2011 and 2010

1. General Description of the Parent Group, Continued

(d) The Entities included in Subsidiaries for Consolidation in 2011 are as follows:

Description	Subsidiaries
Acquired shares in 2011	Lotte Songdo Shopping Town Co., Ltd. Lottemart Danang Co., Ltd.
Established entity in 2011	The 3rd Supreme The 4th Supreme Lotte Hotel & Retail Vietnam Pte. Ltd. Jilin Lottemart Co., Ltd. PT. Lotte Shopping Plaza Indonesia Lotte Department Store(Shenyang) Co., Ltd. Lotte International Department Store(Weihai) Co., Ltd. Lotte DatViet Homeshopping Co., Ltd. Lottemart C&C India Pvt. Ltd.

(e) The Entity excluded from Subsidiaries for Consolidation in 2011 is as follows:

Description	Subsidiaries
Dissolution in 2011	The 1st Supreme

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2011 and 2010

2. Basis of Preparation

(a) Statement of Compliance

The consolidated financial statements have been prepared in accordance with Korean International Financial Reporting Standards (“K-IFRS”), as prescribed in *the Act on External Audits of Corporations in the Republic of Korea*.

These are the Group’s first consolidated financial statements prepared in accordance with K-IFRS and K-IFRS No. 1101 *First-time Adoption of Korean International Financial Reporting Standards (“K-IFRS No. 1101”)* has been applied. The Group’s date of transition to K-IFRS is January 1, 2010, and the effect of the transition from Korean Generally Accepted Accounting Principles (“K-GAAP”) to K-IFRS on the Group’s reported financial position and financial performance is explained in note 41.

The consolidated financial statements were authorized for issuance by the Board of Directors on February 28, 2012.

(b) Basis of Measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

- derivative financial instruments are measured at fair value
- financial instruments at fair value through profit or loss are measured at fair value
- available-for-sale financial assets are measured at fair value
- liabilities for defined benefit plans are recognized at the net of the total present value of defined benefit obligations less the fair value of plan assets and unrecognized past service costs

(c) Functional and Presentation Currency

These consolidated financial statements are presented in Korean won, which is the Parent Company’s functional currency and the currency of the primary economic environment in which the Group operates.

(d) Use of Estimates and Judgments

The preparation of the consolidated 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.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2011 and 2010

2. Basis of Preparation, Continued

(d) Use of Estimates and Judgments, Continued

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following notes:

- Note 13 – Classification of investment property
- Note 34 – Lease classification

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

- Note 6 – Allowance for financial assets
- Note 8 – Financial instruments
- Note 14 – Intangible assets
- Note 19 – Provisions
- Note 21 – Employee benefits
- Note 32 – Income taxes
- Note 36 – Contingent liabilities and financial commitments

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2011 and 2010

3. Significant Accounting Policies

The significant accounting policies applied by the Group in preparation of its consolidated financial statements are included below. The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and in preparing the opening K-IFRS statement of financial position at January 1, 2010 for the purpose of the transition to K-IFRS, unless otherwise indicated.

(a) Operating Segment

A segment is a distinguishable component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues that relate to transactions with any of the Group's other components. All operating segments' operating results are regularly reviewed by the Group's chief operating decision maker in making decisions on how to allocate resources and in assessing performance, and for which discrete financial information is available.

Segment results that are reported to the Group's chief operating decision maker include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

The Group has four operating segments which consist of department stores, discount stores, credit card service and others, as described in note 36.

(b) Basis of Consolidation

(i) Subsidiaries

A subsidiary is an entity controlled by the Group, where control is the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

If a member of the Group uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in preparing the consolidated financial statements.

(ii) Special purpose entities

The Group has established a number of special purpose entities (SPEs) for trading and investment purposes. The Group does not have any direct or indirect shareholdings in these entities. An SPE is consolidated if, based on an evaluation of the substance of its relationship with the Group and the SPE's risks and rewards, the Group concludes that it controls the SPE.

(iii) Intra-group transactions

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Intra-group losses are recognized as expense if intra-group losses indicate an impairment that requires recognition in the consolidated financial statements.

(iv) Non-controlling interests

Non-controlling interests in a subsidiary are accounted for separately from the parent's ownership interests in a subsidiary. Each component of net profit or loss and other comprehensive income is attributed to the owners of the parent and non-controlling interest holders, even when the allocation reduces the non-controlling interest balance below zero.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2011 and 2010

3. Significant Accounting Policies, Continued

(c) Business Combinations

(i) Business combinations

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control.

Each identifiable asset and liability is measured at its acquisition-date fair value except for below:

- Leases and insurance contracts are required to be classified on the basis of their contractual terms and other factors
- Only those contingent liabilities assumed in a business combination that are a present obligation and can be measured reliably are recognized
- Deferred tax assets or liabilities are recognized and measured in accordance with K-IFRS No.1012 *Income Taxes*
- Employee benefit arrangements are recognized and measured in accordance with K-IFRS No.1019 *Employee Benefits*
- Reacquired rights are measured in accordance with special provisions

As of the acquisition date, non-controlling interests in the acquiree are measured as the non-controlling interests' proportionate share of the acquiree's identifiable net assets.

The consideration transferred in a business combination shall be measured at fair value, which shall be calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity interests issued by the acquirer. However, any portion of the acquirer's share-based payment awards exchanged for awards held by the acquiree's employees that is included in consideration transferred in the business combination shall be measured in accordance with the method described above rather than at fair value.

Acquisition-related costs are costs the acquirer incurs to effect a business combination. Those costs include finder's fees; advisory, legal, accounting, valuation and other professional or consulting fees; general administrative costs, including the costs of maintaining an internal acquisitions department; and costs of registering and issuing debt and equity securities. Acquisition-related costs, other than those associated with the issuance of debt or equity securities, are expensed in the periods in which the costs are incurred and the services are received. The costs to issue debt or equity securities are recognized in accordance with K-IFRS No.1032 *Financial Instruments: Presentation* and K-IFRS No.1039 *Financial Instruments: Recognition and Measurement*.

(ii) Goodwill

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognized amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss.

As part of its transition to K-IFRS, the Group elected to restate only those business combinations which occurred on or after January 1, 2010 in accordance with K-IFRS. In respect of acquisitions prior to January 1, 2010, goodwill is included on the basis of its deemed cost, which represents the amount recorded under previous GAAP, K-GAAP.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2011 and 2010

3. Significant Accounting Policies, Continued

(d) Associates and Jointly Controlled Entities

An associate is an entity in which the Group has significant influence, but not control, over the entity's financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity.

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement, and require unanimous consent for strategic financial and operating decisions.

The investment in an associate is initially recognized at cost and the carrying amount is increased or decreased to recognize the Group's share of the profit or loss and changes in equity of the associate after the date of acquisition. Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Intra-group losses recognized as expense if intra-group losses indicate an impairment that requires recognition in the consolidated financial statements.

If an associate uses accounting policies different from those of the Company for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in applying the equity method.

When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has to make payments on behalf of the investee for further losses.

(e) Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand, demand deposits, and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and are used by the Group in management of its short-term commitments. Generally equity investments are excluded from cash and cash equivalents. However, redeemable preference shares, for which the period from the acquisition to redemption is short, are classified as cash and cash equivalents.

(f) Inventories

The cost of inventories is based on the first-in first-out principle, and includes expenditures for acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Inventories are measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value, are recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2011 and 2010

3. Significant Accounting Policies, Continued

(g) Non-derivative Financial Assets

The Group recognizes and measures non-derivative financial assets by the following four categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. The Group recognizes financial assets in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Upon initial recognition, non-derivative financial assets are measured at their fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the asset's acquisition or issuance.

(i) Financial assets at fair value through profit or loss

A financial asset is classified as financial assets are classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Upon initial recognition, transaction costs are recognized in profit or loss when incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

(ii) Held-to-maturity investments

A non-derivative financial asset with a fixed or determinable payment and fixed maturity, for which the Group has the positive intention and ability to hold to maturity, are classified as held-to-maturity investments. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method.

(iii) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method except for loans and receivables of which the effect of discounting is immaterial.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, held-to-maturity investments or loans and receivables. Subsequent to initial recognition, they are measured at fair value, which changes in fair value, net of any tax effect, recorded in other comprehensive income in equity. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost. When a financial asset is derecognized or impairment losses are recognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. Dividends on an available-for-sale equity instrument are recognized in profit or loss when the Group's right to receive payment is established.

(v) De-recognition of financial assets

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

If the Group retains substantially all the risks and rewards of ownership of the transferred financial assets, the Group continues to recognize the transferred financial assets and recognizes financial liabilities for the consideration received.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2011 and 2010

3. Significant Accounting Policies, Continued

(h) Derivative Financial Instruments, including hedge accounting

Derivatives are initially recognized at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are either recognized in profit or loss or, when the derivatives are designated in a hedging relationship and the hedge is determined to be an effective hedge, other comprehensive income.

(i) Hedge accounting

The Group holds forward exchange contracts, interest rate swaps, currency swaps and other derivative contracts to manage interest rate risk and foreign exchange risk. The Group designated derivatives as hedging instruments to hedge the risk of changes in the fair value of assets, liabilities or firm commitments (a fair value hedge) and foreign currency risk of highly probable forecasted transactions or firm commitments (a cash flow hedge).

On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on a quarterly basis, whether the hedging instruments are expected to be "highly effective" in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80%-125%. For a cash flow hedge of a forecasted transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported net income.

Fair value hedge

Changes in the fair value of a derivative hedging instrument designated as a fair value hedge are recognized in profit or loss. The gain or loss from remeasuring the hedging instrument at fair value for a derivative hedging instrument and the gain or loss on the hedged item attributable to the hedged risk are recognized in profit or loss in the same line item of the consolidated statement of comprehensive income.

The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, or if the hedge no longer meets the criteria for hedge accounting. Any adjustment arising from gain or loss on the hedged item attributable to the hedged risk is amortized to profit or loss from the date the hedge accounting is discontinued.

Cash flow hedge

When a derivative is designated to hedge the variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecasted transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income, net of tax, and presented in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss on the hedging instrument that has been recognized in other comprehensive income is reclassified to profit or loss in the periods during which the forecasted transaction occurs. If the forecasted transaction is no longer expected to occur, then the balance in other comprehensive income is recognized immediately in profit or loss.

(ii) Other derivative financial instruments

Changes in the fair value of other derivative financial instrument not designated as a hedging instrument are recognized immediately in profit or loss.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2011 and 2010

3. Significant Accounting Policies, Continued

(i) Impairment of Financial Assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. However, losses expected as a result of future events, regardless of likelihood, are not recognized.

In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

If financial assets have objective evidence that they are impaired, impairment losses should be measured and recognized.

(i) Financial assets measured at amortized cost

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of its estimated future cash flows discounted at the asset's original effective interest rate. If it is not practicable to obtain the instrument's estimated future cash flows, impairment losses would be measured by using prices from any observable current market transactions. The Group can recognize impairment losses directly or establish a provision to cover impairment losses. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss shall be reversed either directly or by adjusting an allowance account.

(ii) Financial assets carried at cost

If there is objective evidence that an impairment loss has occurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed.

(iii) Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income shall be reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized. Impairment losses recognized in profit or loss for an investment in an equity instrument classified as available-for-sale shall not be reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognized in profit or loss.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2011 and 2010

3. Significant Accounting Policies, Continued

(j) Property, Plant and Equipment

Property, plant and equipment are initially measured at cost and after initial recognition, are carried at cost less accumulated depreciation and accumulated impairment losses. The cost of property, plant and equipment includes expenditures arising directly from the construction or acquisition of the asset, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. In addition, in the preparation of the opening K-IFRS consolidated statement of financial position on the date of transition to K-IFRS, the Group measures certain property, plant and equipment except for buildings at fair value at the date of transition, which is deemed cost, in accordance with K-IFRS No. 1101.

Subsequent to initial recognition, an item of property, plant and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

Subsequent costs are recognized in the carrying amount of property, plant and equipment at cost or, if appropriate, as separate items if it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing are recognized in profit or loss as incurred.

Property, plant and equipment, except for land, are depreciated on a straight-line basis over estimated useful lives that appropriately reflect the pattern in which the asset's future economic benefits are expected to be consumed. A component that is significant compared to the total cost of property, plant and equipment is depreciated over its separate useful life.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized in profit or loss.

The estimated useful lives of the Group's assets are as follows:

	Useful lives (years)
Buildings	10 ~ 50
Structures	5 ~ 48
Machinery	2 ~ 30
Vehicles	3 ~ 9
Display fixtures	4 ~ 10
Other property, plant and equipment ("Other PP&E")	2 ~ 20

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting date and adjusted, if appropriate. The change is accounted for as a change in an accounting estimate.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2011 and 2010

3. Significant Accounting Policies, Continued

(k) Intangible Assets

Intangible assets are measured initially at cost and, subsequently, are carried at cost less accumulated amortization and accumulated impairment losses.

Amortization of intangible assets except for goodwill is calculated on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The residual value of intangible assets is zero. However, as there are no foreseeable limits to the periods over which club memberships are expected to be available for use, this intangible asset is determined as having indefinite useful lives and not amortized.

	<u>Useful lives (years)</u>
Industrial property rights	5 ~ 10
Rights to use facility	4 ~ 20
Film copyrights	Duration of related revenue to be realized
Other intangible assets	2 ~ 10

Amortization periods and the amortization methods for intangible assets with finite useful lives are reviewed at the end of each reporting period. The useful lives of intangible assets that are not being amortized are reviewed at the end of each reporting period to determine whether events and circumstances continue to support indefinite useful life assessments for those assets. Changes are accounted for as changes in accounting estimates.

Goodwill recognized on business combination is included in intangible assets. The Group retroactively restated amounts related to business combinations that occurred after January 1, 2010, in accordance with K-IFRS. Goodwill related to business combinations that occurred before January 1, 2010 is included on the basis of its deemed cost, which represents the amount recognized under K-GAAP. Goodwill acquired after January 1, 2010 is recognized as the fair value of the consideration transferred, including the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the Group's interest in the fair value of the acquiree's net identifiable assets acquired and liabilities assumed exceeds consideration, the difference is immediately recognized in the statement of income for the period.

Goodwill is measured at cost less accumulated impairment losses. The acquisition of additional non-controlling interest while retaining control is accounted for as shareholder transaction and as a result no goodwill is recognized.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2011 and 2010

3. Significant Accounting Policies, Continued

(l) Investment Property

Property held for the purpose of earning rentals or benefiting from capital appreciation is classified as investment property. Investment property is measured initially at its cost. Transaction costs are included in the initial measurement. Subsequently, investment property is carried at depreciated cost less any accumulated impairment losses

Subsequent costs are recognized in the carrying amount of investment property at cost or, if appropriate, as separate items if it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing are recognized in profit or loss as incurred.

Investment properties, except for land, are depreciated on a straight-line basis over 10 to 50 years, the estimated useful lives. Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate. The change is accounted for as a change in an accounting estimate.

(m) Impairment of Non-financial Assets

The carrying amounts of the Group's non-financial assets, other than assets arising from employee benefits, inventories, deferred tax assets and non-current assets held for sale, are reviewed at the end of the reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, irrespective of whether there is any indication of impairment, are tested for impairment annually by comparing their recoverable amount to their carrying amount.

The Group estimates the recoverable amount of an individual asset, if it is impossible to measure the individual recoverable amount of an asset, then the Group estimates the recoverable amount of cash-generating unit ("CGU"). A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. The value in use is estimated by applying a pre-tax discount rate that reflect current market assessments of the time value of money and the risks specific to the asset or CGU for which estimated future cash flows have not been adjusted, to the estimated future cash flows expected to be generated by the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or a CGU exceeds its recoverable amount. Impairment losses are recognized in profit or loss.

Goodwill acquired in a business combination is allocated to each CGU that is expected to benefit from the synergies arising from the goodwill acquired. Any impairment identified at the CGU level will first reduce the carrying value of goodwill and then be used to reduce the carrying amount of the other assets in the CGU on a pro rata basis. Except for impairment losses in respect of goodwill which are never reversed, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2011 and 2010

3. Significant Accounting Policies, Continued

(n) Leases

The Group classifies and accounts for leases as either a finance or operating lease, depending on the terms. Leases where the Group assumes substantially all of the risks and rewards of ownership are classified as finance leases. All other leases are classified as operating leases.

(i) Finance leases

At the commencement of the lease term, the Group recognizes as finance assets and finance liabilities in its consolidated statements of financial position, the lower amount of the fair value of the leased property and the present value of the minimum lease payments, each determined at the inception of the lease. Any initial direct costs are added to the amount recognized as an asset.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred.

The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use on a systematic basis consistent with the depreciation policy the lessee adopts for depreciable assets that are owned. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life. The Group reviews to determine whether the leased asset may be impaired.

(ii) Operating leases

Leases where the lessor retains a significant portion of the risks and rewards of ownership are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are recognized in profit or loss on a straight-line basis over the period of the lease.

(o) Borrowing Costs

The Group capitalizes borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Other borrowing costs are recognized in expense as incurred. A qualifying asset is an asset that requires a substantial period of time to get ready for its intended use or sale. Financial assets and inventories that are manufactured or otherwise produced over a short period of time are not qualifying assets. Assets that are ready for their intended use or sale when acquired are not qualifying assets.

To the extent that the Group borrows funds specifically for the purpose of obtaining a qualifying asset, the Group determines the amount of borrowing costs eligible for capitalization as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings. The Group immediately recognizes other borrowing costs as an expense. To the extent that the Group borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Group shall determine the amount of borrowing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset. The capitalization rate shall be the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that the Group capitalizes during a period shall not exceed the amount of borrowing costs incurred during that period.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2011 and 2010

3. Significant Accounting Policies, Continued

(p) Non-derivative Financial Liabilities

The Group classifies non-derivative financial liabilities into financial liabilities at fair value through profit or loss or other financial liabilities in accordance with the substance of the contractual arrangement and the definitions of financial liabilities. The Group recognizes financial liabilities in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the financial liability.

(i) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading or designated as such upon initial recognition. Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss. Upon initial recognition, transaction costs that are directly attributable to the acquisition are recognized in profit or loss as incurred.

(ii) Other financial liabilities

Non-derivative financial liabilities other than financial liabilities at fair value through profit or loss are classified as other financial liabilities. At the date of initial recognition, other financial liabilities are measured at fair value minus transaction costs that are directly attributable to the acquisition. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method.

The Group derecognizes a financial liability from the consolidated statement of financial position when it is extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

(q) Employee Benefits

(i) Short-term employee benefits

Short-term employee benefits are employee benefits that are due to be settled within 12 months after the end of the period in which the employees render the related service. When an employee has rendered service to the Group during an accounting period, the Group recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service.

