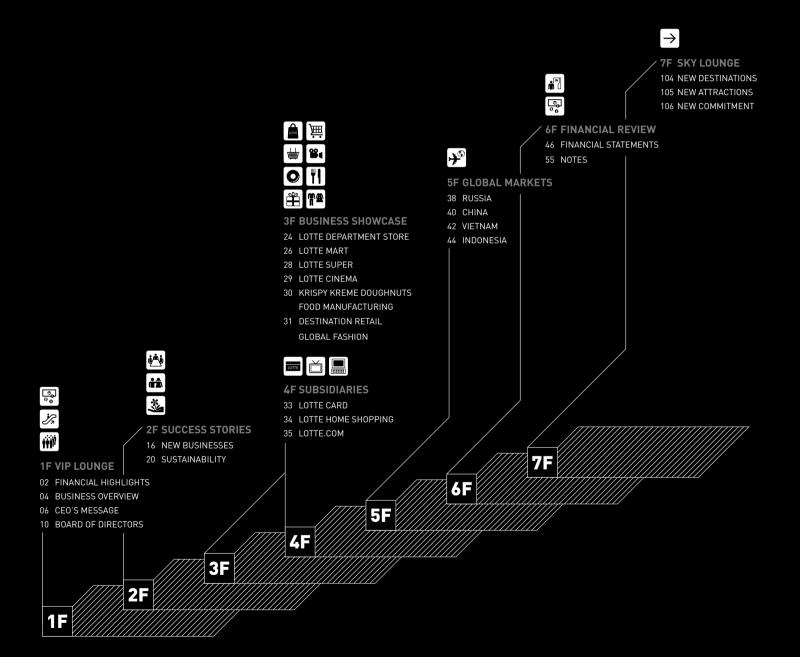
EXPLORE WHAT'S IN STORE

2008 LOTTE SHOPPING ANNUAL REPORT





1F

LOUNGE

WE'VE BEEN

Welcome to Lotte Shopping! We're so glad you joined us today to explore what makes us Korea's No. 1 retailer and an emerging leader in the global retail industry. We have a lot of ground to cover on this tour, so let's get started with a quick overview of our key operating results and businesses.









FINANCIAL HIGHLIGHTS

1F ZONE 02

CONDENSED NON-CONSOLIDATED BALANCE SHEETS

in KRW billions

	2008	2007	2006
ASSETS	13,304	11,942	11,872
Current assets	1,940	2,153	3,465
Non-current assets	11,363	9,789	8,407
LIABILITIES	4,473	3,768	4,356
Current liabilities	3,147	3,293	3,378
Long-term liabilities	1,326	476	978
SHAREHOLDERS' EQUITY	8,831	8,174	7,516
Capital stock	145	145	145
Capital surplus	4,651	4,652	4,651
Accumulated other comprehensive income	46	78	84
Retained earnings	4,005	3,298	2,635

CONDENSED NON-CONSOLIDATED INCOME STATEMENTS

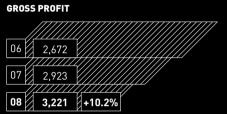
in KRW billions

	2008	2007	2006
	I		
GROSS SALES*	10,970	10,085	9,294
NET SALES	10,554	9,768	9,056
GROSS PROFIT	3,221	2,923	2,672
SG&A EXPENSES	2,452	2,167	1,923
OPERATING PROFIT	769	757	749
NON-OPERATING PROFIT	523	308	431
NON-OPERATING EXPENSES	365	107	194
PROFIT BEFORE TAX	927	958	986
NET PROFIT	743	692	740

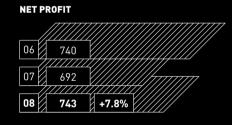
KEY OPERATING RESULTS

in KRW billions

06 9,294 07 10,085 08 10,970 +8.8%







GROSS SALES BY BUSINESS DIVISION

in KRW billions



^{*}Gross sales is defined as net sales plus the cost of specific sales, which are sales of merchandise conditionally supplied to us that we can return at any time and on which we bear no inventory risk.

BUSINESS OVERVIEW

1F ZONE 04

LOTTE DEPARTMENT STORE



Launched in 1979, Korea's No. 1 high-end retailer oper-

fashion, its diversified retail strategy also includes ultra-

GROSS SALES in KRW billions 2006 5.283

2007 5,374

outlet malls.