(ii) Other long-term employee benefits

Other long-term employee benefits include employee benefits that are settled beyond 12 months after the end of the period in which the employees render the related service, and are calculated at the present value of the amount of future benefit that employees have earned in return for their service in the current and prior periods, less the fair value of any related assets. The present value is determined by discounting the expected future cash flows using the interest rate of corporate bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. Any actuarial gains and losses are recognized in profit or loss in the period in which they arise.

(iii) Retirement benefits: defined contribution plans

When an employee has rendered service to the Group during a period, the Group recognizes the contribution payable to a defined contribution plan in exchange for that service as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the end of the reporting period, the Group recognizes that excess as an asset (prepaid expense) to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2011 and 2010

3. Significant Accounting Policies, Continued

(q) Employee Benefits, Continued

(iv) Retirement benefits: defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of plan assets is deducted. The calculation is performed annually by an independent actuary using the projected unit credit method.

The discount rate is the yield at the reporting date on corporate bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The Group recognizes all actuarial gains and losses arising from actuarial assumption changes and experiential adjustments in other comprehensive income when incurred.

When the fair value of plan assets exceeds the present value of the defined benefit obligation, the Group recognizes an asset, to the extent of the total of cumulative unrecognized past service cost and the present value of any economic benefits available in the form of refunds from the plan or reduction in the future contributions to the plan.

Past service costs which are the change in the present value of the defined benefits obligation for employee service in prior periods, resulting in the current period from the introduction of, or change to post-employment benefits, is recognized as an expense on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits are already vested immediately following the introduction of, or changes to, a defined benefit plan, the Group recognizes the past service cost immediately.

(r) Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Where the effect of the time value of money is material, provisions are determined at the present value of the expected future cash flows.

Where some or all of the expenditures required to settle a provision are expected to be reimbursed by another party, the reimbursement shall be recognized when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset.

The Group provides an allowance for credit card assets at the amount that equals the product of the following:

- unused credit commitment multiplied by credit conversion factor and
- provision rate per BASEL discounted by the effective interest rate.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2011 and 2010

3. Significant Accounting Policies, Continued

(s) Foreign Currencies

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency using the reporting date's exchange rate. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges, which are recognized in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(ii) Foreign operations

If the presentation currency of the Group is different from a foreign operation's functional currency, the financial statements of the foreign operation are translated into the presentation currency using the following methods:

The assets and liabilities of foreign operations, whose functional currency is not the currency of a hyperinflationary economy, are translated to presentation currency at exchange rates at the reporting date. The income and expenses of foreign operations are translated to functional currency at exchange rates at the dates of the transactions. Foreign currency differences are recognized in other comprehensive income.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation is treated as assets and liabilities of the foreign operation. Thus they are expressed in the functional currency of the foreign operation and translated at the closing rate.

When a foreign operation is disposed of, the relevant amount in the translation is transferred to profit or loss as part of the profit or loss on disposal. On the partial disposal of a subsidiary that includes a foreign operation, the relevant proportion of such cumulative amount is reattributed to non-controlling interest. In any other partial disposal of a foreign operation, the relevant proportion is reclassified to profit or loss.

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognized in other comprehensive income in the translation reserve.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2011 and 2010

3. Significant Accounting Policies, Continued

(t) Equity Capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

Preference share capital is classified as equity if it is non-redeemable, or redeemable only at the Company's option, and any dividends are discretionary. Dividends thereon are recognized as distributions within equity upon approval by the Company's shareholders.

Preference share capital is classified as a liability if it is redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary. Dividends thereon are recognized as interest expense in profit or loss as accrued.

When the Group repurchases its share capital, the amount of the consideration paid is recognized as a deduction from equity and classified as treasury shares. The profits or losses from the purchase, disposal, reissue, or retirement of treasury shares are not recognized as current profit or loss. If the Group acquires and retains treasury shares, the consideration paid or received is directly recognized in equity.

(u) Revenue

Revenue from sale of goods, rendering of services or use of the Group assets is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates and are recognized as a reduction of revenue.

Goods sold

Revenue is recognized when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

The Company, Lotte Midopa Co., Ltd. and Lotte Square Co., Ltd. recognize sales on a gross basis for merchandise of which the Company, Lotte Midopa Co., Ltd. and Lotte Square Co., Ltd. bear the overall inventory risk in connection with purchase contracts with vendors where the merchandise may only be returned for a full refund prior to the end of the relevant season (for seasonal merchandise) or within 90 days from delivery (for non-seasonal merchandise). The Group recognizes sales on a net basis for merchandise that may be returned to vendors at any time.

Customer Loyalty Programs

For customer loyalty programs, the fair value of the consideration received or receivable from the initial sale is allocated between the award credits ("points") and the other components of the sale. The Group supplies all of the awards with its products. The amount allocated to the points is estimated by reference to the fair value of its products for which they could be redeemed, since the fair value of the points themselves is not directly measurable. The fair value of its products is estimated taking into account the expected redemption rate and the timing of such expected redemptions. Such amount is deferred and revenue is recognized only when the points are redeemed and the Group has fulfilled its obligations to supply its products.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2011 and 2010

3. Significant Accounting Policies, Continued

(u) Revenue, Continued

Commissions

When the Group acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognized is the net amount of commission made by the Group.

Rental income

Rental income, net of lease incentives granted, from investment property is recognized in profit or loss on a straight-line basis over the term of the lease.

Income of card business

The Group recognizes interest and fee income from cardholders and merchants on an accrual basis. Certain fees associated with lending activities which meet specified criteria, are deferred and amortized over the life of the loan as an adjustment to the carrying amount of the loan. The amortization of deferred fee is recognized as operating revenue.

(v) Finance Income and Finance Costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, and gains on hedging instruments that are recognized in profit or loss. Interest income is recognized as it accrues in profit or loss, using the effective interest method. Dividend income is recognized in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, dividends on preference shares classified as liabilities, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognized on financial assets, and losses on hedging instruments that are recognized in profit or loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2011 and 2010

3. Significant Accounting Policies, Continued

(w) Income Taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

(i) Current tax

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the end of the reporting period and any adjustment to tax payable in respect of previous years. The taxable profit is different from the accounting profit for the period since the taxable profit is calculated excluding the temporary differences, which will be taxable or deductible in determining taxable profit (tax loss) of future periods, and non-taxable or non-deductible items from the accounting profit.

(ii) Deferred tax

Deferred tax is recognized, using the asset-liability method, in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. A deferred tax liability is recognized for all taxable temporary differences. A deferred tax asset is recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which they can be utilized. However, deferred tax is not recognized for the following temporary differences: taxable temporary differences arising on the initial recognition of goodwill, or the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting profit or loss nor taxable income.

The Group recognizes a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, associates, and interests in joint ventures, except to the extent that the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The Group recognizes a deferred tax asset for all deductible temporary differences arising from investments in subsidiaries and associates, to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if there is a legally enforceable right to offset the related current tax liabilities and assets, and they relate to income taxes levied by the same tax authority and they intend to settle current tax liabilities and assets on a net basis.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2011 and 2010

3. Significant Accounting Policies, Continued

(x) Earnings per Share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise convertible notes.

(y) Discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative consolidated statement of comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative period.

(z) New Standards and Interpretations not yet adopted

The following new standards, interpretations and amendments to existing standards have been published and are mandatory for the Group for annual periods beginning after January 1, 2011, and the Group has not early adopted them. Management believes the impacts of these new pronouncements on the Group's consolidated financial statements are not significant.

(i) Amendments to K-IFRS No. 1107 *Financial Instruments: Disclosures*

The amendments require disclosing the nature of the transferred assets, their carrying amount, and the description of risks and rewards for each class of transferred financial assets that are not derecognized in their entirety. If the Group derecognizes transferred financial assets but still has their specific risks and rewards, the amendments require additional disclosures on their effect of risks. The amendments will be applied prospectively for the Group's annual periods beginning on or after July 1, 2011.

(ii) Amendments to K-IFRS No. 1019 *Employee Benefits*

The standard requires recognition of actuarial gains and losses immediately in other comprehensive income and to calculate expected return on plan assets based on the rate used to discount the defined benefit obligation. The standard will be applied retrospectively for the Group's annual periods beginning on or after January 1, 2013.

(iii) K-IFRS No. 1113 *Fair Value Measurement*

The standard defines fair value and a single framework for fair value, and requires disclosures about fair value measurements. The standard will be applied prospectively for the Group's annual periods beginning on or after January 1, 2013.

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December 31, 2011 and 2010

4. Business Combination and Additional Acquisitions from Entities Under Common Control

(a) Business combination

Significant business combinations of the Group are as follows:

(i) Acquisition of department stores and discount stores

The Group entered into an agreement to acquire department stores and discount stores from GS Retail Co., Ltd on February 9, 2010. On May 31, 2010, the related department stores business was acquired by a subsidiary of the Group, Lotte Square., Ltd, established in 2010, and the related discount stores business was acquired by the Company. There was no contingent consideration. Goodwill arising from the acquisition primarily results from synergies the Company and its subsidiaries expect to be realized. The amounts of sales and net profit of department stores from GS Retail Co., Ltd since the acquisition date to December 31, 2010 in consolidated sales and net profit amounted to ₩311,672 million and ₩9,877 million, respectively. The amounts of sales and net profit of discount stores from GS Retail Co., Ltd since the acquisition date to December 31, 2010 in consolidated sales and net profit amounted to ₩388,446 million and ₩9,880 million, respectively.

(ii) Stock Acquisition of Lucky Pai Limited

The Group obtained control of Lucky Pai Limited by acquiring 63.22% of its capital stock for September 30, 2010 in order to expand the Group's home shopping business in China. There was no contingent consideration. Goodwill arising from the acquisition primarily results from synergies the Company and its subsidiaries expect to be realized. The amounts of sales and net profit of department stores since the acquisition date to December 31, 2010 in consolidated sales and net loss amounted to ₩15,542 million and ₩3,085 million, respectively.

(iii) Acquisition of eB Card Co., Ltd and its subsidiaries

The Group obtained control of eB Card Co., Ltd. by acquiring 95% of its capital stock for ₩35,508 million in cash on July 27, 2010. In addition, as part of the acquisition, the Group also participated in the share offering by eB Card Co., Ltd. for ₩61,163 million. On July 30, 2010, separate from the above acquisition, eB Card Co., Ltd acquired 100% of the capital stock of Gyeonggi Smartcard Co., Ltd., Inchon Smartcard Co., Ltd., and Chungnam Smartcard Co., Ltd. for ₩52,155 million. The eB Card Co., Ltd and its subsidiaries are engaged in issuing transportation card and managing related services. There was no contingent consideration. Goodwill arising from the acquisition primarily results from synergies the Company and its subsidiaries expect to be realized. The amounts of sales and net profit of department stores since the acquisition date to December 31, 2010 in consolidated sales and net loss amounted to ₩21,065 million and ₩2,643 million, respectively.

(iv) Acquisition of NCF Co., Ltd

The Group acquired 94.5% and control of the capital stock of a fashion company, NCF Co., Ltd on December 31, 2010 in order to expand the Group's fashion business. There was no contingent consideration.

(v) Acquisition of Buy the way Inc.

The Group acquired 100% of the capital stock of a private entity, Buy the way Inc., specializing in the convenience store business on April 20, 2010 in order to increase the Group's market share of convenience stores business. There was no contingent consideration. Goodwill arising from the acquisition primarily results from synergies the Company and its subsidiaries expect to be realized. The amounts of sales and net profit since the acquisition date to December 31, 2010 in consolidated sales and net profit amounted to ₩335,379 million and ₩8,958 million, respectively.

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4. Business Combination and Additional Acquisitions from Entities Under Common Control, Continued

(a) Business combination, continued

The following summarized pro-forma consolidated statement of comprehensive income information assumes that all the above acquisitions occurred as of January 1, 2010. The pro-forma results reflect certain adjustments related to the acquisition, such as increased depreciation and amortization expense on assets acquired resulting from the fair valuation of assets acquired in place on acquisition dates. The pro-forma results do not include any anticipated cost synergies or other effects of the planned integration of the acquirees.

If the Group had acquired the above businesses as of January 1, 2010, pro-forma consolidated sales and pro-forma consolidated net profit for the year ended December 31, 2010 would have been ₩19,717,601 million and ₩1,108,088 million, respectively.

The following summarizes major classes of consideration transferred at the acquisition dates.

Description	Korean won (millions)					
	GS Retail Co., Ltd Department store business	GS Retail Co., Ltd discount store business	Lucky Pai Limited	eB Card Co., Ltd and its subsidiaries	NCF Co., Ltd	Buy the way Inc.
Total consideration transferred	₩ 520,843	826,543	135,695	96,671	18,876	274,000

The following summarizes the recognized amounts of assets acquired and liabilities assumed at the acquisition dates.

Accounts	Korean won (millions)					
	GS Retail Co., Ltd Department store business	GS Retail Co., Ltd discount store business	Lucky Pai Limited	eB Card Co., Ltd and its subsidiaries	NCF Co., Ltd	Buy the way Inc.
Cash and cash equivalents	₩ -	-	12,714	35,502	3,066	10,287
Property, plant and equipment	367,924	428,401	10,935	4,429	1,428	45,131
Investment property	-	-	26	-	-	-
Intangible assets	5,237	18	6,484	28,932	33	42,596
Inventories	2,118	18,434	10,817	653	8,060	15,229
Trade and other receivables	10,997	7,815	1,951	30,159	6,109	8,836
Other financial assets	-	-	-	-	7,500	-
Tax assets	-	-	-	-	2,255	-
Other assets (deposits, etc)	706	86,934	5,737	43,424	879	77,375
Total assets	386,982	541,602	48,664	143,099	29,330	199,454
Trade and other payables	77,641	44,450	21,846	-	12,311	78,697
Other financial liabilities	-	-	3,355	67,355	-	-
Tax liabilities	-	-	-	10,004	-	8,687
Other liabilities	5,626	6,359	1,718	48,313	2,870	45,379
Total liabilities	83,267	50,809	26,919	125,672	15,181	132,763
Total identifiable net assets	₩ 303,715	490,793	21,745	17,427	14,149	66,691

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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December 31, 2011 and 2010

4. Business Combination and Additional Acquisitions from Entities Under Common Control, Continued

(a) Business combination, continued

Goodwill recognized as a result of business combinations is as follows:

Accounts	Korean won (millions)					
	GS Retail Co., Ltd Department store business	GS Retail Co., Ltd discount store business	Lucky Pai Limited	eB Card Co., Ltd and its subsidiaries	NCF Co., Ltd.	Buy the way Inc.
Total consideration transferred	₩ 520,843	826,543	135,695	96,671	18,876	274,000
Non-controlling interests	-	-	6,866	871	778	-
Subtotal	520,843	826,543	142,561	97,542	19,654	274,000
Less: Fair value of identifiable net assets	303,715	490,793	21,745	17,426	14,149	66,691
Goodwill	₩ 217,128	335,750	120,816	80,116	5,505	207,309

For each of the business combinations above, non-controlling interests at the acquisition date were measured using their proportionate share in the recognized amounts of the acquirees' identifiable net assets.

(b) Additional acquisition of subsidiaries' shares

During 2011, the Group acquired additional shares of its subsidiaries as follows:

Subsidiaries	Korean won (millions)	Percentage of ownership (%)		Korean won (millions)	
		Additional acquisition	Before additional acquisition		After additional acquisition
Lotte Suwon Station Shopping Town Co., Ltd.	₩ 14,250		95.00	95.00	₩ 14,638
Liaoning Lotte Mart Co., Ltd.	13,387		100.00	100.00	18,020
Lotte Business Management (Tianjin) Co., Ltd.	21,578		100.00	100.00	22,257
PT. Lotte Mart Indonesia	21,652		100.00	100.00	76,349
Lotte Cinema Vietnam Co., Ltd	3,851		90.00	90.00	3,342
Lucky Pai Limited	19,699		63.22	73.80	12,586
Qingdao Lotte Mart Commercial Co., Ltd	18,360		100.00	100.00	49,125
Lotte Vietnam Shopping Co., Ltd.	47,666		80.00	94.55	8,124
Total	₩ 160,443				

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

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December 31, 2011 and 2010

5. Risk Management

(a) Management of financial risks

Objectives and Policies of the Group

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

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

Credit Risk

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

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

1) Exposure to credit risk

The book value of a financial asset represents the maximum exposure to credit risk. The maximum exposures to credit risk as of December 31, 2011, 2010 and January 1, 2010 are as follows:

Account		Korean won (millions)		
		December 31, 2011	December 31, 2010	January 1, 2010
Cash and cash equivalent(*1)	₩	1,895,258	1,157,526	923,634
Trade and other receivables		636,502	461,341	359,373
Current other financial assets(*2)		7,732,819	6,484,423	4,604,040
Non-current other financial assets(*2)		947,313	958,125	929,359
Total	₩	11,211,892	9,061,415	6,816,406

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

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

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December 31, 2011 and 2010

5. Risk Management, Continued

(a) Management of financial risks, continued

2) Impairment loss

Trade and other receivables, other financial assets (current), and other financial assets (non-current), before deducting the allowance for doubtful accounts as of December 31, 2011, 2010 and January 1, 2010, are summarized as follows:

Description	Korean won (millions)			
	December 31, 2011			
	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	₩ 618,088	18,414	11,928	648,430
Other financial assets (current)	7,661,463	64,511	17,569	7,743,543
Other financial assets (non- current)	947,313	-	-	947,313
Total	₩ 9,226,864	82,925	29,497	9,339,286

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

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5. Risk Management, Continued

(a) Management of financial risks, continued

		Korean won (millions)			
		December 31, 2010			
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	₩	439,384	14,560	16,042	469,986
Other financial assets (current)		6,433,203	49,816	32,513	6,515,532
Other financial assets (non- current)		958,125	-	-	958,125
Total	₩	<u>7,830,712</u>	<u>64,376</u>	<u>48,555</u>	<u>7,943,643</u>

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

		Korean won (millions)			
		January 1, 2010			
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	₩	347,544	11,587	5,951	365,082
Other financial assets (current)		4,572,370	27,666	20,054	4,620,090
Other financial assets (non- current)		929,359	-	-	929,359
Total	₩	<u>5,849,273</u>	<u>39,253</u>	<u>26,005</u>	<u>5,914,531</u>

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

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5. Risk Management, Continued

(a) Management of financial risks, continued

3) Allowance for doubtful trade and other receivables

The movement in the allowance for doubtful trade and other receivables for the years ended December 31, 2011 and 2010 are summarized as follow:

		Korean won (millions)	
		2011	2010
Balance at beginning of period	₩	8,645	5,709
Impairment loss		3,283	2,936
Balance at end of period	₩	11,928	8,645

The movement in the allowance for doubtful other financial assets (current) for the years ended December 31, 2011 and 2010 are summarized as follow:

		Korean won (millions)	
		2011	2010
Balance at beginning of period	₩	190,459	126,896
Recognition of impairment loss		32,844	63,563
Balance at end of period	₩	223,303	190,459

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

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

		Korean won (millions)				
		December 31, 2011				
Description		Carrying amount	3 months or less	3 ~ 6 months	6 ~ 12 months	More than 1 year
Trade and other receivables	₩	18,414	6,104	2,284	2,200	7,826
Other financial assets (current)		64,511	64,511	-	-	-
Other financial assets (non-current)		-	-	-	-	-
Total	₩	82,925	70,615	2,284	2,200	7,826

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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December 31, 2011 and 2010

5. Risk Management, Continued

(a) Management of financial risks, continued

		Korean won (millions)				
		December 31, 2010				
Description		Carrying amount	3 months or less	3 ~ 6 months	6 ~ 12 months	More than 1 year
Trade and other receivables	₩	14,560	4,737	966	1,147	7,710
Other financial assets (current)		49,816	49,816	-	-	-
Other financial assets (non-current)		-	-	-	-	-
Total	₩	<u>64,376</u>	<u>54,553</u>	<u>966</u>	<u>1,147</u>	<u>7,710</u>

		Korean won (millions)				
		January 1, 2010				
Description		Carrying amount	3 months or less	3 ~ 6 months	6 ~ 12 months	More than 1 year
Trade and other receivables	₩	11,587	8,450	231	1,098	1,808
Other financial assets (current)		27,666	27,666	-	-	-
Other financial assets (non-current)		-	-	-	-	-
Total	₩	<u>39,253</u>	<u>36,116</u>	<u>231</u>	<u>1,098</u>	<u>1,808</u>

5) Guarantees

The Group has provided guarantees to its related companies as discussed in note 38 to the consolidated financial statements.

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

December 31, 2011 and 2010

5. Risk Management, Continued

(a) Management of financial risks, continued

Liquidity Risks

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

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

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

Aggregate maturities of non-derivative financial liabilities, including estimated interest, as of December 31, 2011 are as follows:

Account	Korean won (millions)			
	Carrying amount	Contractual cash flows	Within 1 year	1~5 years
Current portion of borrowings and debentures	₩ 3,447,284	3,481,363	3,481,363	-
Trade and other payables	4,724,017	4,724,017	4,724,017	-
Current other financial liabilities (*)	456,433	473,618	473,618	-
Borrowings and debentures	6,738,647	6,986,730	-	6,986,730
Non-current other financial liabilities (*)	152,587	161,731	-	161,731
Total	₩ 15,518,968	15,827,459	8,678,998	7,148,461

(*) 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.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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December 31, 2011 and 2010

5. Risk Management, Continued

(a) Management of financial risks, continued

Market Risks

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

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

1) Currency risk

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

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

The closing rates as of December 31, 2011, 2010 and January 1, 2010 and the average rates for the years ended December 31, 2011 and 2010 are as follows:

		Average rate		Closing rate		
		2011	2010	December 31, 2011	December 31, 2010	January 1, 2010
USD	₩	1,108.11	1,156.26	1,153.30	1,138.90	1,167.60
EUR		1,541.42	1,532.94	1,494.10	1,513.60	1,674.28
JPY		13.9131	13.2056	14.8516	13.9708	12.6282

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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December 31, 2011 and 2010

5. Risk Management, Continued

(a) Management of financial risks, continued

The Group regularly measures exchange risks on Korean won against foreign currency fluctuations. The Group assumes that foreign currency exchange rates fluctuate 10% at the end of reporting period, and others variables are not changed. Sensitivity analysis of income before taxes from changes of foreign currency exchange rate as of December 31, 2011, 2010 and January 1, 2010 are summarized as follows:

		Korean won (millions)					
		December 31, 2011		December 31, 2010		January 1, 2010	
		10% increase	10% decrease	10% increase	10% decrease	10% increase	10% decrease
USD	₩	(45,944)	45,944	709	(709)	6,604	(6,604)
EUR		(18)	18	(74)	74	(99)	99
JPY		(44,576)	44,576	(41,891)	41,891	(37,870)	37,870
Total	₩	(90,538)	90,538	(41,256)	41,256	(31,365)	31,365

Borrowings and debentures with currency swaps and overseas convertible bonds designated as financial liabilities at fair value through profit or loss are not included. The sensitivity analysis above is related to the monetary assets and liabilities, denominated in a currency other than the Group's functional currency, as of December 31, 2011, 2010 and January 1, 2010 of the Group entities in Korea.

2) Interest rate risk

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

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

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

		Korean won (millions)		
		December 31, 2011	December 31, 2010	January 1, 2010
Variable rate instruments:				
Financial assets	₩	378,997	381,632	447,155
Financial liabilities		2,925,941	3,917,048	2,016,950

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5. Risk Management, Continued

(a) Management of financial risks, continued

Sensitivity analysis of interest income and expenses from changes in interest rates as of December 31, 2011, 2010 and January 1, 2010 are summarized as follows:

		Korean won (millions)					
		December 31, 2011		December 31, 2010		January 1, 2010	
		100bps up	100bps down	100bps up	100bps down	100bps up	100bps down
Interest income	₩	4,116	(4,116)	3,981	(3,981)	4,472	(4,472)
Interest expense		7,865	(7,865)	7,237	(7,237)	2,316	(2,316)

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

(b) Capital Management

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

The liabilities to equity ratios and net borrowings to equity ratios as of December 31, 2011, 2010 and January 1, 2010 are as follows:

		Korean won (millions)		
		December 31, 2011	December 31, 2010	January 1, 2010
Liabilities (a)	₩	18,382,115	15,549,532	11,197,724
Equity (b)		14,679,005	13,641,998	12,549,025
Financial instruments (*) (c)		2,640,760	1,570,178	1,380,833
Borrowings (d)		10,185,931	8,395,425	5,336,618
Liabilities to equity ratio (a/b)		125.23%	113.98%	89.23%
Net borrowings to equity ratio ((d-c)/b)		51.40%	50.03%	31.52%

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

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6. Trade and Other Receivables

Trade and other receivables as of December 31, 2011, 2010 and January 1, 2010 are summarized as follows:

		Korean won (millions)		
		December 31, 2011	December 31, 2010	January 1, 2010
Trade receivables	₩	444,143	324,302	267,194
Other receivables		204,287	145,684	97,888
Allowance for doubtful accounts		(11,928)	(8,645)	(5,709)
Trade and other receivables	₩	<u>636,502</u>	<u>461,341</u>	<u>359,373</u>

7. Restricted Deposits

Restricted deposits included in short-term and long-term financial instruments as of December 31, 2011, 2010 and January 1, 2010 are summarized as follows:

		Korean won (millions)		
Description	Depository	December 31, 2011	December 31, 2010	January 1, 2010
Current:				
Time deposits	Woori Bank and others	₩ 23,320	27,891	20,375
Special deposits	Industrial Bank of Korea	74,500	55,000	-
Non-current:				
Time deposits	Shinhan Bank	8	-	12,508
Special deposits	Shinhan Bank and others	81	86	92
Available-for-sale financial assets	Gyeongsangnam-do Metropolitan Government and others	32,211	49,033	37,099
Money Market Fund	Citibank and others	<u>22,415</u>	<u>15,285</u>	<u>10,164</u>
Total		₩ <u>152,535</u>	<u>147,295</u>	<u>80,238</u>

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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December 31, 2011 and 2010

8. Fair Value of Financial Instruments

(a) Other financial assets as of December 31, 2011, 2010 and January 1, 2010 are summarized as follows:

Account	Korean won (millions)		
	December 31, 2011	December 31, 2010	January 1, 2010
Current:			
Short-term financial instruments	₩ 745,294	412,452	444,696
Short-term loans	7,702	2,118	5,898
Available-for-sale financial assets	9,762	7,698	10,917
Current derivative assets held for the purpose of hedging	27,545	126,755	-
Other financial assets	20	-	-
Accrued income	48,980	41,387	29,010
Short-term deposits	91,121	76,375	70,373
Card business financial assets	6,802,395	5,820,509	4,045,905
Subtotal	7,732,819	6,487,294	4,606,799
Non-current:			
Long-term financial instruments	209	200	12,503
Guarantee deposits	81	86	92
Available-for-sale financial assets	631,045	614,930	504,844
Held-to-maturity investment	10	-	1,000
Long-term loans	76,399	77,936	50,604
Long-term deposits	923,433	811,776	617,269
Non-current derivative assets held for the purpose of hedging	12,283	63,818	195,330
Non-current derivative assets held for the purpose of trading	1,697	34,879	31,817
Long-term trade receivables	6,080	5,993	-
Long-term other receivables	-	257	53
Subtotal	1,651,237	1,609,875	1,413,512
Total	₩ 9,384,056	8,097,169	6,020,311

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

December 31, 2011 and 2010

8. Fair Value of Financial Instruments, Continued

(b) The carrying amount and the fair value of financial instruments as of December 31, 2011, 2010 and January 1, 2010 are summarized as follows:

		Korean won (millions)					
		December 31, 2011		December 31, 2010		January 1, 2010	
		Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	Cash and cash equivalents ₩	1,958,204	1,958,204	1,242,426	1,242,426	998,865	998,865
Financial assets at fair value through profit or loss	Non-current derivative assets held for the purpose of trading	1,697	1,697	34,879	34,879	31,817	31,817
Loans and receivables(*1)	Trade and other receivables	636,502	636,502	461,341	461,341	359,373	359,373
	Short-term financial instruments	745,294	745,294	412,452	412,452	444,696	444,696
	Short-term loans	7,702	7,702	2,118	2,118	5,898	5,898
	Other financial assets	20	20	-	-	-	-
	Accrued income	48,980	48,980	41,387	41,387	29,010	29,010
	Short-term deposits	91,121	91,121	76,375	76,375	70,373	70,373
	Long-term financial instruments	209	209	200	200	12,503	12,503
	Guarantee deposits	81	81	86	86	92	92
	Long-term loans	76,399	76,399	77,936	77,936	50,604	50,604
	Long-term deposits	923,433	923,433	811,776	811,776	617,269	617,269
	Long-term trade accounts receivable	6,080	6,080	5,993	5,993	-	-
	Long-term other accounts receivable	-	-	257	257	53	53
	Card financial assets	6,802,395	6,802,395	5,820,509	5,820,509	4,045,905	4,045,905
	Subtotal	9,338,216	9,338,216	7,710,430	7,710,430	5,635,776	5,635,776
Available-for-sale financial assets	Marketable available-for-sale financial assets (*2)	316,070	316,070	301,096	301,096	260,297	260,297
	Non-marketable available-for-sale financial assets (*3)	324,737	324,737	321,532	321,532	255,464	255,464
	Subtotal	640,807	640,807	622,628	622,628	515,761	515,761
Held-to-maturity investment	Held-to-maturity investment	10	10	-	-	1,000	1,000
Derivative assets held for the purpose of hedging	Current derivative assets-hedge	27,545	27,545	126,755	126,755	-	-
	Non-current derivative assets-hedge	12,283	12,283	63,818	63,818	195,330	195,330
	Subtotal	39,828	39,828	190,573	190,573	195,330	195,330
Total	₩	11,978,762	11,978,762	9,800,936	9,800,936	7,378,549	7,378,549

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

December 31, 2011 and 2010

8. Fair Value of Financial Instruments, Continued

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

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

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

(c) The carrying amount and the fair value of financial liabilities as of December 31, 2011, 2010 and January 1, 2010 are summarized as follows:

		Korean won (millions)					
		December 31, 2011		December 31, 2010		January 1, 2010	
		Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities at fair value through profit or loss	Overseas convertible bonds	₩ 1,007,219	1,007,219	-	-	-	-
Financial liabilities based on amortized cost(*)	Trade and other payables	4,724,017	4,724,017	4,036,750	4,036,750	3,269,020	3,269,020
	Short-term borrowings	1,176,921	1,176,921	1,298,597	1,298,597	974,720	974,720
	Current portion of long-term borrowings	762,793	762,793	98,184	98,184	70,532	70,532
	Current portion of debentures	1,507,570	1,507,570	1,940,098	1,940,098	833,525	833,525
	Current finance lease liabilities	7	7	-	-	538	538
	Accrued expenses	217,483	217,483	135,463	135,463	42,081	42,081
	Current withholding deposit	238,789	238,789	249,799	249,799	254,288	254,288
	Long-term borrowings	348,619	348,619	765,346	765,346	434,308	434,308
	Long-term debentures	5,382,809	5,382,809	4,293,200	4,293,200	3,023,533	3,023,533
	Withholding deposit	152,342	152,342	106,216	106,216	34,825	34,825
	Rental guarantee deposits	118	118	-	-	9	9
	Other current liabilities	153	153	829	829	321	321
	Other non-current liabilities	127	127	42	42	591	591
	Subtotal	14,511,748	14,511,748	12,924,524	12,924,524	8,938,291	8,938,291
Derivative liabilities held for the purpose of hedging	Current derivative liabilities-hedge	15,075	15,075	43,492	43,492	3,220	3,220
	Non-current derivative liabilities -hedge	12,689	12,689	13,227	13,227	-	-
	Subtotal	27,764	27,764	56,719	56,719	3,220	3,220
Total		₩ 15,546,731	15,546,731	12,981,243	12,981,243	8,941,511	8,941,511

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

December 31, 2011 and 2010

8. Fair Value of Financial Instruments, Continued

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

(d) The fair value hierarchy

The Group classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

The different levels have been defined as follows:

- ✓ Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- ✓ Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- ✓ Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value measurements classified by fair value hierarchy as of December 31, 2011 are as follows:

Description	Korean won (millions)			
	2011			
	Level I	Level II	Level III	Total
Available-for-sale financial assets	₩ 316,070	44,467	218,009	578,546
Derivative assets	-	41,525	-	41,525
Total financial assets	₩ 316,070	85,992	218,009	620,071
Financial liabilities at fair value through profit or loss	-	1,007,219	-	1,007,219
Derivative liabilities	-	27,763	-	27,763
Total financial liabilities	₩ -	1,034,982	-	1,034,982

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

December 31, 2011 and 2010

9. Inventories

(a) Inventories as of December 31, 2011, 2010 and January 1, 2010 are summarized as follows:

		Korean won (millions)		
		December 31, 2011	December 31, 2010	January 1, 2010
Merchandise, net of allowance for valuation losses	₩	2,008,138	1,657,158	1,343,722
Finished goods		7,438	5,405	25
Goods in process		1,576	564	160
Raw materials		1,444	1,145	1,820
Subsidiary materials		353	188	165
Supplies		3,723	2,613	4,334
Materials-in-transit		158	115	559
Finished apartment units		879	2,610	1,757
Unfinished apartment units		18,576	-	7,584
Total	₩	<u>2,042,285</u>	<u>1,669,798</u>	<u>1,360,126</u>

(b) During 2011 and 2010, loss from valuation of inventory and reversal of loss on valuation of inventories are recognized as follows:

		Korean won (millions)	
		2011	2010
Cost of goods sold:			
- Loss on valuation of inventories	₩	12,001	12,987

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

December 31, 2011 and 2010

10. Other Non-financial Assets

(a) Other current non-financial assets as of December 31, 2011, 2010 and January 1, 2010 are summarized as follows:

Description		Korean won (millions)		
		December 31, 2011	December 31, 2010	January 1, 2010
Advance payments	₩	115,199	70,528	42,512
Prepaid expenses		186,450	95,038	61,786
Prepaid value added tax		55,694	-	17,300
Other		24	2,329	1,920
Total	₩	<u>357,367</u>	<u>167,895</u>	<u>123,518</u>

(b) Other non-current non-financial assets as of December 31, 2011, 2010 and January 1, 2010 are summarized as follows:

Description		Korean won (millions)		
		December 31, 2011	December 31, 2010	January 1, 2010
Long-term advance payments	₩	126,007	105,996	78,916
Long-term prepaid expenses (*)		1,051,315	960,073	820,483
Other		5,676	756	4,394
Total	₩	<u>1,182,998</u>	<u>1,066,825</u>	<u>903,793</u>

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

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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December 31, 2011 and 2010

11. Investments in Associates

(a) The details of associates as of December 31, 2011, 2010 and January 1, 2010 are summarized as follows:

Company	Location	Principal business	Percentage of Ownership (%)	December 31, 2011	
					Korean won (millions) Balance at December 31, 2011
Lotte Station Building Co., Ltd.	Korea	Distribution	25.00	₩	192,645
Daehong Communications Co., Ltd.	Korea	Advertisement agency	30.00		93,806
Lotte.Com Inc.	Korea	Distribution	34.39		9,686
Lotte Capital Co., Ltd.	Korea	Capital	22.36		111,280
Lotteria Co., Ltd.	Korea	Restaurant chain	38.68		210,427
FRL Korea Co., Ltd.	Korea	Retail	49.00		71,433
Lakepark Co., Ltd.	Korea	Real estate development	23.90		4,564
Lotte Asset Development Co., Ltd.	Korea	Real estate development	39.14		50,492
Zara Retail Korea Co., Ltd.	Korea	Retail	20.00		16,617
Lotte Buyeo Resort Co., Ltd.	Korea	Real estate development	22.22		13,381
Lotte Giants	Korea	Baseball club	30.00		2,220
Lakepark AMC	Korea	Real estate development	23.90		73
Lotte Europe Holdings B.V.	Netherlands	Holding company	30.81		63,619
Intime Lotte Department Store Co., Ltd. (*1)	China	Distribution	50.00		-
Coralis S.A.	Luxembourg	Holding company	45.00		49,178
Bliss Co., Ltd.	Korea	Food manufacturing	30.00		-
D-Cinema of Korea Co., Ltd. (*1)	Korea	Film equipment	50.00		-
M-Venture Culture Investment L.P.	Korea	Film producing company	25.00		2,667
Capital One Diversity Cinema Fund	Korea	Film producing company	20.00		905
Capital One Middle-Low Budget Cinema Fund	Korea	Film producing company	25.00		2,912
Shenyang SL Cinema Investment Management Co., Ltd. (*1)	China	Cinema	49.00		1,219
So Big 5 Contents Investment Union	Korea	Film producing company	26.67		3,985
Shandong Luckypai TV Shopping	China	Distribution	49.00		6,075
Hubei XL Cinema Co., Ltd.	China	Cinema	49.00		5,317
STL Co., Limited (*1)	Korea	Retail	50.00		577
Hemisphere Film Investors II LLC (*2)	America	Film producing company	100.00		21,633
CJ Venture Investment No.14 Culture Contents Fund	Korea	Film producing company	30.00		6,009
Total				₩	940,720

(*1) Intime Lotte Department Store Co., Ltd., D-Cinema of Korea Co., Ltd., Shenyang SL Cinema Investment Management Co., Ltd. and STL Co., Limited are jointly controlled entities.