2008 5.657 +5.3%

2007 RUSSIA 2008 CHINA

OVERSEAS STORES

Launched in 1998, Korea's No. 3 discounter operates 63 ates 25 stores across the peninsula as well as overseas stores nationwide as well as a growing overseas network stores in Moscow and Beijing. Focused on delivering of chains in China, Indonesia, and Vietnam. It recently everything from groceries to electronics and high entered the toy store business as a Toys "R" Us franchisee and completed a new logistics network to serve its high-end retail, youth fashion specialty stores, and growing store network.

OVERSEAS STORES

8 CHINA

19 INDONESIA

DESTINATION RETAIL



Opened in 2008, Lotte Outlets in Gwangju and Lotte Premium Outlets in Gimhae mark Lotte Shopping's entrance into the destination retail sector. In addition to future outlet locations, the company plans to open the suburban-style Sky Park shopping mall in Seoul in 2012.

FOOD MANUFACTURING

Launched in 1978, this diversified food manufacturing company became a wholly owned Lotte Shopping division in 1993. A key supplier to Lotte food and beverage affiliates, it currently produces food additives, flavorings, seasonings, snack foods, chocolate, and coffee as well as sanitizers and disinfectants.

TOYS "R" US

LOTTE MART

GROSS SALES in KRW billions

2008 4.169 +7.2%

2006 3.386

2007 3,888



2008 9

Launched in 2007, this unique toy store franchise already has four full-size stores and five store-in-store locations in the Seoul region. In its first year of operations, each of these full-size stores consistently ranked in the Toys "R" Us franchise top-10, outperforming more than 200 stores in 24 countries.

LOTTE SUPER



GROSS SALES in KRW billions

2006 404		
2007 538	I I OI	
2008 782	+40%	

Launched in 2001, this leading supermarket chain operates a rapidly growing network of 110 stores nationwide. Poised to take the No. 1 position in sales and profitability in the near future, it has a strong merchandising strategy tailored to meet the needs of today's smaller families and single urban professionals.

LOTTE CINEMA



MULTIPLEXES SCREENS 2006 32 2006 257 2008 352

Launched in 1999, Korea's No. 2 cinema chain operates 46 multiplexes with 352 screens nationwide. Known for its state-of-the-art digital cinema systems and service innovations that make going to the movies more comfortable and enjoyable, it's also an emerging player in film distribution with a vision of becoming one of Asia's leading entertainment companies.

KRISPY KREME DOUGHNUTS



2006 17	
2007 26	
2008 30	

Launched in 2004, Korea's No. 2 doughnut chain serves up freshly made treats throughout the day at 30 stores nationwide. While this network is just onetwentieth the size of the industry leader, the combination of great locations and the unique Krispy kreme freshness and ambiance enabled the chain to capture nearly 19% of the market in 2008.

LOTTE CARD



TOTAL TRANSACTION VOLUME in KRW trillions

+17.0% 2008 **28.0**

Launched in 2002, this major credit card firm serves Launched in 2001, this leading home shopping chanover 7.3 million MasterCard, Visa, American Express, fundamentals has enabled it to maintain the indusgroup affiliates continues to drive strong transaction volume growth.

LOTTE HOME SHOPPING



TOTAL TRANSACTION VOLUME in KRW billions

2006 605
2007 6776
2008 887 +31.470

nel became a Lotte Shopping affiliate in 2007. In addiand JCB cardholders across Korea. A focus on the tion to its traditional TV, Internet, and catalog retail channels, it is an industry innovator that continues to try's lowest 30-day delinquency ratio as synergy with bring shopping convenience to new platforms such as m-commerce, t-commerce, and IPTV.

LOTTE.COM



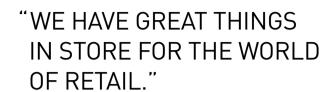
TOTAL TRANSACTION VOLUME in KRW billions

+20.5%

Launched in 1996, this No. 4 e-tailer was Korea's very first online shopping mall. Today with over 11 million registered customers, it is now evolving into the hub of what will be a seamless online-offline shopping experience that will enable Lotte Shopping to serve customers anywhere, anytime.