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

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

December 31, 2011 and 2010

11. Investments in Associates, Continued

(a) The details of associates as of December 31, 2011, 2010 and January 1, 2010 are summarized as follows, continued:

Company	Location	Principal business	Percentage of Ownership (%)	December 31, 2010	
					Korean won (millions) Balance at December 31, 2010
Lotte Station Building Co., Ltd.	Korea	Distribution Advertisement	25.00	₩	172,984
Daehong Communications Co., Ltd.	Korea	agency	30.00		100,454
Lotte.Com Inc.	Korea	Distribution	34.39		10,444
Lotte Capital Co., Ltd.	Korea	Capital	22.36		93,557
Lotteria Co., Ltd.	Korea	Restaurant chain	40.39		218,042
FRL Korea Co., Ltd.	Korea	Retail	49.00		47,191
Lakepark Co., Ltd.	Korea	Real estate development	23.90		4,034
Lotte Asset Development Co., Ltd.	Korea	Real estate development	38.35		40,342
Zara Retail Korea Co., Ltd.	Korea	Retail	20.00		17,759
Lotte Buyeo Resort Co., Ltd.	Korea	Real estate development	22.22		15,155
Lotte Giants	Korea	Baseball club	30.00		1,130
Lakepark AMC	Korea	Real estate development	23.90		72
Lotte Europe Holdings B.V.	Netherlands	Holding company	30.81		100,380
Intime Lotte Department Store Co., Ltd.	China	Distribution	50.00		-
Coralis S.A.	Luxembourg	Holding company	45.00		39,156
Bliss Co., Ltd.	Korea	Food manufacturing	30.00		150
D-Cinema of Korea Co., Ltd.	Korea	Film equipment	50.00		-
M-Venture Culture Investment L.P.	Korea	Film producing company	25.00		2,524
Capital One Diversity Cinema Fund	Korea	Film producing company	20.00		966
Shenyang SL Cinema Investment Management Co., Ltd.	China	Cinema	49.14		699
Isu Entertainment Investment Union	Korea	Film producing company	37.50		2,023
Shandong Luckypai TV Shopping	China	Distribution	49.00		2,443
Total				₩	869,505

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

December 31, 2011 and 2010

11. Investments in Associates, Continued

(a) The details of associates as of December 31, 2011, 2010 and January 1, 2010 are summarized as follows, continued:

Company	Location	Principal business	Percentage of Ownership (%)	January 1, 2010	
					Korean won (millions) Balance at January 1, 2010
Lotte Station Building Co., Ltd.	Korea	Distribution	25.00	₩	152,526
Daehong Communications Co., Ltd.	Korea	Advertisement agency	30.00		84,640
Lotte.Com Inc.	Korea	Distribution	34.39		11,169
Lotte Capital Co., Ltd.	Korea	Capital	22.36		78,419
Lotteria Co., Ltd.	Korea	Restaurant chain	30.75		123,976
FRL Korea Co., Ltd.	Korea	Retail	49.00		26,215
Lakepark Co., Ltd.	Korea	Real estate development	23.90		5,636
Lotte Asset Development Co., Ltd.	Korea	Real estate development	38.35		44,356
Zara Retail Korea Co., Ltd.	Korea	Retail	20.00		16,106
Lotte Buyeo Resort Co., Ltd.	Korea	Real estate development	22.22		10,006
Lotte Giants	Korea	Baseball club	30.00		774
Lakepark AMC	Korea	Real estate development	23.90		72
Lotte Europe Holdings B.V.	Netherlands	Holding company	30.81		95,194
Intime Lotte Department Store Co., Ltd.	China	Distribution	50.00		-
Coralis S.A.	Luxembourg	Holding company	24.99		17,418
D-Cinema of Korea Co., Ltd.	Korea	Film equipment	50.00		-
M-Venture Culture Investment L.P.	Korea	Film producing company	25.00		2,500
Isu Entertainment Investment Union	Korea	Film producing company	37.50		1,962
KTB Media Investment Union	Korea	Film producing company	30.00		977
Total				₩	<u>671,946</u>

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

December 31, 2011 and 2010

11. Investments in Associates, Continued

(b) Changes in investments in associates for the years ended December 31, 2011 and 2010 are as follows:

Company	2011							Balance at December 31, 2011
	Korean won (millions)							
	Beginning balance	Acquisiti on	Dividends	Adjustment to			Other	
Net income (loss)				Capital adjustment				
Lotte Station Building Co., Ltd.	₩ 172,984	-	(1,350)	18,907	2,103	1	192,645	
Daehong Communications Co., Ltd.	100,454	-	(6)	11,257	(19,438)	1,539	93,806	
Lotte.Com Inc.	10,444	-	-	(900)	242	(100)	9,686	
Lotte Capital Co., Ltd.	93,557	-	(1,683)	18,777	678	(49)	111,280	
Lotteria Co., Ltd.	218,042	-	-	7,666	(14,812)	(469)	210,427	
FRL Korea Co., Ltd.	47,191	-	(3,528)	27,770	-	-	71,433	
Lakepark Co., Ltd.	4,034	-	-	530	-	-	4,564	
Lotte Asset Development Co., Ltd.	40,342	8,877	-	(1,529)	2,922	(120)	50,492	
Zara Retail Korea Co., Ltd.	17,759	-	-	(1,142)	-	-	16,617	
Lotte Buyeo Resort Co.,Ltd.	15,155	-	-	(1,773)	-	(1)	13,381	
Lotte Giants	1,130	-	-	1,121	-	(31)	2,220	
Lakepark AMC	72	-	-	1	-	-	73	
Lotte Europe Holdings B.V.	100,380	-	-	(16,155)	(20,606)	-	63,619	
Intime Lotte Department Store Co., Ltd.	-	-	-	-	-	-	-	
Coralis S.A.	39,157	11,323	-	654	(1,956)	-	49,178	
Bliss Co., Ltd.	150	-	-	(148)	(2)	-	-	
D-Cinema of Korea Co., Ltd.	-	-	-	-	-	-	-	
M-Venture Culture Investment L.P.	2,524	-	-	143	-	-	2,667	
Capital One Diversity Cinema Fund	966	-	-	(61)	-	-	905	
Capital One Middle-Low Budget Cinema Fund	-	3,000	-	(88)	-	-	2,912	
Shenyang SL Cinema Investment Management Co., Ltd.	699	744	-	(302)	78	-	1,219	
Isu Entertainment Investment Union	2,023	-	-	-	-	(2,023)	-	
So Big 5 Contents Investment Union	-	4,000	-	(15)	-	-	3,985	
Shandong Luckypai TV Shopping	2,442	-	-	499	174	2,960	6,075	
Hubei XL Cinema Co., Ltd.	-	5,530	-	(469)	257	-	5,318	
STL Co., Limited	-	1,000	-	(424)	-	-	576	
Hemisphere Film Investors II LLC	-	23,261	-	(2,595)	967	-	21,633	
CJ Venture Investment No.14 Culture Contents Fund	-	6,000	-	9	-	-	6,009	
	₩ 869,505	63,735	(6,567)	61,733	(49,393)	1,707	940,720	

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

December 31, 2011 and 2010

11. Investments in Associates, Continued

(b) Changes in investments in associates for the years ended December 31, 2011 and 2010 are as follows, continued:

Company	2010							Balance at December 31, 2010
	Korean won (millions)							
	Beginning balance	Adjustment to						
	Acquisition	Dividends	Net income (loss)	Capital adjustment	Other			
Lotte Station Building Co., Ltd.	₩ 152,526	-	(1,350)	21,625	183	-	172,984	
Daehong Communications Co., Ltd.	84,640	-	(6)	3,317	12,211	292	100,454	
Lotte.Com Inc.	11,169	-	(400)	10	(192)	(143)	10,444	
Lotte Capital Co., Ltd.	78,419	-	(1,683)	16,290	531	-	93,557	
Lotteria Co., Ltd.	123,976	48,156	-	27,460	18,687	(237)	218,042	
FRL Korea Co., Ltd.	26,215	-	-	20,976	-	-	47,191	
Lakepark Co., Ltd.	5,636	-	(1,669)	67	-	-	4,034	
Lotte Asset Development Co., Ltd.	44,356	-	-	(4,508)	494	-	40,342	
Zara Retail Korea Co., Ltd.	16,106	-	-	1,655	(2)	-	17,759	
Lotte Buyeo Resort Co.,Ltd.	10,006	6,667	-	(1,486)	(32)	-	15,155	
Lotte Giants	774	-	-	356	-	-	1,130	
Lakepark AMC	72	-	-	-	-	-	72	
Lotte Europe Holdings B.V.	95,194	22,341	-	(12,127)	(5,028)	-	100,380	
Intime Lotte Department Store Co., Ltd.	-	-	-	-	-	-	-	
Coralis S.A.	17,418	26,390	-	(258)	(4,393)	-	39,157	
Bliss Co., Ltd.	-	150	-	-	-	-	150	
D-Cinema of Korea Co., Ltd.	-	-	-	-	-	-	-	
M-Venture Culture Investment L.P.	2,500	-	-	24	-	-	2,524	
Capital One Diversity Cinema Fund	-	1,000	-	(34)	-	-	966	
Shenyang SL Cinema Investment Management Co., Ltd.	-	752	-	(65)	12	-	699	
Isu Entertainment Investment Union	1,962	-	-	61	-	-	2,023	
KTB Media Investment Union	977	-	-	(207)	-	(770)	-	
Bongil Logis	-	-	-	(50)	-	50	-	
Shandong Luckypai TV Shopping	-	-	-	1,137	-	1,305	2,442	
Total	₩ <u>671,946</u>	<u>105,456</u>	<u>(5,108)</u>	<u>74,243</u>	<u>22,471</u>	<u>497</u>	<u>869,505</u>	

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

December 31, 2011 and 2010

11. Investments in Associates, Continued

(c) Financial information of associates as of December 31, 2011, 2010 and January 1, 2010 are summarized as follows:

Company	December 31, 2011			
	Korean won (millions)			
	Total assets	Total liabilities	Sales	Net income (loss)
Lotte Station Building Co., Ltd.	₩ 1,007,921	237,340	713,653	75,615
Daehong Communications Co., Ltd.	541,317	228,709	235,353	7,539
Lotte.Com Inc.	147,376	119,216	176,523	(4,121)
Lotte Capital Co., Ltd.	4,157,778	3,660,292	501,505	84,923
Lotteria Co., Ltd.	911,058	391,061	810,112	23,879
FRL Korea Co., Ltd.	265,861	120,079	414,231	56,674
Lakepark Co., Ltd.	41,090	21,995	64,038	2,214
Lotte Asset Development Co., Ltd.	202,199	74,079	21,202	(4,389)
Zara Retail Korea Co., Ltd.	138,992	55,908	149,480	776
Lotte Buyeo Resort Co.,Ltd.	177,117	116,901	8,893	(8,061)
Lotte Giants	12,682	5,282	40,060	3,669
Lakepark AMC	1,593	1,288	1,744	4
Lotte Europe Holdings B.V.	641,643	461,546	128,607	(59,508)
Intime Lotte Department Store Co., Ltd.	36,820	129,842	91,119	(28,149)
Coralis S.A.	205,094	130,326	-	1,471
Bliss Co., Ltd.	2,726	4,491	5,042	(2,215)
D-Cinema of Korea Co., Ltd.	77,645	82,541	17,513	(2,071)
M-Venture Culture Investment L.P.	10,721	53	1,210	584
Capital One Diversity Cinema Fund	4,600	75	147	(305)
Capital One Middle-Low Budget Cinema Fund	11,828	180	161	(352)
Shenyang SL Cinema Investment Management Co., Ltd.	2,807	324	903	(620)
So Big 5 Contents Investment Union	14,943	-	248	(57)
Shandong Luckypai TV Shopping	22,832	13,236	29,337	1,198
Hubei XL Cinema Co., Ltd.	12,173	1,322	651	(958)
STL Co., Limited	2,666	1,514	422	(848)
Hemisphere Film Investors II LLC	21,633	-	-	(2,595)
CJ Venture Investment No.14 Culture Contents Fund	20,085	54	87	31

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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December 31, 2011 and 2010

11. Investments in Associates, Continued

(c) Financial information of associates as of December 31, 2011, 2010 and January 1, 2010 are summarized as follows, continued:

Company	December 31, 2010			
	Korean won (millions)			
	Total assets	Total liabilities	Sales	Net income (loss)
Lotte Station Building Co., Ltd.	₩ 936,947	245,013	674,601	86,446
Daehong Communications Co., Ltd.	518,558	183,844	200,222	11,047
Lotte.Com Inc.	103,424	73,058	135,010	123
Lotte Capital Co., Ltd.	3,351,938	2,933,514	412,930	73,653
Lotteria Co., Ltd.	861,953	338,459	615,919	14,468
FRL Korea Co., Ltd.	159,070	62,761	267,796	42,810
Lakepark Co., Ltd.	35,939	19,059	13,354	(1,783)
Lotte Asset Development Co., Ltd.	172,426	67,220	12,735	(11,792)
Zara Retail Korea Co., Ltd.	114,237	25,444	129,242	8,272
Lotte Buyeo Resort Co.,Ltd.	162,620	94,422	1,964	(6,685)
Lotte Giants	6,806	3,041	33,128	1,186
Lakepark AMC	1,552	1,250	1,630	-
Lotte Europe Holdings B.V.	830,626	530,316	71,761	(40,532)
Intime Lotte Department Store Co., Ltd.	44,231	103,837	69,764	(33,626)
Coralis S.A.	88,113	35,614	-	(710)
Bliss Co., Ltd.	500	-	-	-
D-Cinema of Korea Co., Ltd.	68,139	70,964	9,944	(2,530)
M-Venture Culture Investment L.P.	10,100	3	283	77
Capital One Diversity Cinema Fund	4,868	38	121	(169)
Shenyang SL Cinema Investment Management Co., Ltd.	3,735	2,312	-	(133)
Isu Entertainment Investment Union	5,395	-	166	162
Shandong Luckypai TV Shopping	23,064	14,365	51,951	2,113

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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December 31, 2011 and 2010

11. Investments in Associates, Continued

(c) Financial information of associates as of December 31, 2011, 2010 and January 1, 2010 are summarized as follows, continued:

Company	January 1, 2010		
	Korean won (millions)		
	Total assets	Total liabilities	Total Capital
Lotte Station Building Co., Ltd.	₩ 826,719	216,614	610,105
Daehong Communications Co., Ltd.	437,682	155,680	282,002
Lotte.Com Inc.	102,684	70,304	32,380
Lotte Capital Co., Ltd.	2,960,415	2,609,694	350,721
Lotteria Co., Ltd.	610,673	231,974	378,699
FRL Korea Co., Ltd.	92,430	38,931	53,499
Lakepark Co., Ltd.	43,750	20,170	23,580
Lotte Asset Development Co., Ltd.	127,635	11,960	115,675
Zara Retail Korea Co., Ltd.	94,594	14,065	80,529
Lotte Buyeo Resort Co.,Ltd.	98,702	53,675	45,027
Lotte Giants	8,506	5,927	2,579
Lakepark AMC	1,538	1,237	301
Lotte Europe Holdings B.V.	701,604	416,865	284,739
Intime Lotte Department Store Co., Ltd.	55,409	80,847	(25,438)
Coralis S.A.	29,931	38	29,893
D-Cinema of Korea Co., Ltd.	33,699	33,994	(295)
M-Venture Culture Investment L.P.	10,014	45	9,969
Isu Entertainment Investment Union	5,233	-	5,233
KTB Media Investment Union	3,347	86	3,261

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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December 31, 2011 and 2010

12. Property, Plant and Equipment

- (a) Changes in acquisition cost of property, plant and equipment for the years ended December 31, 2011 and 2010 are as follows:

		2011				
		Korean won (millions)				
		Acquisition cost as of January 1, 2011	Acquisition	Disposals	Others (*)	Acquisition cost as of December 31, 2011
Land	₩	6,783,903	128,627	(99,387)	153,565	6,966,708
Buildings		5,152,408	65,708	(47,848)	197,186	5,367,454
Structures		258,180	8,638	(3,291)	5,258	268,785
Machinery		232,507	28,029	(1,544)	(15,994)	242,998
Vehicles		7,946	804	(386)	227	8,591
Display fixtures		353,139	54,107	(68,377)	29,636	368,505
Furniture and fixtures		2,009,631	174,669	(212,001)	151,355	2,123,654
Tools and equipment		140,390	31,357	(3,806)	25,809	193,750
Other PP&E		126,062	60,779	(2,962)	18,314	202,193
Construction-in-progress		860,049	1,039,430	(346)	(1,013,400)	885,733
Total	₩	15,924,215	1,592,148	(439,948)	(448,044)	16,628,371

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

		2010					
		Korean won (millions)					
		Acquisition cost as of January 1, 2010	Acquisition	Increase from acquisition of stores	Disposals	Others (*)	Acquisition cost as of December 31, 2010
Land	₩	6,592,233	18,067	313,006	(320,988)	181,585	6,783,903
Buildings		4,523,325	76,127	322,979	(214,847)	444,824	5,152,408
Structures		266,139	684	17,976	(11,582)	(15,037)	258,180
Machinery		132,328	12,621	59,078	(9,879)	38,359	232,507
Vehicles		5,960	1,425	686	(586)	461	7,946
Display fixtures		291,113	34,073	-	(3,557)	31,510	353,139
Furniture and fixtures		1,538,526	165,093	128,254	(30,300)	208,058	2,009,631
Tools and equipment		98,046	6,482	9,461	(366)	26,767	140,390
Other PP&E		102,633	10,819	359	(686)	12,937	126,062
Construction-in-progress		751,341	840,194	2,427	(372)	(733,541)	860,049
Total	₩	14,301,644	1,165,585	854,226	(593,163)	195,923	15,924,215

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

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

December 31, 2011 and 2010

12. Property, Plant and Equipment, Continued

(b) Changes in accumulated depreciation of property, plant and equipment for the years ended December 31, 2011 and 2010 are as follows:

		2011				
		Korean won (millions)				
		Accumulated depreciation as of January 1, 2011	Disposals	Depreciation	Others	Accumulated depreciation as of December 31, 2011
Buildings	₩	1,374,263	(12,465)	150,345	4,847	1,516,990
Structures		45,083	(441)	12,154	(463)	56,333
Machinery		106,249	(1,388)	25,733	(14,834)	115,760
Vehicles		4,466	(314)	965	346	5,463
Display fixtures		257,354	(66,690)	33,234	2,118	226,016
Furniture and fixtures		1,385,025	(202,832)	222,708	6,815	1,411,716
Tools and equipment		58,673	(902)	17,328	11,613	86,712
Other PP&E		41,488	-	10,010	4,270	55,768
Total	₩	3,272,601	(285,032)	472,477	14,712	3,474,758
		2010				
		Korean won (millions)				
		Accumulated depreciation as of January 1, 2010	Disposals	Depreciation	Others	Accumulated depreciation as of December 31, 2010
Buildings	₩	1,292,481	(84,356)	156,569	9,569	1,374,263
Structures		37,293	(2,494)	12,809	(2,525)	45,083
Machinery		68,385	(9,441)	20,874	26,431	106,249
Vehicles		3,189	(428)	1,184	521	4,466
Display fixtures		234,604	(2,468)	20,399	4,819	257,354
Furniture and fixtures		1,202,622	(29,155)	175,420	36,138	1,385,025
Tools and equipment		38,515	(228)	3,307	17,079	58,673
Other PP&E		28,287	(239)	5,853	7,587	41,488
Total	₩	2,905,376	(128,809)	396,415	99,619	3,272,601

(c) There are no impairment losses and reversals of impairment losses for the years ended December 31, 2011 and 2010.

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

December 31, 2011 and 2010

12. Property, Plant and Equipment, Continued

(d) Pledged property, plant and equipment provided by the Group as of December 31, 2011 are as follows:

		Korean won (millions)				Guarantee recipient
		Book value	Guaranteed amount	Type of borrowings	Amount of borrowings	
Land and buildings	₩	294,249	169,671	Secured Loan and others	129,975	Kookmin Bank and others

(e) During 2011 and 2010, capitalized borrowing costs and capitalization interest rates are as follows:

		Korean won (millions)		U.S. dollars
		2011	2010	(thousands) (note 4)
Capitalized borrowing costs	₩	2,801	18	\$ 2,429
Capitalization interest rates (%)		4.73%~5.98%	4.42%	4.73%~5.98%

13. Investment Property

(a) Changes in acquisition cost of investment property for the years ended December 31, 2011 and 2010 are as follows:

		2011				Acquisition cost as of December 31, 2011
		Korean won (millions)				
		Acquisition cost as of January 1, 2011	Acquisition	Disposal	Others (*)	
Land	₩	426,252	665	(6)	(22,816)	404,095
Buildings		288,800	2,685	-	37,896	329,381
Total	₩	715,052	3,350	(6)	15,080	733,476

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

		2010				Acquisition cost as of December 31, 2010
		Korean won (millions)				
		Acquisition cost as of January 1, 2010	Acquisition	Increase from acquisition of stores	Others	
Land	₩	515,350	11,938	17	(101,053)	426,252
Buildings		317,466	24,471	-	(53,137)	288,800
Total	₩	832,816	36,409	17	(154,190)	715,052

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

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

December 31, 2011 and 2010

13. Investment Property, Continued

- (b) Changes in accumulated depreciation of investment property for the years ended December 31, 2011 and 2010 are as follows:

		2011			
		Korean won (millions)			
		Accumulated depreciation as of January 1, 2011	Depreciation	Others	Accumulated depreciation as of December 31, 2011
Buildings	₩	82,254	9,525	801	92,580

		2010			
		Korean won (millions)			
		Accumulated depreciation as of January 1, 2010	Depreciation	Others	Accumulated depreciation as of December 31, 2010
Buildings	₩	89,244	11,834	(18,824)	82,254

- (c) Income and expense from investment property

The details of income and expense from investment property during 2011 and 2010 are as follows:

Description	Korean won (millions)	
	2011	2010
Rent income	₩ 97,078	83,948
Direct operating expense (including maintenance and repair expenses)	24,532	19,704

- (d) Fair value of investment property as of December 31, 2011 was follows:

Description	Korean won (millions)	
	Book value	Fair value (*)
Land and buildings	₩ 640,896	1,223,319

(*) The Group measured fair value by using direct capitalization method and cost method.

- (e) During 2011, the Group recognized impairment loss of ₩549 million on investment property.

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

December 31, 2011 and 2010

14. Intangible Assets

(a) Changes in intangible assets for the year ended December 31, 2011 are as follows:

		2011						
		Korean won (millions)						
		Book value as of January 1, 2011	Acquisition	Amortization	Disposals	Impairment	Others (*)	Book value as of December 31, 2011
Goodwill	₩	2,050,139	765	-	-	(609)	16,910	2,067,205
Industrial property rights		1,039	662	(476)	(153)	-	1,056	2,128
Rights to use facility		83,942	-	(8,395)	(199)	-	415,621	490,969
Membership		18,912	1,296	-	-	(719)	-	19,489
Other intangible assets		113,111	79,303	(69,031)	(214)	(8)	4,065	127,226
Total	₩	<u>2,267,143</u>	<u>82,026</u>	<u>(77,902)</u>	<u>(566)</u>	<u>(1,336)</u>	<u>437,652</u>	<u>2,707,017</u>

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

(b) Changes in intangible assets for the year ended December 31, 2010 are as follows:

		2010						
		Korean won (millions)						
		Book value as of January 1, 2010	Acquisition	Increase from acquisition of stores	Amortization	Disposals	Others	Book value as of December 31, 2010
Goodwill	₩	999,009	95,139	966,624	-	(9)	(10,624)	2,050,139
Industrial property rights		752	608	-	(322)	-	1	1,039
Rights to use facility		89,220	1	5,206	(6,644)	(437)	(3,404)	83,942
Membership		9,204	7,321	958	-	-	1,429	18,912
Other intangible assets		20,607	34,411	95,406	(32,377)	-	(4,936)	113,111
Total	₩	<u>1,118,792</u>	<u>137,480</u>	<u>1,068,194</u>	<u>(39,343)</u>	<u>(446)</u>	<u>(17,534)</u>	<u>2,267,143</u>

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

December 31, 2011 and 2010

14. Intangible Assets, Continued

(c) Impairment testing for cash-generating units containing goodwill

For the purpose of impairment testing, goodwill is allocated to the units at the lowest level at which the goodwill may be monitored in terms of internal management of the Group and cannot be higher than any of the Group's operating segments, as defined by note 36.

Details of the goodwill allocated to the groups of cash-generating units as of December 31, 2011, 2010 and January 1, 2010 are as follows:

Cash-generating units		Korean won (millions)		
		December 31, 2011	December 31, 2010	January 1, 2010
Department stores	₩	237,284	237,284	20,156
Discount store		1,059,150	1,053,430	630,631
Finance business		118,733	118,733	38,617
Others		652,038	640,692	309,605
Total	₩	2,067,205	2,050,139	999,009

As of December 31, 2010, recoverable amount of the cash-generating units in others was less than its book value, including goodwill, therefore an impairment loss of ₩609 million was recognized.

The value in use of each cash-generating unit was determined by discounting its estimated future cash flows. The approach used to determine value in use as of December 31, 2011 was consistent with those used in 2010. The calculation of value in use was based on the following key assumptions:

- Cash flows were estimated based on past experience, actual historical results of operations and the five-year business plan.
- The annual revenue growth rate for the five-year period in the future was estimated based on an analysis of past revenue growth rates. The revenues after the five-year period were assumed to grow constantly at zero to three percent.
- The Group's weighted average cost of capital was applied as the discount rate in determining recoverable amount of cash-generating units.

Value in use is based on the above assumptions representing management's estimation of future cash flows, and is calculated using external and internal sources of the Group. As a result of impairment testing, value in use is higher than the carrying amount as of December 31, 2011 and 2010, except for the other cash-generating unit as of December 31, 2010.

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

December 31, 2011 and 2010

14. Intangible Assets, Continued

(d) Impairment testing of other intangible assets with indefinite estimated useful lives

The details of intangible assets with indefinite estimated useful lives as of December 31, 2011, 2010 and January 1, 2010 are as follows:

Cash-generating units		Korean won (millions)		
		December 31, 2011	December 31, 2010	January 1, 2010
Department stores	₩	6,780	6,762	4,396
Discount store		1,531	1,525	613
Finance business		3,765	3,456	3,367
Others		7,413	7,169	828
Total	₩	19,489	18,912	9,204

As a result of the Group's impairment test on indefinite intangible assets, discounted future cash flows of memberships declined to an amount less than the book value of memberships, therefore an impairment loss of ₩719 million was recognized in 2011.

15. Trade and Other Payables

Trade and other payables as of December 31, 2011, 2010 and January 1, 2010 are summarized as follows:

		Korean won (millions)		
		December 31, 2011	December 31, 2010	January 1, 2010
Trade payables	₩	3,188,569	2,730,302	2,175,955
Other payables		1,535,448	1,306,448	1,093,065
Total	₩	4,724,017	4,036,750	3,269,020

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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December 31, 2011 and 2010

16. Other Financial Liabilities

Other financial liabilities as of December 31, 2011, 2010 and January 1, 2010 are summarized as follows:

		Korean won (millions)		
		<u>December 31, 2011</u>	<u>December 31, 2010</u>	<u>January 1, 2010</u>
Current:				
Current derivative liabilities held for the purpose of hedging	₩	15,075	43,492	3,220
Current finance lease liabilities		7	-	538
Financial guarantee liabilities		153	829	321
Accrued expenses		217,483	135,463	42,081
Current deposit received		<u>238,789</u>	<u>249,799</u>	<u>254,288</u>
Subtotal		<u>471,507</u>	<u>429,583</u>	<u>300,448</u>
Non-current:				
Derivative liabilities		12,689	13,227	-
Non-current finance lease liabilities		118	-	9
Deposit received		152,342	106,216	34,825
Other non-current financial liabilities		<u>127</u>	<u>42</u>	<u>591</u>
Subtotal		<u>165,276</u>	<u>119,485</u>	<u>35,425</u>
Total	₩	<u><u>636,783</u></u>	<u><u>549,068</u></u>	<u><u>335,873</u></u>

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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December 31, 2011 and 2010

17. Borrowings and Debentures

(a) Borrowings and debentures as of December 31, 2011, 2010 and January 1, 2010 are summarized as follows:

		Korean won (millions)		
		<u>December 31, 2011</u>	<u>December 31, 2010</u>	<u>January 1, 2010</u>
Current:				
Short-term borrowings	₩	1,176,921	1,298,597	974,720
Current portion of long-term borrowings		762,793	98,184	70,532
Current portion of long-term debentures		1,508,055	1,944,215	833,859
Discount on debentures		(485)	(4,117)	(334)
Subtotal		<u>3,447,284</u>	<u>3,336,879</u>	<u>1,878,777</u>
Non-current:				
Long-term borrowings		348,619	765,346	434,308
Long-term debentures		6,406,009	4,300,280	3,031,740
Discount on debentures		(15,981)	(7,080)	(8,207)
Subtotal		<u>6,738,647</u>	<u>5,058,546</u>	<u>3,457,841</u>
Total	₩	<u>10,185,931</u>	<u>8,395,425</u>	<u>5,336,618</u>

(b) Short-term borrowings as of December 31, 2011, 2010 and January 1, 2010 are summarized as follows:

Lender	Details	Annual interest rate (%)	Korean won (millions)		
			<u>December 31, 2011</u>	<u>December 31, 2010</u>	<u>January 1, 2010</u>
Kookmin Bank and others	General	1.69~7.44	₩ 627,557	338,597	563,420
Korea Exchange Bank and others	Financial notes	3.51~6.20	544,500	960,000	411,300
Others	Other	4.99	4,864	-	-
Total			₩ <u>1,176,921</u>	<u>1,298,597</u>	<u>974,720</u>

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

December 31, 2011 and 2010

17. Borrowings and Debentures, Continued

(c) Long-term borrowings as of December 31, 2011, and January 1, 2010 are summarized as follows:

Lender	Details	Annual interest rate (%)	Korean won (millions)		
			December 31, 2011	December 31, 2010	January 1, 2010
Korea Development Bank and others	Local currency	3.51~7.12	₩ 414,301	261,050	414,570
Lotte Co., Ltd. (Japan) and others	Foreign currency	3.40~6.98	697,111	602,480	90,270
Subtotal			1,111,412	863,530	504,840
Less current portion			(762,793)	(98,184)	(70,532)
Total			₩ 348,619	765,346	434,308

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17. Borrowings and Debentures, Continued

(d) Debentures as of December 31, 2011, 2010 and January 1, 2010 are summarized as follows:

Description	Maturity	Interest rate (%)	Korean won (millions)		
			December 31, 2011	December 31, 2010	January 1, 2010
52nd placed (foreign currency)	Sep. 30, 2010	3M Euro Yen Libor+1.60	₩ -	-	126,282
46th placed (foreign currency)	Apr. 29, 2011	6M USD Libor+1.00	-	113,890	116,760
47th placed (foreign currency)	May 29, 2011	6M Euro Yen Tibor+1.20	-	251,474	227,308
48th placed (foreign currency)	Sep. 29, 2011	3M Euro Yen Libor+1.60	-	153,679	138,910
49th placed (foreign currency)	Oct. 17, 2011	3M USD Libor+1.75	-	341,670	350,280
50th placed	Feb. 05, 2012	5.10	200,000	200,000	200,000
51st placed (foreign currency)	Jun. 26, 2012	3M Euro Yen Libor+1.50	148,516	139,709	126,282
53rd placed	Dec. 03, 2014	5.30	250,000	250,000	250,000
54-1st placed	Mar. 12, 2013	4.44	200,000	200,000	-
54-2nd placed	Mar. 12, 2015	4.82	400,000	400,000	-
55th placed (foreign currency)	May 20, 2013	3M USD Libor+0.80	115,330	113,890	-
56th placed (foreign currency)	Sep. 30, 2011	3M USD Libor+1.05	-	113,890	-
57th placed (foreign currency)	Mar. 17, 2014	3M USD Libor+0.80	230,660	-	-
1st placed (Global bond)	Apr. 07, 2016	3.88	461,320	-	-
58-1st placed (foreign currency)	Dec. 05, 2014	3M JPY Libor+0.60	222,774	-	-
58-2nd placed (foreign currency)	Nov. 28, 2014	3M USD Libor+1.50	115,330	-	-
USD convertible bonds(*)	Jul. 05, 2016	-	539,613	-	-
JPY convertible bonds (*)	Jul. 05, 2016	-	467,605	-	-
Korea Seven Co., Ltd.	Mar. 19, 2013	5.35	100,000	100,000	-
Korea Seven Co., Ltd.	Mar. 05, 2011	5.75	-	10,000	-
Lotte Boulangerie Co., Ltd.	Jul. 07, 2012	5.80	5,000	-	-
Lotte Card Co., Ltd.	Multiple	2.13~8.59	4,457,915	3,856,293	2,329,777
Subtotal			7,914,063	6,244,495	3,865,599
Less: Discount on debentures			(16,465)	(11,197)	(8,541)
Total book value			7,897,598	6,233,298	3,857,058
Less: Current portion of debentures, net of discount			(1,507,570)	(1,940,098)	(833,525)
Total			₩ 6,390,028	4,293,200	3,023,533

(*) USD convertible bonds and JPY convertible bonds have been designated as financial liabilities at fair value through profit or loss as of December 31, 2011. The terms and conditions are summarized as follows:

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17. Borrowings and Debentures, Continued

(a) Type of bonds:	Registered overseas unsecured convertible bonds
(b) Total face value of bonds:	
USD Bonds:	500,000,000
JPY Bonds:	32,500,000,000
Total(in won):	978,969,250,000
(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 Group has a call option, whereas bond holders have a put option	
(g) Put option by bondholders:	
the put option can be exercised if any of the following conditions occurs:	
On the third anniversary of the date of payment (July 5, 2014);	
i. If any change of control occurs in the company; or	
ii. The issued stocks of the company is 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):	650,000
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.	

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17. Borrowings and Debentures, Continued

(e) Maturities of long-term borrowings and debentures as of December 31, 2011 are scheduled as follows:

		Korean won (millions)		
		Borrowings	Debentures	Total
Within 1 year	₩	762,793	1,490,539	2,253,332
1 ~ 2 years		89,319	1,884,624	1,973,943
2 ~ 3 years		259,300	2,400,890	2,660,190
3 ~ 4 years		-	641,462	641,462
More than 4 years		-	1,394,203	1,394,203
Total	₩	<u>1,111,412</u>	<u>7,811,718</u>	<u>8,923,130</u>

18. Unearned Revenues

The details of unearned revenues as of December 31, 2011, 2010, and January 1, 2010 are as follows:

		Korean won (millions)		
		December 31, 2011	December 31, 2010	January 1, 2010
Current:				
Membership point	₩	34,999	33,228	32,080
Other points		115,016	102,951	88,828
Current unearned rental income		7,760	6,990	7,979
Others		26,590	20,735	18,025
Subtotal		<u>184,365</u>	<u>163,904</u>	<u>146,912</u>
Non-current:				
Non-current unearned rental income		<u>21,411</u>	<u>21,906</u>	<u>19,587</u>
Total	₩	<u>205,776</u>	<u>185,810</u>	<u>166,499</u>

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19. Provisions

Changes in provisions for the years ended December 31, 2011 and 2010 are as follows:

		2011		
		Korean won (millions)		
		Book value as of January 1, 2011	Increase (decrease), net	Book value as of December 31, 2011
Current:				
Provision for bonus points reward program	₩	11,492	3,104	14,596
Provision for bonus payable		6,413	(307)	6,106
Provision for sales return		6,901	27	6,928
Other provisions		8,524	1,862	10,386
Subtotal		33,330	4,686	38,016
Non-current:				
Provision for unused credit card limits		32,991	1,720	34,711
Other provisions		4,166	(3,485)	681
Subtotal		37,157	(1,765)	35,392
Total	₩	70,487	2,921	73,408
		2010		
		Korean won (millions)		
		Book value as of January 1, 2010	Increase (decrease), net	Book value as of December 31, 2010
Current:				
Provision for bonus points reward program	₩	8,313	3,179	11,492
Provision for bonus payable		5,146	1,267	6,413
Provision for sales return		4,344	2,557	6,901
Other provisions		6,619	1,905	8,524
Subtotal		24,422	8,908	33,330
Non-current:				
Provision for unused credit card limits		21,524	11,467	32,991
Other provisions		8,721	(4,555)	4,166
Subtotal		30,245	6,912	37,157
Total	₩	54,667	15,820	70,487

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20. Other Non-financial Liabilities

Other non-financial liabilities as of December 31, 2011, 2010 and January 1, 2010 are summarized as follows:

		Korean won (millions)		
		<u>December 31, 2011</u>	<u>December 31, 2010</u>	<u>January 1, 2010</u>
Current:				
Withholdings	₩	78,150	55,638	94,851
Withholdings of value added tax		52,346	39,070	30,617
Advances received		730,129	621,421	522,089
Other current liabilities		1,041	573	3,858
Subtotal		<u>861,666</u>	<u>716,702</u>	<u>651,415</u>
Non-current:				
Other non-current liabilities		16,518	62	1,471
Total	₩	<u>878,184</u>	<u>716,764</u>	<u>652,886</u>

21. Employee Benefits

(a) Details of defined benefit liabilities as of December 31, 2011, 2010 and January 1, 2010 are summarized as follows:

		Korean won (millions)		
		<u>December 31, 2011</u>	<u>December 31, 2010</u>	<u>January 1, 2010</u>
Present value of defined benefit obligations	₩	291,927	237,555	198,259
Fair value of plan assets		(181,411)	(133,189)	(122,543)
Total	₩	<u>110,516</u>	<u>104,366</u>	<u>75,716</u>

(b) Details of present value of other long-term employee benefits as of December 31, 2011, 2010 and January 1, 2010 are summarized as follows:

		Korean won (millions)		
		<u>December 31, 2011</u>	<u>December 31, 2010</u>	<u>January 1, 2010</u>
Present value of other long-term employee benefits	₩	46,751	39,156	25,545

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21. Employee Benefits, Continued

(c) Changes in employee benefits for the years ended December 31, 2011 and 2010 are as follows:

		Korean won (millions)	
		2011	2010
Beginning of the year	₩	237,555	198,259
Current service costs		68,068	49,833
Interest costs		15,754	13,956
Defined benefit plan actuarial losses		10,093	37,194
Payments		(48,194)	(90,563)
Others		8,651	28,876
End of the year	₩	291,927	237,555

(d) During 2011 and 2010, the changes on plan assets of an employee benefit plan are as follows:

		Korean won (millions)	
		2011	2010
Beginning of period	₩	133,189	122,543
Expected return on plan assets		6,549	5,522
Actuarial gain (loss)		(900)	9,429
Employer contribution		63,764	36,443
Payments		(21,568)	(44,087)
Others		377	3,339
End of period	₩	181,411	133,189

(e) The components of plan assets as of December 31, 2011, 2010 and January 1, 2010 are summarized as follows:

		Korean won (millions)		
		December 31, 2011	December 31, 2010	January 1, 2010
Short-term funds	₩	17,872	23,026	56,103
Fixed time deposits		52,177	88,509	11,044
CP, ABCP		12,605	19,698	7,774
Bonds		98,662	1,863	47,547
National Pension Fund		95	93	75
Total	₩	181,411	133,189	122,543

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21. Employee Benefits, Continued

(f) Expenses recognized for the years ended December 31, 2011 and 2010 are as follows:

		Korean won (millions)	
		2011	2010
Current service costs	₩	68,068	49,833
Interest costs		15,754	13,956
Expected return on plan assets		(6,549)	(5,522)
Long-term employee benefits		7,587	17,700
Total	₩	84,860	75,967

(g) The principal actuarial assumptions used as of December 31, 2011, 2010 and January 1, 2010 are summarized as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Discount rate	4.62% ~ 7.00%	5.18% ~ 8.00%	5.95% ~ 10.00%
Expected rate of return on plan assets	4.50% ~ 7.00%	4.51% ~ 7.00%	4.51% ~ 7.00%
Expected rate of promotion	1.89% ~ 2.96%	0.86% ~ 3.86%	0.96% ~ 3.42%
Expected rate of increase in salaries	3.50% ~ 7.00%	3.47% ~ 7.00%	3.00% ~ 6.00%

22. Derivative Instruments and Hedge Accounting

(a) Details of derivatives outstanding as of December 31, 2011 are as follows:

Type	Description	Description
Trade	Put option	Right to exercise selling common stock in KIBNET at a specified price
Cash flow hedge	Currency swap	At the maturity of the swap, the principal amounts of the debentures in USD and JPY and borrowings in USD are exchanged back

(b) Fair value of derivatives outstanding As of December 31, 2011, 2010 and January 1, 2010 are summarized as follows:

		Korean won (millions)					
Type	Description	December 31, 2011		December 31, 2010		January 1, 2010	
		Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Trade	Put option	₩ 1,697	-	34,879	-	31,817	-
Cash flow hedge	Currency swap	47,814	23,164	203,248	48,042	195,330	3,220
	Interest swap	312	12,898	-	21,354	-	-
Total		₩ 49,823	36,062	238,127	69,396	227,147	3,220

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22. Derivative Instruments and Hedge Accounting, Continued

(c) Changes in the fair value of derivative instruments for the year ended December 31, 2011 are as follows:

Type of derivatives	Description	Related accounts	Korean won (millions)
Trade	Put option	Loss on valuation of derivative instruments	₩ (34,879)
		Gain on valuation of derivatives instruments (card business)	201
Cash flow hedge	Currency swap	Gain on valuation of derivative instruments	18,978
		Loss on valuation of derivative instruments	(426)
		Gain on valuation of derivatives instruments (card business)	20,661
	Interest swap	Unrealized gain on valuation of derivative instruments, net of tax effect	25,460

23. Capital Stock and Capital Surplus

(a) Pursuant to its amended Articles of Incorporation, the Company's authorized capital stock is 60,000,000 shares, which consist of common shares and preferred shares each with a par value of ₩5,000 per share. The Company is authorized to issue non-voting preferred shares of up to one-fourth of the Company's total issued and outstanding capital stock. Holders of preferred shares may, upon a resolution of the board of directors at the time of the issuance of the preferred shares, be entitled to receive dividends prior to the holders of common shares. The preferred shares will be automatically converted to common shares within ten years of issuance as determined by the Company's board of directors. However, if the holders of preferred shares do not receive the minimum dividends as prescribed, the prescribed conversion date will be extended to the time when all such minimum dividend amount is paid to the holders of preferred shares. As of December 31, 2011, the Company has not issued any preferred stock and 29,043,374 shares of common stock were issued and outstanding as of December 31, 2011.

(b) Capital surplus as of December 31, 2011, 2010 and January 1, 2010 consists of the following:

		Korean won (millions)		
		December 31, 2011	December 31, 2010	January 1, 2010
Additional paid-in capital	₩	3,605,117	3,605,117	3,605,117
Gain on capital reduction		1,793	1,793	1,793
Gain on merger		15,273	15,273	15,273
	₩	<u>3,622,183</u>	<u>3,622,183</u>	<u>3,622,183</u>

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23. Capital Stock and Capital Surplus, Continued

Gain on capital reduction

The Company retired 745,470 shares of treasury stock (₩1,934 million) in 1995, which were acquired in connection with the merger with Lotte Foods Co., Ltd. and ChungBon Industry Co., Ltd. on December 31, 1994. As a result, capital stock decreased by ₩3,727 million and a gain on capital reduction amounting to ₩1,793 million was recorded as a capital surplus.

Gain on merger

In 1997, SongGok Trading Co., Ltd. was merged into the Company resulting in a gain on merger of ₩15,273 million which was recorded as a component of other capital surplus.

24. Retained Earnings

(a) Details of retained earnings as of December 31, 2011, 2010 and January 1, 2010 are as follows:

		Korean won (millions)		
		December 31, 2011	December 31, 2010	January 1, 2010
Legal reserve	₩	170,950	166,594	162,963
Voluntary reserve		5,420,052	4,460,052	3,790,052
Unappropriated retained earnings		4,500,894	4,584,880	4,282,300
	₩	<u>10,091,896</u>	<u>9,211,526</u>	<u>8,235,315</u>

(b) Changes in retained earnings for the years ended December 31, 2011 and 2010 were as follows:

		Korean won (millions)	
		2011	2010
Beginning of the year	₩	9,211,526	8,235,315
Profit for the year		931,815	1,034,705
Dividends		(43,565)	(36,304)
Actuarial losses on defined benefit pension plans		(6,724)	(20,881)
Adjustment on retained earnings of associates		(1,156)	(1,309)
End of the year	₩	<u>10,091,896</u>	<u>9,211,526</u>

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25. Accumulated Other Comprehensive Income

Changes in accumulated other comprehensive income (loss) for the years ended December 31, 2011 and 2010 were as follows:

		2011			
		Korean won (millions)			
		Beginning balance	Changes for the period	Tax effects for the period	Balance as of December 31, 2011
Change in fair value of available- for-sale financial assets	₩	102,685	(4,454)	(15,869)	82,362
Exchange differences on translating foreign operations		(7,310)	37,540	(146)	30,084
Effective portion of changes in fair value of cash flow hedges		(28,870)	24,327	(7,597)	(12,140)
Change in equity of equity method investments		80,076	(51,156)	8,580	37,500
Total	₩	<u>146,581</u>	<u>6,257</u>	<u>(15,032)</u>	<u>137,806</u>

		2010			
		Korean won (millions)			
		Beginning balance	Changes for the period	Tax effects for the period	Balance as of December 31, 2010
Change in fair value of available- for-sale financial assets	₩	52,697	68,693	(18,705)	102,685
Exchange differences on translating foreign operations		-	(7,310)	-	(7,310)
Effective portion of changes in fair value of cash flow hedges		(16,075)	(19,488)	6,693	(28,870)
Change in equity of equity method investments		65,030	21,562	(6,516)	80,076
Total	₩	<u>101,652</u>	<u>63,457</u>	<u>(18,528)</u>	<u>146,581</u>

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26. Earnings per Share

(a) Basic earnings per share for the years ended December 31, 2011 and 2010 are as follows:

	Korean won (millions, except per share amount)	
	2011	2010
Profit for the period		
Profit from continuing operations	931,815	1,067,106
Loss from discontinued operations, net of tax	-	(32,401)
	₩ 931,815	1,034,705
Weighted-average number of common shares outstanding	29,043,374	29,043,374
Earnings per share		
Basic and diluted earnings per share		
– Continuing operations in won and U.S. dollars (*)	32,084	36,742
Basic and diluted loss per share		
– Discontinued operations in won and U.S. dollars (*)	₩ -	(1,116)
	32,084	35,626

(*) Diluted earnings per share are not calculated as there is no dilution effect.

(b) Potential ordinary shares from conversion of convertible bonds as of December 31, 2011 are as follows:

		Korean won (millions, except for conversion price)	
		USD Bonds	JPY Bonds
Principal amount(*)	₩	541,750	437,219
Conversion price (in won)		650,000	650,000
Number of potential ordinary shares	₩	833,462	672,645

(*) Principal amount of convertible bonds are the amount of USD 500 million and JPY 32,500 million multiplied by fixed exchange rate of 1,083.50/USD and 13.4529/JPY, respectively.

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27. Sales and Cost of Sales

(a) Details of sales for the years ended December 31, 2011 and 2010 are as follows:

		Korean won (millions)	
		<u>2011</u>	<u>2010</u>
Sales of merchandise	₩	18,948,555	16,194,017
Sales of products		82,452	71,575
Other operating revenue		1,978,499	1,628,005
Revenue of card business		<u>1,243,582</u>	<u>1,124,147</u>
Total	₩	<u><u>22,253,088</u></u>	<u><u>19,017,744</u></u>

(b) Details of cost of sales for the years ended December 31, 2011 and 2010 are as follows:

		Korean won (millions)	
		<u>2011</u>	<u>2010</u>
Cost of merchandise sold	₩	14,505,515	12,387,636
Cost of products sold		76,820	51,777
Cost of other operating revenue		109,506	110,985
Cost of card business		<u>559,553</u>	<u>538,240</u>
Total	₩	<u><u>15,251,394</u></u>	<u><u>13,088,638</u></u>

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28. Profit from Operations

(a) Details of selling, general and administrative expenses for the years ended December 31, 2011 and 2010 are as follows:

		Korean won (millions)	
		2011	2010
Selling, general and administrative expenses:			
Salaries	₩	937,830	818,185
Retirement and termination benefits		76,267	57,571
Other employee benefits		7,584	17,700
Employee welfare		194,411	160,540
Education and training		17,826	14,812
Travel		32,555	25,191
Maintenance fee for car		3,887	1,969
Insurance premium		10,078	8,793
Taxes and dues		121,555	107,102
Entertainment expense		8,885	7,395
Supplies and stationery		74,248	68,202
Communications		43,115	38,988
Utilities		252,644	221,642
Maintenance		63,289	59,082
Rent		512,097	367,646
Depreciation		470,752	392,792
Amortization of intangible assets		22,553	13,082
Commissions and fees		797,369	598,119
Service commission expenses		689,433	549,995
Advertising		296,569	267,758
Sales promotion expenses		434,911	341,895
Decoration		16,570	18,510
Bad debt expenses		1,041	589
Transportation		78,574	55,858
Provisions		1,727	37,078
Others		17,082	20,601
Total	₩	5,182,852	4,271,095

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28. Profit from Operations, Continued

(b) Details of other operating income and expenses for the years ended December 31, 2011 and 2010 are as follows:

		Korean won (millions)	
		2011	2010
Other operating income:			
Gain on foreign currency transactions	₩	484	326
Gain on foreign currency translation		205	2
Reversal of allowance for bad debt		308	-
Gain on disposal of property, plant and equipment		10,303	55,792
Gain on disposal of intangible assets		478	92
Reversal of provisions		-	858
Others		47,442	40,290
Total	₩	59,220	97,360
Other operating expense:			
Loss on foreign currency transactions	₩	1,606	600
Loss on foreign currency translation		109	3,877
Loss on disposal of investment property		2	-
Loss on disposal of property, plant and equipment		24,148	36,501
Loss on disposal of intangible assets		3	2
Impairment of investment property		549	-
Impairment of intangible assets		1,336	-
Impairment of other non-current assets		204	784
Donation		20,022	19,620
Other bad debt expenses		127,466	70,215
Others		39,717	26,038
Total	₩	215,162	157,637

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29. Nature of Expenses

Details of nature of expenses for the years ended December 31, 2011 and 2010 are as follows:

		Korean won (millions)	
		2011	2010
Purchase of inventories	₩	14,801,836	12,663,303
Changes in inventories		(347,558)	(303,099)
Employee benefits expense		1,218,825	1,053,996
Rent		512,340	375,906
Depreciation and amortization and impairment		550,887	437,208
Commissions		290,546	193,462
Sales promotion expenses		434,911	341,895
Decoration		16,570	18,510
Transportation		78,593	55,858
Others		2,877,296	2,522,694
Total	₩	20,434,246	17,359,733

30. Changes in Classification for Operating Income

The effect of the differences in classification for operating income between K-GAAP and K-IFRS are as follows:

		Korean won (millions)	
		2011	2010
Operating income under K-GAAP	₩	1,818,842	1,658,011
Included items:			
Gain on foreign currency transactions		484	326
Gain on foreign currency translation		205	2
Reversal of allowance for bad debt		308	-
Gain on disposal of property, plant and equipment		10,303	55,792
Gain on disposal of intangible assets		478	92
Reversal of provisions		-	858
Loss on foreign currency transactions		(1,606)	(600)
Loss on foreign currency translation		(109)	(3,877)
Loss on disposal of investment property		(2)	-
Loss on disposal of property, plant and equipment		(24,148)	(36,501)
Loss on disposal of intangible assets		(3)	(2)
Impairment of investment property		(549)	-
Impairment of intangible assets		(1,336)	-
Impairment loss on other non-current asset		(204)	(784)
Donation		(20,022)	(19,620)
Other bad debt expenses		(127,466)	(70,215)
Others		7,725	14,252
Excluded items:		-	-
Total difference		(155,942)	(60,277)
Operating income under K-IFRS	₩	1,662,900	1,597,734

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31. Finance Income and Finance Expenses

(a) Details of finance income and finance expenses for the years ended December 31, 2011 and 2010 are as follows:

	Korean won (millions)	
	2011	2010
Finance income:		
Interest income	₩ 105,673	79,222
Dividend income	6,448	3,318
Gain on foreign currency transactions	34,096	1,163
Gain on foreign currency translation	803	24,617
Gain on disposal of available-for-sale financial assets	64,572	3,096
Gain on valuation of derivative instruments held for the purpose of hedging	18,978	54,594
Gain on valuation of derivative instruments held for the purpose of trading	-	3,062
Gain on transaction of derivative instruments held for the purpose of hedging	25,917	10,052
Gain on transaction of derivative instruments held for the purpose of trading	575	-
Reversal of other bad debt expenses	-	52
Gain on disposal of investments in associates	203	1,105
Total	₩ 257,265	180,281
Finance expenses:		
Interest expense	₩ 191,325	178,794
Loss on foreign currency transactions	29,760	13,933
Loss on foreign currency translation	84,084	95,944
Loss on valuation of financial liabilities at fair value through profit or loss	54,544	-
Loss on disposal of short-term financial assets	6	242
Impairment loss of available-for-sale financial assets	9,506	-
Loss on disposal of available-for-sale financial assets	913	-
Loss on valuation of derivative instruments held for the purpose of hedging	426	22,600
Loss on valuation of derivative instruments held for the purpose of trading	34,879	-
Loss on transaction of derivative instruments held for the purpose of hedging	16,504	-
Loss on transaction of derivative instruments held for the purpose of trading	3,400	27
Other bad debt losses	1,310	102
Loss on disposal of investments in associates	-	393
Total	₩ 426,657	312,035

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31. Finance Income and Finance Expenses, Continued

(b) Details of finance income and finance expenses by financial instruments category for the years ended December 31, 2011 and 2010 are as follows:

Category	Details	Korean won (millions)	
		2011	2010
Cash and cash equivalents:	Cash and cash equivalents:		
	Interest income	₩ 53,884	44,527
Loans and receivables:	Short-term financial instruments:		
	Interest income	12,395	2,688
	Loans:		
	Interest income	2,385	2,980
	Guarantee deposits:		
	Interest income	35,590	27,622
Available-for-sale financial assets:	Available-for-sale financial assets:		
	Interest income	1,419	1,405
	Dividend income	6,448	3,318
	Gain on valuation of available-for-sale financial assets	11,929	75,095
	Gain on disposal of available-for-sale financial assets	63,653	2,854
	Impairment loss	9,506	-
Financial liabilities based on amortized cost:	Borrowings:		
	Interest expense	60,301	61,953
	Debentures:		
	Interest expense	120,829	106,543
	Rental guarantee deposits:		
	Interest expense	10,195	10,298
Financial assets and liabilities at fair value through profit or loss:	Derivatives:		
	Gain (loss) on valuation	(34,879)	57,614
	Gain (loss) on transaction	(2,825)	10,025
	Overseas convertible bonds:		
	Gain (loss) on valuation	(54,544)	-
Derivative assets and liabilities held for the purpose of hedging:	Derivatives:		
	Gain (loss) on valuation	18,552	(22,557)
	Gain (loss) on transaction	9,413	-

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

December 31, 2011 and 2010

32. Income Taxes

(a) The components of income tax expense for the years ended December 31, 2011 and 2010 are as follows:

		Korean won (millions)	
		2011	2010
Current tax	₩	380,326	393,746
Deferred tax		178,484	24,114
Income taxes directly charged to equity		(16,169)	(13,687)
Income tax expense	₩	542,641	404,173

(b) During 2011 and 2010, the details of income tax expense recognized directly to equity are as follows:

		Korean won (millions)	
		2011	2010
Change in fair value of available-for-sale financial assets	₩	(19,915)	(20,117)
Exchange differences on translating foreign operations		(146)	-
Effective portion of changes in fair value of cash flow hedges		(7,834)	6,913
Defined benefit plan actuarial losses		3,155	6,033
Change in equity of equity method investments		8,571	(6,516)
Income tax directly charged to equity	₩	(16,169)	(13,687)

Income tax related to actuarial losses (gains) was recognized directly in equity and income tax related to losses (gains) on valuation of available-for-sale financial assets, cumulative effect of foreign currency translation, losses(gains) on valuation of derivatives, and changes in equity using equity method of accounting are recognized in other comprehensive income.