1F ZONE 07



Dear Lotte Shopping stakeholder,

The year 2008 was another remarkable year for us as we overcame challenging business conditions at home and abroad to once again deliver a solid financial performance and boldly advance our global retail strategy. We followed up the opening of our first overseas department store in Moscow in 2007 with our second overseas location in Beijing as well as our first discount store in Vietnam. We also completed the takeover of major cash-and-carry chains in both China and Indonesia, giving us instant clout and credibility in those markets. Building on the ongoing expansion of our department store, discount store, and supermarket chains as well as our entrance into new retail formats such as outlet malls in our home market, this strategy is now beginning to unleash a new phase of growth that will transform us from Korea's top retailer into one of the world's favorites.

THE YEAR IN REVIEW

Despite the increasingly challenging environment retailers around the world faced in 2008, I am pleased to report that we recorded solid growth in both sales and operating profit. We set a new benchmark for the Korean retail industry as gross sales surged 8.8% to just short of KRW 11 trillion, fueled by a remarkable 46% gain by our fast-growing supermarket business and solid starts by our overseas department and discount store businesses. This sales surge helped push operating profit up 1.6% for the year to KRW 769 billion. Net profit before tax was down 3.2% to KRW 927 billion as we recognized equity-method losses from overseas store openings and chain acquisitions. Net profit after tax rose 7.3% to KRW 743 billion as we benefitted from a temporary cut in the effective corporate tax rate from 27.7% to 19.8%.

WE MADE OUR DEBUT
IN THE OUTLET MALL
SPACE IN 2008, OPENING OUR
FIRST URBAN-STYLE AND
VILLAGE-STYLE OUTLETS.

Our flagship department store business opened the industry's only new location and our 25th store in Seoul's Star City development. We made our debut in the outlet mall space, opening our first urban outlet mall in Gwangju and our first premium outlet mall in Gimhae. We also continued to expand abroad, gaining invaluable exposure to consumers from around the globe as we opened our second overseas department store in Beijing just in time for the 2008 Olympic Games.

Our discount store business opened seven new Lotte Marts in 2008, bringing our chain to 63 stores nationwide. Our growing private brand lineup continued to drive profitability, rising from 12.2% to 17.3% of sales. In December, we opened our Gimhae Distribution



1F ZONE 08



In 2008, we once again delivered a solid financial performance and boldly advanced our global retail strategy.





WE OPENED OUR GIMHAE
DISTRIBUTION CENTER,
COMPLETING A MULTI-YEAR
UPGRADE OF OUR NATIONWIDE
LOGISTICS NETWORK.

OUR SUPERMARKET
BUSINESS IS NOW POISED
TO BECOME THE INDUSTRY
LEADER, GROWING
A REMARKABLE 46% IN 2008.

Center to serve stores across the southern half of Korea, completing a multi-year upgrade of our nationwide logistics network. We were also active overseas, following up our late-2007 acquisition of the 8-store Makro cash-and-carry chain in China with the acquisition of the 19-store Makro chain in Indonesia as well as opening our first Lotte Mart in Vietnam.

Our supermarket business continued to expand rapidly, adding 31 new Lotte Supers during the year to bring the chain to an industry-leading 110 locations nationwide. Despite this aggressive expansion strategy, we were able to dramatically improve profitability as we operated solidly in the black for our second straight year. This remarkable 2008 performance has laid a solid foundation for us to firmly take industry leadership in stores, sales, and profitability in the near future.

We also continued to focus on strategic expansion and profitability in our growing portfolio of entertainment and specialty retail businesses. Our cinema multiplex business added six Lotte Cinemas with 36 screens, expanding the chain total to 46 locations with 352 screens. Our doughnut business added four new Krispy Kreme locations, bringing the chain to 30 stores nationwide. Our toy store business shifted into high gear, expanding from one Toys "R" Us store to four in its first year, capping a strong start for a business we believe has the potential to be Korea's first retail category killer.

THE YEAR AHEAD

While the retail industry faces tough challenges in 2009 as the deepening global recession and falling consumer confidence take their toll on the sector, we are confident that we have the right combination of clear vision, talented people, competitive strengths, and loyal customers to get us through whatever challenges lie ahead as we create new opportunities for growth at home and abroad in the coming years.

Achieving sound, sustainable growth will be our first and foremost priority as we focus our resources on our vision of being one of the world's leading retailers. At home, we



Our takeover of major cash-and-carry chains in both China and Indonesia gives us instant clout and credibility in those markets

plan to open a department store, four discount stores, and 30 supermarkets as we continue to strategically expand operations across our business portfolio. Abroad, we will be following a conservative expansion strategy that calls for a total of four new discount stores in Vietnam and China as we progressively convert our recently acquired Makro cash-and-carry chains in China and Indonesia into discount stores and get better acquainted with those local markets.

ACHIEVING SOUND,
SUSTAINABLE GROWTH IS
OUR FIRST AND
FOREMOST PRIORITY
IN THE COMING YEAR.

While constant, daily change is what makes retail so challenging and rewarding, we recognize that our long-term success ultimately depends on the relationships we have with you and each of our stakeholders. Thank you once again for taking time out of your busy schedule to drop by. We hope you enjoy your tour of Lotte Shopping today and leave with a better understanding of the great things we have in store for the world of retail.

Lee Chulwoo

Chief Executive Officer

aw Le

BOARD OF DIRECTORS

1F ZONE 10

"WE ARE DEDICATED TO MAKING LOTTE SHOPPING ONE OF THE WORLD'S BEST-GOVERNED RETAILERS."

The Lotte Shopping board is currently composed of 11 directors, six of whom are outside directors. At the 2008 shareholder's meeting held on March 20, 2009, outside director Park Mooik, president of Gallup Korea, was replaced by Im Jongin, dean of the Graduate School of Management & Information at Korea University.

The board currently operates two committees. The Audit Committee is composed of three outside directors and met six times in 2008. The Outside Director Nominating Committee is composed of two directors, one inside and one outside, and met twice in 2008. The board met a total of 14 times in 2008.





↑ SHIN KYUKHO Chairman, Lotte Group

SHIN DONGBIN Vice Chairman, Lotte Group







↑ LEE CHULWOO, PH.D.
CEO,
Lotte Shopping

↑ SHIN YOUNGJA

President,
Lotte Shopping

↑ KIM SEHO

Former Vice-Minister,

Ministry of

Construction & Transportation







↑ SOHN SUNGKYU, PH.D.
Professor,
Yonsei University



↑ JWA SUNGHEE

President,
Gyeonggi Research Institute





Dean, Graduate School of Management & Information, Korea University











2F **ZONE 17** **NEW BUSINESSES**

MAKING RETAIL A DESTINATION

At Lotte Shopping, we're constantly on the lookout for new ways to reach new customers. In 2008, we took the next step in our retail diversification as we launched not one, but two outlet mall formats that are fast becoming major retail destinations.

In October, we opened our first Lotte Outlets location in Gwangju, Korea's sixth-largest city. Located in the same building as and immediately adjacent to an existing Lotte Mart discount store, this "urban-style" outlet mall has 17,500 sgm of retail space and hosts around 190 top Korean fashion brands. In its first three months of operation, Lotte Outlets Gwangju easily outperformed expectations, drawing a monthly average of nearly 700,000 shoppers.

In December, we opened our first Lotte Premium Outlets location in Gimhae, about a half-hour drive from Korea's second-largest city of Busan. Featuring a chic international ambiance with wide promenades and plenty of dining options and other amenities, this "village-style" outlet mall has 28,800 sqm of retail space hosting some 20 global luxury brands and over 110 other top local and international brands. Lotte Premium Outlets Gimhae also got off to a strong start, drawing a monthly average of over 300,000 shoppers in its first three months of operation.

In addition to these new outlet mall formats, we have another major destination retail project underway in Seoul. Scheduled to open in 2012, the "suburban-style" Sky Park shopping mall will follow in the steps of Lotte World, bringing together every Lotte retail and entertainment business under a single roof to create a compelling shopping and leisure destination for millions in southwest Seoul and surrounding communities.

Oct 2008 | First Lotte Outlets opens in Gwangju

Dec 2008 First Lotte Premium Outlets opens in Gimhae













2F ZONE 21

SUSTAINABILITY

SUSTAINING PARTNERSHIPS

At Lotte Shopping, we work hard to build winwin relationships with our vendors. In 2008, we dramatically expanded this support, launching the Lotte Green Partnership program to provide small and medium-size vendors with the funds and know-how to "go green." Key program highlights include ISO 14001 environmental management certification assistance, greenhouse gas emissions reduction assistance, and eco-management reference materials and workshops. The program is also supported by a dedicated website (lottegreen.co.kr) that is designed to be a one-stop resource for all things green. The site provides info on green products and lifestyles for consumers as well as extensive educational and training resources for businesses.