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

December 31, 2011 and 2010

32. Income Taxes, Continued

(c) During 2011 and 2010, statutory to actual effective tax rates are reconciled as follows:

		Korean won (millions)	
		2011	2010
Profit before income tax	₩	1,555,241	1,540,223
Tax rates (%)		25.68%	23.41%
Income tax using statutory tax rates		399,365	360,567
Adjustment:			
Tax effects on non-taxable income		(3,668)	(3,302)
Tax effects on non-deductible income		6,170	3,169
Tax credit		(2,889)	(5,310)
Adjustments for prior periods		(936)	672
Effect of change in tax rate		112,605	4,913
Tax effects on share of net income of subsidiaries		33,257	30,836
Others		(1,263)	12,628
Income tax expenses	₩	<u>542,641</u>	<u>404,173</u>
Effective tax rate (%)		<u>34.89%</u>	<u>26.24%</u>

In December 2011, the Korean government changed the corporate income tax rate for taxable income exceeding ₩20 billion from 22.0% to 24.2% prospectively from 2012.

(d) Deferred tax assets and liabilities are measured using the tax rate to be applied for the year in which temporary differences are expected to be realized.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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December 31, 2011 and 2010

32. Income Taxes, Continued

(e) During 2011 and 2010, the changes on deferred tax assets (liabilities) are as follows:

		2011			Balance as of December 31, 2011
		Beginning balance	Profit or loss	Other comprehensive income	
Impairment loss on available-for-sale financial assets	₩	460	46	-	506
Investments in subsidiaries and associates		(188,297)	(56,567)	8,571	(236,293)
Buildings		(10,979)	314	-	(10,665)
Depreciation expense		42,813	(1,971)	-	40,842
Allowance for doubtful accounts		17,464	(13,825)	-	3,639
Accrued revenues		(3,335)	(1,141)	-	(4,476)
Unearned revenue		-	2,646	-	2,646
Non-current prepaid expenses		(10,137)	253	-	(9,884)
Losses on valuation of inventories		3,304	(939)	-	2,365
Provision for sales return		1,653	(277)	-	1,376
Property, plant and equipment (capitalization of borrowing costs)		(12,976)	(331)	-	(13,307)
Land (asset revaluation)		(953,020)	(78,186)	-	(1,031,206)
Unearned revenues		16,596	3,736	-	20,332
Provision for mileage program		13,000	(1,562)	-	11,438
Accrued expense		12,765	65	-	12,830
Losses (gains) on valuation of available-for-sale financial assets		(33,212)	120	(19,915)	(53,007)
Losses (gains) on valuation of derivatives		(19,485)	31,001	(7,834)	3,682
Foreign currency translation gains (losses)		37,840	(33,801)	-	4,039
Losses on valuation of convertible bonds		-	(11,502)	-	(11,502)
Construction-in-progress		403	40	-	443
Other intangible assets		(4,538)	3,414	-	(1,124)
Rental guarantee deposits		7,097	1,543	-	8,640
Salaries and retirement benefits		24,270	174	3,154	27,598
Goodwill		(9,462)	(12,366)	-	(21,828)
Translation difference of foreign subsidiaries		546	-	(146)	400
Others		(34,403)	6,802	-	(27,601)
Total	₩	<u>(1,101,633)</u>	<u>(162,314)</u>	<u>(16,170)</u>	<u>(1,280,117)</u>

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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32. Income Taxes, Continued

(e) During 2011 and 2010, the changes on deferred tax assets (liabilities) are as follows, continued

	2010				
	Korean won (millions)				
	Beginning balance	Business Combination	Profit or loss	Other comprehensive income	Balance as of December 31, 2011
Impairment loss on available-for-sale financial assets	₩ 460	-	-	-	460
Investments in subsidiaries and associates	(161,610)	-	(20,170)	(6,517)	(188,297)
Buildings	(11,307)	-	328	-	(10,979)
Depreciation expense	49,377	(93)	(6,471)	-	42,813
Allowance for doubtful accounts	8,742	(13)	8,735	-	17,464
Accrued revenues	(2,293)	(4)	(1,038)	-	(3,335)
Non-current prepaid expenses	(10,401)	-	264	-	(10,137)
Losses on valuation of inventories	2,479	488	337	-	3,304
Provision for sales return	1,026	-	627	-	1,653
Property, plant and equipment (capitalization of borrowing costs)	(13,177)	-	201	-	(12,976)
Land (asset revaluation)	(997,069)	-	44,049	-	(953,020)
Unearned revenues	14,029	-	2,567	-	16,596
Provision for mileage program	11,986	-	1,014	-	13,000
Accrued expense	9,064	8	3,693	-	12,765
Losses (gains) on valuation of available-for-sale financial assets	(13,094)	-	(1)	(20,117)	(33,212)
Losses (gains) on valuation of derivatives	(29,824)	-	3,426	6,913	(19,485)
Foreign currency translation gains (losses)	33,870	-	3,970	-	37,840
Construction-in-progress	403	-	-	-	403
Other intangible assets	3,579	(8,187)	70	-	(4,538)
Rental guarantee deposits	6,310	-	787	-	7,097
Salaries and retirement benefits	14,340	166	3,730	6,034	24,270
Goodwill	1,241	-	(10,703)	-	(9,462)
Translation difference of foreign subsidiaries	546	-	-	-	546
Others	11,617	(178)	(45,842)	-	(34,403)
Total	₩ (1,069,706)	(7,813)	(10,427)	(13,687)	(1,101,633)

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

December 31, 2011 and 2010

32. Income Taxes, Continued

- (f) As of December 31, 2011, 2010 and January 1, 2010, the amounts of total temporary differences related to investments of subsidiaries and associates which deferred tax assets were not recognized are as follows:

		Korean won (millions)		
		<u>December 31, 2011</u>	<u>December 31, 2010</u>	<u>January 1, 2010</u>
Investments in associates	₩	114,549	133,339	47,776
Investments in subsidiaries		<u>187,498</u>	<u>74,144</u>	<u>141,446</u>
Total	₩	<u><u>302,047</u></u>	<u><u>207,483</u></u>	<u><u>189,222</u></u>

33. Consolidated statements of cash flows

- (a) As of December 31, 2011, 2010 and January 1 2010, the details of cash and cash equivalents are as follows:

		Korean won (millions)		
		<u>December 31, 2011</u>	<u>December 31, 2010</u>	<u>January 1, 2010</u>
Cash	₩	62,946	84,900	75,231
Deposits		206,972	229,437	340,431
Other cash equivalents		<u>1,688,286</u>	<u>928,089</u>	<u>583,203</u>
Total	₩	<u><u>1,958,204</u></u>	<u><u>1,242,426</u></u>	<u><u>998,865</u></u>

- (b) During 2011 and 2010, the details of the significant transactions without cash inflows and outflows in investing activities and financing activities are as follows:

		Korean won (millions)	
		<u>2011</u>	<u>2010</u>
Change in fair value of available-for-sale financial assets	₩	11,929	75,095
Reclassification of construction-in-process		1,013,400	733,541

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

December 31, 2011 and 2010

34. Operating Leases

(a) Lessee

The Group has entered into the operating leases for buildings, furniture and fixtures and vehicles. Future lease payments under operation leases as of December 31, 2011 and 2010 are as follows:

		Korean won (millions)	
		2011	2010
Within 1 year	₩	273,389	276,639
1 ~ 5 years		1,018,329	1,081,627
Thereafter		1,674,593	1,885,210
Total	₩	2,966,311	3,243,476

In lieu of rent, certain agreements require the Group to advance a non-interest bearing refundable security deposit to the landlord for the Group's use during the lease term. The amount of the advance is determined by the prevailing market rate. The Group has recorded rent expense and interest income related to these leases of ₩30,761 million and ₩35,590 million during 2011 and ₩26,928 million and ₩27,622 million during 2010, respectively. The related deposit balances amount to ₩1,375,955 million, 1,207,036 million and 1,092,758 million as of December 31, 2011, 2010 and January 1, 2010, respectively. Such amounts were calculated on the fixed interest rate for time deposits with similar maturities.

(b) Lessor

1) The Group has entered into operating leases of certain of its properties and equipments. Future lease payments receivable under operating leases as of December 31, 2011 and 2010 are as follows:

		Korean won (millions)	
		2011	2010
Within 1 year	₩	110,448	91,847
1 ~ 5 years		34,286	14,827
Thereafter		29,775	450
Total	₩	174,509	107,124

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December 31, 2011 and 2010

35. Operating Segments and Geographic Information

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

	Department stores	Discount Stores	Card business	Others
Main business	Retail stores for middle and higher-end merchandise	Retail and whole-sale stores for middle and discounted price merchandise	Credit financial services	Others
Major products or services	Sales of merchandise and leasing	Sales of merchandise and leasing	Credit card and loan services	Sales of merchandise, leasing and others

- (b) Information about reportable segments as December 31, 2011, 2010 and January 1, 2010 are as follows:

	Korean won (millions)				
	December 31, 2011				
	Department stores	Discount stores	Card business	Others	Total
External sales	7,891,573	8,473,862	1,289,463	4,598,190	22,253,088
Internal sales	29,432	882	195,531	132,417	358,262
Total sales	7,921,005	8,474,744	1,484,994	4,730,607	22,611,350
Interest income	56,937	8,500	1,098	40,342	106,877
Interest expenses	99,837	63,466	2,117	27,110	192,530
Depreciation and amortization	166,940	177,423	25,775	119,387	489,525
Other bad debt expenses	-	38	124,082	4,658	128,778
Equity method income (loss) of investments in associates	(273)	-	-	(711)	(984)
Income tax expense	273,596	112,790	57,820	65,744	509,950
Segment profit	604,863	86,656	182,189	152,767	1,026,475
Segment assets	15,848,109	9,315,146	7,655,660	4,092,747	36,911,662
Acquisition of non-current assets	756,045	406,155	27,671	497,682	1,687,553
Segment liabilities	8,968,413	1,983,088	6,148,110	1,481,021	18,580,632

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

December 31, 2011 and 2010

35. Operating Segments and Geographic Information, Continued

(b) Information about reportable segments as December 31, 2011, 2010 and January 1, 2010 are as follows, continued:

	Korean won (millions)				
	December 31, 2010				
	Department stores	Discount stores	Card business	Others	Total
External sales	7,146,411	7,354,540	1,132,163	3,384,630	19,017,744
Internal sales	28,741	388	182,615	85,914	297,658
Total sales	7,175,152	7,354,928	1,314,778	3,470,544	19,315,402
Interest income	43,129	8,225	94	28,948	80,396
Interest expenses	97,181	60,862	1,167	20,757	179,967
Depreciation and amortization	143,654	157,041	25,645	78,024	404,364
Other bad debt expenses	(11)	11,805	69,676	652	82,122
Equity method income (loss) of investments in associates	-	(1,547)	-	(50)	(1,597)
Income tax expense	190,871	79,846	59,650	42,970	373,337
Segment profit	678,086	107,042	162,483	117,049	1,064,660
Segment assets	14,227,127	8,647,977	6,670,129	3,250,176	32,795,409
Acquisition of non-current assets	715,189	1,696,790	115,202	225,120	2,752,301
Segment liabilities	7,618,151	1,682,878	5,367,154	1,178,274	15,846,457

	Korean won (millions)				
	January 1, 2010				
	Department stores	Discount stores	Card business	Others	Total
Segment assets	12,844,768	6,802,262	4,588,796	2,267,620	26,503,446
Segment liabilities	5,870,327	1,467,180	3,441,539	687,648	11,466,694

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December 31, 2011 and 2010

35. Operating Segments and Geographic Information, Continued

(c) Reconciliations of total segment sales and profit to their respective consolidated financial statements line items for the years ended December 31, 2011 and 2010 are summarized as follows:

		Korean won (millions)	
		2011	
		Sales	Profit for the year
Department stores	₩	7,921,005	604,863
Discount store		8,474,744	86,656
Card business		1,484,994	182,189
Others		4,730,607	152,767
Segment totals		22,611,350	1,026,475
Elimination of inter-segment amounts		(358,262)	(13,875)
After consolidated adjustments	₩	22,253,088	1,012,600

		Korean won (millions)	
		2010	
		Sales	Profit for the year
Department stores	₩	7,175,152	678,086
Discount store		7,354,928	107,042
Card business		1,314,778	162,483
Others		3,470,544	117,049
Segment totals		19,315,402	1,064,660
Elimination of inter-segment amounts		(297,658)	38,989
After consolidated adjustments	₩	19,017,744	1,103,649

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35. Operating Segments and Geographic Information, Continued

(d) Reconciliation of segment assets and liabilities to their respective consolidated financial statement line items as of December 31, 2011, 2010 and January 1, 2010 are summarized as follows:

		Korean won (millions)	
		December 31, 2011	
		Assets	Liabilities
Department stores	₩	15,848,109	8,968,413
Discount store		9,315,146	1,983,088
Card business		7,655,660	6,148,110
Others		4,092,747	1,481,021
Segment totals		<u>36,911,662</u>	<u>18,580,632</u>
Elimination of inter-segment assets and liabilities		(198,517)	(198,517)
Adjustments of business combinations		1,089,021	-
Investments in subsidiaries and associates		(4,741,046)	-
Subtotal		<u>(3,850,542)</u>	<u>(198,517)</u>
After consolidated adjustments	₩	<u><u>33,061,120</u></u>	<u><u>18,382,115</u></u>

		Korean won (millions)	
		December 31, 2010	
		Assets	Liabilities
Department stores	₩	14,227,127	7,618,151
Discount store		8,647,977	1,682,878
Card business		6,670,129	5,367,154
Others		3,250,176	1,178,274
Segment totals		<u>32,795,409</u>	<u>15,846,457</u>
Elimination of inter-segment assets and liabilities		(296,925)	(296,925)
Adjustments of business combinations		932,030	-
Investments in subsidiaries and associates		(4,238,984)	-
Subtotal		<u>(3,603,879)</u>	<u>(296,925)</u>
After consolidated adjustments	₩	<u><u>29,191,530</u></u>	<u><u>15,549,532</u></u>

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December 31, 2011 and 2010

35. Operating Segments and Geographic Information, Continued

- (d) Reconciliation of segment assets and liabilities to their respective consolidated financial statements line items as of December 31, 2011, 2010 and January 1, 2010 are summarized as follows, continued:

		Korean won (millions)	
		January 1, 2010	
		Assets	Liabilities
Department stores	₩	12,844,768	5,870,327
Discount store		6,802,262	1,467,180
Card business		4,588,796	3,441,539
Others		2,267,620	687,648
Segment totals		<u>26,503,446</u>	<u>11,466,694</u>
Elimination of inter-segment assets and liabilities		(268,970)	(268,970)
Adjustments of business combinations		922,321	-
Investments in subsidiaries and associates		(3,410,048)	-
Subtotal		<u>(2,756,697)</u>	<u>(268,970)</u>
After consolidated adjustments		<u><u>23,746,749</u></u>	<u><u>11,197,724</u></u>

- (e) Sales by geographical areas for the years ended December 31, 2011 and 2010 are summarized as follows:

		Korean won (millions)	
Region		2011	2010
Domestic	₩	19,937,519	16,977,209
China		1,370,842	1,216,544
Vietnam		64,216	49,161
Indonesia		880,511	774,830
Total	₩	<u><u>22,253,088</u></u>	<u><u>19,017,744</u></u>

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

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35. Operating Segments and Geographic Information, Continued

- (f) Sales by types of products and services for each operating segment for the years ended December 31, 2011 and 2010 are summarized as follows:

		Korean won (millions)				
		December 31, 2011				
	Department	Card			Total	
	stores	Discount stores	business	Others (*)		
Sales of merchandise	₩	7,407,165	8,034,281	4,950	3,530,392	18,976,788
Sales of products		-	-	-	131,701	131,701
Financial income		-	-	1,438,316	-	1,438,316
Commissions		-	-	-	757,926	757,926
Rental income		459,998	120,650	-	17,111	597,759
Others		53,842	319,813	41,728	293,477	708,860
Total segment sales	₩	<u>7,921,005</u>	<u>8,474,744</u>	<u>1,484,994</u>	<u>4,730,607</u>	<u>22,611,350</u>

		Korean won (millions)				
		December 31, 2010				
	Department	Card			Total	
	stores	Discount stores	business	Others (*)		
Sales of merchandise	₩	6,724,028	6,980,307	2,055	2,533,230	16,239,620
Sales of products		-	-	-	77,020	77,020
Financial income		-	-	1,299,101	-	1,299,101
Commissions		-	-	-	590,018	590,018
Rental income		401,311	103,731	-	14,853	519,895
Others		49,813	270,890	13,622	255,423	589,748
Total segment sales	₩	<u>7,175,152</u>	<u>7,354,928</u>	<u>1,314,778</u>	<u>3,470,544</u>	<u>19,315,402</u>

(*) Others represent convenience stores, television home shopping, supermarkets and etc.

- (g) Non-current assets by geographical areas as of December 31, 2011, 2010 and January 1, 2010 are as follows:

		Korean won (millions)		
		December 31, 2011	December 31, 2010	January 1, 2010
Domestic	₩	14,821,655	14,064,481	12,089,207
China		1,188,688	1,082,616	840,836
Vietnam		92,399	92,224	91,669
Indonesia		398,656	312,234	236,920
India		128	-	-
Total	₩	<u>16,501,526</u>	<u>15,551,555</u>	<u>13,258,632</u>

Non-current assets by geographical area include investment property, property, plant and equipment, goodwill and other intangible assets.

- (h) There are no customers whose sales represent 10% or more of total consolidated sales.

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36. Contingent Liabilities and Financial Commitments

(a) As of December 31, 2011, the Group has the following credit facility commitments with financial institutions:

	Credit line		Amount used	
	Korean won (millions),		under credit facility	
	Foreign currency		Korean won (millions),	
	(thousands)		Foreign currency (thousands)	
General loan	KRW	609,803	KRW	240,959
	CNY	709,471	CNY	567,980
	IDR	618,423,783	IDR	598,423,783
	HKD	166,000	HKD	166,000
Discount of bill	KRW	220,000	KRW	110,364
Buyer's credit	KRW	312,000	KRW	47,458
Bank overdraft	KRW	84,000	KRW	1
Letter of credit	USD	13,500	USD	2,962

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

Company	Contractor	Description of contract
Lotte Shopping Co., Ltd.	Lotte Midopa Co., Ltd., Lotte Station Building Co., Ltd. and Lotte Square Co., Ltd.	Providing management services
Lotte Card Co., Ltd.	American Express Company, MasterCard International, Visa International and JCB International	Commissions based on credit card transaction amount
Woori Home Shopping & Television Co., Ltd.	BC card and Shinhan card	Business tie-up and issuing credit cards
	Korea Express Co., Ltd.	Logistics services
	Cable TV operators	Providing broadcast programs
Korea Seven Co., Ltd.	7-Eleven, Inc.	Using the registered trademark and operating know-how
Lotte Boulangerie Co., Ltd.	Shikishima Baking Co., Ltd.	Bread baking skills and techniques
NCF Co., Ltd.	Nice Claup Co., Ltd.	Royalty payments based on net revenue of selling and manufacturing amounts

(c) As of December 31, 2011, the Group are the plaintiff in various lawsuits claiming damages totaling ₩15,093 million and the Group are the defendant in various lawsuits with damage claims totaling ₩22,032 million.

(d) Lotte Card Co., Ltd. has sold certain card assets to SPCs pursuant to the Assets-Backed Securitization Law of the Republic of Korea and assumed the liability to pay the outstanding card assets when the transferred card assets cannot meet the prescribed qualifications in the contract or fall into arrears in accordance with the terms of assets transfer agreement and other contracts. Accordingly, as prescribed in the assets transfer agreement and other contracts, the SPCs have obligations of early redemption of the asset-backed securities when average portfolio earning ratio during three consecutive settlement periods is lower than the average primary cost ratio or when outstanding balance of adjusted securitized assets is less than the minimum principal balance as of closing date of each settlement period and others.

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36. Contingent Liabilities and Financial Commitments, Continued

- (e) As of December 31, 2011, the Group has provided one blank note as collateral for borrowings from the Koryo Central Educational Institution.
- (f) Lotte Midopa Co., Ltd. did not recover 93 blank checks and 653 blank notes from related customers, which had been pledged as collateral for debt. Management believes that the possibilities of payment are extremely low.

37. Inter-company Transactions and Balances with Consolidated Companies

The Group has provided guarantees for consolidated companies as of December 31, 2011 as follows:

Consolidated company	Provided by	Guarantee recipient	2011	
			Type of borrowings	Guaranteed amount (thousands)
Lotte Vietnam Shopping Co., Ltd.	Lotte Shopping Co., Ltd.	Citibank N.A. Hochiminh Shinhan Bank	Working capital Working capital	USD 60,000 and interest thereon USD 15,000
Liaoning Lotte Mart Co., Ltd.	Lotte Shopping Co., Ltd.	Australia and New Zealand Bank	Working capital	RMB 10,000
Lotte Cinema Vietnam Co., Ltd.	Lotte Shopping Co., Ltd.	The Export-Import Bank of Korea	Working capital	USD 6,000 and interest thereon

38. Transactions and Balances with Related Companies

- (a) Details of investor and subsidiary relationships with the Company as of December 31, 2011 are as follows:

Related company	Ownership (%)	Control relationship (*)
Hotel Lotte Co., Ltd.	9.58	Affiliate of Lotte Group
Korea Fuji Film Co., Ltd.	8.52	Affiliate of Lotte Group
Lotte Confectionery Co., Ltd.	8.52	Affiliate of Lotte Group
Lotte Data Communication Company	5.22	Affiliate of Lotte Group
Lotte Chilsung Beverage Co., Ltd.	4.26	Affiliate of Lotte Group
Lotte Engineering & Construction Co., Ltd.	1.03	Affiliate of Lotte Group
Hotel Lotte Pusan Co., Ltd.	0.85	Affiliate of Lotte Group

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

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

(b) Significant transactions which occurred in the normal course of business with related companies for the years ended December 31, 2011 and 2010 are summarized as follows:

Related company		Korean won (millions)			
		2011		2010	
		Revenues	Expenses	Revenues	Expenses
Hotel Lotte Co., Ltd.	₩	37,527	78,538	35,694	71,865
Lotte Confectionery Co., Ltd.		14,437	138,601	23,809	118,797
Lotte Chilsung Beverage Co., Ltd.		11,045	72,785	10,288	60,831
Lotte Engineering & Construction Co., Ltd.		10,689	603,916	6,771	467,311
Hotel Lotte Pusan Co., Ltd.		7,761	14,689	7,984	19,633
Lotte Station Building Co., Ltd.		25,643	6,452	27,826	6,330
Lotte Samkang Co., Ltd.		3,594	29,295	3,600	24,041
Lotte Ham Co., Ltd.		6,378	62,452	7,563	61,535
Lotte Fresh Delica Co., Ltd.		9,925	70,377	8,274	52,884
Lotte Trading Co., Ltd.		9,347	239,348	8,658	182,257
Lotte Aluminium Co., Ltd.		1,860	84,522	1,843	80,188
Lotte Logistics Co., Ltd.		21,718	1,093,039	8,882	445,320
Others		138,055	672,258	96,078	424,595
Total	₩	<u>297,979</u>	<u>3,166,272</u>	<u>247,270</u>	<u>2,015,587</u>

(c) Account balances with related companies as of December 31, 2011, 2010 and January 1, 2010 are summarized as follows:

Related company		Korean won (millions)					
		December 31, 2011		December 31, 2011		January 1, 2010	
		Receivables	Payables	Receivables	Payables	Receivables	Payables
Hotel Lotte Co., Ltd.	₩	30,015	14,339	23,984	11,446	24,964	8,105
Lotte Confectionery Co., Ltd.		12,535	17,375	12,026	15,837	8,505	11,205
Lotte Chilsung Beverage Co., Ltd.		3,638	4,178	1,722	4,842	10,059	3,181
Lotte Engineering & Construction Co., Ltd.		115,366	232,209	48,427	236,209	57,435	275,099
Hotel Lotte Pusan Co., Ltd.		526	2,301	2,777	1,879	2,556	1,924
Lotte Station Building Co., Ltd.		28,245	11,318	27,828	8,633	25,848	6,590
Lotte Aluminium Co., Ltd.		16,367	27,300	15,254	23,635	12,666	22,114
Lotte Samkang Co., Ltd.		998	11,549	342	10,565	1,478	10,944
Lotte Ham Co., Ltd.		4,363	8,376	5,460	2,307	5,684	3,293
Lotte Fresh Delica Co., Ltd.		280	5,848	455	4,645	279	3,317
Lotte Trading Co., Ltd.		6,980	17,391	4,275	11,541	4,809	12,522
Lotte Logistics Co., Ltd.		1,678	170,740	369	72,874	415	59,304
Others		527,825	172,657	159,170	97,530	63,288	113,590
Total	₩	<u>748,816</u>	<u>695,581</u>	<u>302,089</u>	<u>501,943</u>	<u>217,986</u>	<u>531,188</u>

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

December 31, 2011 and 2010

38. Transactions and Balances with Related Companies, Continued

(d) The Group has provided guarantees for related companies as of December 31, 2011 as follows:

Related company	Guarantee recipient	Type of borrowings	Guaranteed amount (thousand)
Lotte Shopping Rus LLC	Korea Development Bank	Working capital	USD 10,000
Intime Lotte Department Store Co., Ltd.	Woori Bank	Working capital	KRW 12,000,000
	Standard Chartered Bank	Working capital	RMB 70,000
	Shinhan Bank	Working capital	USD 8,125

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

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

39. Subsequent Events

The Group obtained control of CS Mart Co., Ltd. by acquiring 97.37% of stocks at ₩244,880 million in cash on January 19, 2012. CS Mart Co., Ltd. will be accounted for as a subsidiary in the consolidated financial statements in subsequent to the acquisition.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2011 and 2010

40. Transition to Korean International Financial Reporting Standards (“K-IFRS”)

As stated in note 2 to the consolidated financial statements, these are the Group’s first consolidated financial statements prepared for the part of the period covered by the first K-IFRS annual financial statements in accordance with K-IFRS No.1101 *First-time Adoption of K-IFRS*.

The accounting policies in note 3 to the consolidated financial statements have been applied in preparing the consolidated financial statements for the year ended December 31, 2011, the comparative information for the year ended December 31, 2010, for the year ended December 31, 2010 and the preparation of an opening statement of financial position under K-IFRS as of January 1, 2010.

- (a) The exemptions the Group adopted in accordance with K-IFRS No.1101 *First-time Adoption of K-IFRS*

K-IFRS No.1101 permits those companies adopting K-IFRS for the first time certain exemptions from the full requirements of K-IFRS in the transition period. The Group has taken the following key exemptions.

Business combination

Business combinations prior to the date of transition are not restated.

Cumulative translation differences

The Group regards the accumulated translation difference of overseas operations as zero (“0”).

Deemed cost to fair value or the revaluation amount

The Group measures some property, plant and equipment except for buildings at deemed cost which is fair value at the date of transition.

Borrowing costs

The Group capitalizes borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset after the date of transition to K-IFRS.

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

December 31, 2011 and 2010

40. Transition to Korean International Financial Reporting Standards (“K-IFRS”), Continued

(b) The effects of the adoption of K-IFRSs on the Group’s financial position as of January 1, 2010 are as follows:

		Korean won (millions)		
		Total assets	Total liabilities	Total equity
K-GAAP	₩	24,423,378	11,258,111	13,165,267
Adjustment for:				
Change in gains and losses on disposal of property, plant and equipment ①		29,511	-	29,511
Change in depreciation method of property, plant and equipment ②		(11,760)	(11,888)	128
Component accounting of property, plant and equipment ③		(269,667)	127	(269,794)
Provision for sales return ④		(1,452)	1,556	(3,008)
Impairment of financial assets ⑤		(12,901)	(167,039)	154,138
Changes in scope of associates ⑥		(345,733)	(159,740)	(185,993)
Employee benefits ⑦		1,470	51,007	(49,537)
Present value of deposit ⑧		(29,171)	(2,818)	(26,353)
Customer loyalty programs ⑨		-	8,754	(8,754)
Impairment of assets ⑩		(6,291)	(1,236)	(5,055)
Depreciation of annual fee for credit card on straight-line basis ⑪		-	15,747	(15,747)
Deferred loan income from card assets ⑫		1,650	321	1,329
Deferred tax assets ⑬		(32,286)	204,821	(237,107)
Others		1	1	-
Total adjustment		<u>(676,629)</u>	<u>(60,387)</u>	<u>(616,242)</u>
K-IFRS	₩	<u>23,746,749</u>	<u>11,197,724</u>	<u>12,549,025</u>

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

December 31, 2011 and 2010

40. Transition to Korean International Financial Reporting Standards (“K-IFRS”), Continued

(c) The effects of the adoption of K-IFRSs on the Group’s financial position as of December 31, 2010 and comprehensive income for the year ended December 31, 2010 are as follows:

		Korean won (millions)				
		Total assets	Total liabilities	Total equity	Net income	Total comprehensive income
K-GAAP	₩	30,249,887	16,101,370	14,148,517	1,043,834	991,962
Adjustment for:						
Change in gains and losses on disposal of property, plant and equipment ①		26	-	26	(156,174)	(1,191)
Change in depreciation method of property, plant and equipment ②		116,372	-	116,372	86,504	86,504
Component accounting of property, plant and equipment ③		(311,915)	127	(312,042)	(46,061)	(46,061)
Provision for sales return ④		(2,889)	1,689	(4,578)	(1,570)	(1,570)
Impairment of financial assets ⑤		(16,121)	(192,651)	176,530	25,888	25,888
Changes in scope of associates ⑥		(989,884)	(730,408)	(259,476)	15,920	(31,718)
Employee benefits ⑦		6,765	93,058	(86,293)	(12,039)	(33,772)
Present value of deposit ⑧		(33,265)	(2,891)	(30,374)	(4,028)	(4,028)
Customer loyalty programs ⑨		-	9,551	(9,551)	(797)	(797)
Impairment of assets ⑩		158,280	(1,235)	159,515	164,571	164,571
Depreciation of annual fee for credit card on straight-line basis ⑪		-	17,998	(17,998)	(2,251)	(2,251)
Deferred loan income from card assets ⑫		2,873	-	2,873	2,237	2,237
Deferred tax assets ⑬		1,048	250,577	(249,529)	(19,594)	(19,594)
Others ⑭		10,353	2,347	8,006	7,209	2,405
Total adjustment		<u>(1,058,357)</u>	<u>(551,838)</u>	<u>(506,519)</u>	<u>59,815</u>	<u>140,623</u>
K-IFRS	₩	<u>29,191,530</u>	<u>15,549,532</u>	<u>13,641,998</u>	<u>1,103,649</u>	<u>1,132,585</u>

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2011 and 2010

40. Transition to Korean International Financial Reporting Standards (“K-IFRS”), Continued

① *Change in gains and losses on disposal of property, plant and equipment*

The Group measures some property, plant and equipment except for buildings at deemed cost which is fair value at the date of transition in accordance with K-IFRS No.1101. When the Group disposed of property, plant and equipment which are measured at deemed cost, gains and losses on disposal of property, plant and equipment were changed.

② *Change in depreciation method of property, plant and equipment*

In accordance with K-IFRS, property, plant and equipment which are depreciated with the declining-balance method under K-GAAP, are depreciated on a straight-line basis that reflects the appropriate pattern in which the asset’s future economic benefits are expected to be consumed.

③ *Component accounting of property, plant and equipment*

In accordance with K-IFRS, a component that is significant compared to the total cost of property, plant and equipment is depreciated over separate useful lives.

④ *Provision for sales return*

In accordance with K-IFRS, the Group estimates the possibility of returns and recognizes as provision for sales return.

⑤ *Impairment of financial assets*

In accordance with K-IFRS, the Group first assesses whether objective evidence of impairments exists individually for financial assets and then, assesses whether objective evidence of impairment exists collectively for other financial assets by group of financial assets with similar credit risk characteristics.

⑥ *Changes in scope of associates*

In accordance with K-IFRS, the Group reclassified investment securities as available-for-sale financial assets and investments in associate. Available-for-sale financial assets are measured at fair value, and investments in associate are recognized under the equity method. While under K-GAAP, the scope for associates is different due to the prescribed entities.

⑦ *Employee benefits*

- Post-employment benefit: In accordance with K-GAAP, the Group records the liabilities for its retirement and severance benefit obligations which would be payable if all employees left the Group at the end of the reporting period. In accordance with K-IFRS, the measurement of the retirement and severance benefit obligations are calculated actuarially using the projected unit credit method based on certain assumptions to calculate the present value.
- Short-term employee benefit: According to K-IFRS, the Group recognizes the expected cost of short-term employee benefits in the form of compensated absence as a liability, when employees render service that increases their entitlement to future compensated absences.
- Long-term employee benefit: Other long-term employee benefits include employee benefits that do not settle within twelve months after the end of the period in which the employees renders the related service, and calculated at the present value of the amount of future benefit that employees have earned in return for their service in the current and prior periods, less the fair value of any related assets.

⑧ *Present value of leasehold deposits and leasehold deposits received*

In accordance with K-GAAP, the Group recognizes leasehold deposits and leasehold deposits received as nominal amount of deposits. In accordance with K-IFRS, leasehold deposits and leasehold deposits received are measured at amortized cost using the effective interest method.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2011 and 2010

40. Transition to Korean International Financial Reporting Standards (“K-IFRS”), Continued

⑨ *Customer Loyalty Programs*

In accordance with K-GAAP, the Group recognized a provision for the costs of the product to be provided in the future from using the points. However, in accordance with K-IFRS, the revenue to be incurred in the future from using the points is deferred at first and the Group recognizes the unearned revenues as sales when the points are redeemed.

⑩ *Impairment of assets*

In accordance with K-IFRS, the Group does not amortize goodwill and perform the impairment test. The carrying amounts of the Group’s non-financial assets are reviewed at the end of the reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset’s recoverable amount is estimated. While under K-GAAP goodwill is amortized on a straight line basis over the estimated useful lives.

⑪ *Depreciation of annual fee for credit card on straight-line basis*

In accordance with K-IFRS, annual fees for credit cards are depreciated on a straight-line basis over the duration of the related service to be rendered. While under K-GAAP, the revenue is recognized fully upon receipt.

⑫ *Deferred loan income from card assets*

In accordance with K-IFRS, deferred loan income from card assets is recognized as revenue over the loan period using the effective interest method. While under K-GAAP, such income is recognized in full upon occurrence.

⑬ *Deferred tax effects*

The Group reflected the tax effects in relation to the adjustments in transition to K-IFRS. Also, in accordance with K-IFRS, the current deferred tax assets (liabilities) are reclassified to the non-current deferred tax assets (liabilities).

⑭ *Others*

- Investment in properties: In accordance with K-GAAP, properties held to earn rentals or for capital appreciation were classified and accounted for as property, plant and equipment. However, in accordance with K-IFRS, it is classified as investment property.
- Guarantee deposits for membership: In accordance with K-GAAP, guarantee deposits for membership recognized as other non-current assets are recorded as intangible assets with indefinite useful lives.
- Website costs: The Group recognizes development costs of its website, not directly related to operating activity, as expenses in the incurred period.
- Bank overdraft: Bank overdraft, which must be repaid upon request from financial institutions and which constitutes a part of cash management, has been reclassified from cash flows from financing activities to cash and cash equivalents under K-IFRS.

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40. Transition to Korean International Financial Reporting Standards (“K-IFRS”), Continued

(d) Explanation of material adjustments to the consolidated statement of cash flows

In accordance with K-GAAP, interest expense, interest income, dividends income and income tax expenses were presented as non-cash items in operating activities. While in accordance with K-IFRS, interest paid are recognized as cash flows from financing activities, and interest received and dividends received are recognized as cash flows from investing activities. Income tax paid is recognized as cash flows from operating activities.

Bank overdraft, which must be repaid upon request from financial institutions and which constitutes a part of cash management, has been reclassified from cash flows from financing activities to cash and cash equivalence under K-IFRS.

Except for the explanation above, there are not other significant differences on cash flow statement between K-IFRS and K-GAAP.