SUSTAINING SOCIETY

As Korea's top retailer, our nationwide presence gives us a broad platform from which to reach out to our local communities in unique and meaningful ways. Our primary focus is on helping disadvantaged children, shut-in seniors, and the disabled through volunteer service clubs at our local stores. We also work closely with prominent NGOs and national and local governments on a variety of environmental initiatives. One example of this is our sponsorship of annual business-casual fashion shows and coordination clinics in support of the national government's "Cool Biz" and "Warm Biz" fashion initiatives to save energy

in the workplace. Another is our sponsorship of a variety of camps, contests, and programs throughout the year to help customers and communities better understand and appreciate the environment.

In 2008, we joined the Korea Green Foundation's "Stop CO2" campaign and refocused several of our major initiatives on promoting a low-carbon society. We doubled enrollment to 1,000 kids for our Lotte Children's Green School, a critically acclaimed six-month educational program for 4th to 6th graders that teaches the importance of conserving and preserving the environment through weekend camps, special assignments, overseas field trips, and an online community. We also sponsored a series of seminars on teaching climate change at the primary and secondary level and the installation of solar water-heating systems at a number of worthy community service organizations in cooperation with the Korea Energy Management Corporation.



3F ZONE 24

06

06

07

5,283

5,374

644

646

639

-1.0%

5,657 +5.3%

LOTTE DEPARTMENT STORE

www.lotteshopping.com

FINANCIAL HIGHLIGHTS

Gross sales rose 5.3% to KRW 5.7 trillion despite facing the worst market fundamentals since the 1997 Asian financial crisis. The primary drivers of sales growth were robust demand for cosmetics and high-end luxury goods as well as growing purchases by younger consumers as spending by those in their 20s rose from 12.8% to 17.0% of sales during the year. While costs associated with the opening of a new department store and our first two outlet malls led to a slight 1.0% slip in operating profit to KRW 639 billion, we continued to lead the Korean industry with a solid 11.3% operating margin.

At Lotte, we've been setting new standards for service and selection with the world's top brands since 1979. Today, we're Korea's undisputed leader in high-end retail with 43% of the market and a growing international presence with stores in Moscow and Beijing.

Korea's department store sector is relatively mature, with the top three chains controlling over 75% of the market. In 2008, we opened the nation's only new department store and our ninth Seoul location in the Star City development just north of the Han River across from the Olympic Complex. In 2009, we plan to open our fourth store in Busan, Korea's second-largest city, as we continue to strategically expand our chain in major urban markets that are either expanding or undergoing redevelopment. We also continue to differentiate ourselves from the competition with ongoing service and marketing initiatives that facilitate the rapid adoption of service innovations at individual stores across our entire network as well as ensure a consistent experience for our VIP customers no matter where they shop.

While the heart of our business philosophy is to provide one-stop shopping for everything from groceries to electronics and high fashion, the latter area is where our reputation shines. Our merchandising draws on a

broad range of fashion selections—from leading fashion houses to mainstream brands. We continue to win new customers by signing exclusive "Lotte only" brands as we add our own private brands and trendy new ones. We have been very successful at attracting and keeping quality customers with our constantly evolving VIP programs. Our stores are known for their customer-friendly layouts and stunning visual displays as well as their eclectic array of tenants—ranging from restaurants and medical clinics to hairdressers and art galleries—adding to their attractiveness as shopping destinations.

Our diversified retail strategy for Korea includes three other retail formats. Our Avenuel luxury specialty store in downtown Seoul targets the ultra-high-end market. Avenuel sales continue to grow as demand for luxury goods stays resilient through market ups and downs. High-end shoe, bag, and accessory—particularly jewelry and watch—sales are growing as these luxuries increasingly attract mainstream consumers. At the other end of the age-wealth spectrum, our Young Plaza fashion specialty stores in Seoul, Cheongju, and Daegu cater to fashion-conscious teens and twenty-somethings, enabling us to build the largest and growing customer

LOTTE DEPARTMENT STORES

Excluding three stores managed under con





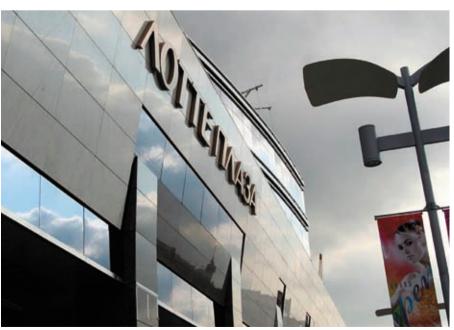


Intime Lotte. Beiiing

base in this increasingly important and profitable demographic. Last, but not least, we entered the outlet mall business in 2008 with the opening of our first urban outlet mall in Gwangju in October and our first premium outlet mall in Gimhae in December. Our entry into this popular new retail format keeps us on the cutting-edge of Korean retail as well as enabling us to better meet the merchandising needs of our vendors.

We continued our international expansion in 2008 with the August opening of our second overseas store in Beijing. Our Moscow store marked its first full year in operations with a respectable performance despite the economic downturn that hit Russia as oil prices fell dramatically in the latter part of the year. For our Beijing store—a joint venture with Intime Department Store—we had a very successful launch in the run-up to the 2008 Beijing Olympics. Located in Beijing's trendy Wangfujing shopping district, Intime Lotte is a mecca of the world's most exclusive brands—including rising brands from Korea and the local market—that continues to set new standards for service and satisfaction.





Lotte Plaza, Moscow

3F ZONE 26

06

06

98

105

111

+5.5%

3,386

3,888

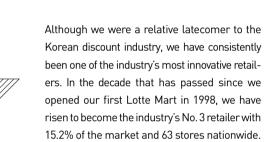
08 4,169 +7.2%



www.lottemart.com

FINANCIAL HIGHLIGHTS

Gross sales grew a solid 7.2% to surpass KRW 4.1 trillion as we expanded our discount chain by seven stores to 63. Operating profit was up 5.5% to KRW 111 billion, dampened slightly by flat same-store sales and costs associated with new store openings. Operating margin held steady at 2.7%, a figure we expect to steadily improve in the coming years as existing discount stores mature and our new toy store business takes off.



In contrast to the mature department store sector, Korea's discount store sector is a dynamic and competitive marketplace with significant opportunities for both top- and bottomline growth. In 2008, the sector added 31 stores—seven of which were ours—as it rose 0.2 points to capture 17.7% of overall retail sales. Today, the top three chains control roughly 80% of the market.

At Lotte Mart, our biggest strength is our diverse range of quality merchandise—ranging from groceries and clothing to household appliances—all at competitively low prices. Our customers also enjoy the same low prices as well as free delivery when they shop online at LotteMart.com. While our chain has a standardized store layout and product mix, managers have the flexibility to make changes to better match the demographics and preferences of their local customers.

We have a number of initiatives underway to improve our cost structure and efficiency. We are currently in the process of implementing a lean-management program with McKinsey. We took another significant step toward our mid-term private brand sales target of 20% as we increased sales from 12.2% to 17.3% of total sales in 2008. We also continued to gain logistical efficiencies as we marked the first full year of operation for our Osan Distribution Center—the largest of its kind in Asia—tasked with serving stores across the Seoul metropolitan region and opened our second distribution center in Gimhae to serve stores across the southern half of the peninsula in December.

As the Korean discount sector moves steadily toward maturity, we've been working on a multi-pronged strategy to expand beyond the peninsula to regional markets. Our strategy became a reality in 2008 as we opened Lotte Marts in China, Indonesia, and Vietnam during the year.

In June, we completed the acquisition of the Makro cash-and-carry wholesale chain in China initiated back in December 2007 and relaunched three of the chain's Beijing locations as discount stores under the Lotte Mart name. We plan to complete the format conversion of the remaining five stores—three in Bei-

KOREA STORES





jing and two in Tianjin—in the first half of 2009 as we focus on expanding our store network across northeast China, beginning in the Qingdao region.

The next step in our expansion-though-acquisition strategy was in Indonesia. In October 2008, we completed the purchase of the Makro Indonesia cash-and-carry chain, that country's cash-and-carry leader with a dominant 45% market share. In the coming years, we plan to convert the 19-store chain to the discount format and strategically expand into major metro areas nationwide as we set our sights on becoming Indonesia's top retailer.

The final step of our overseas expansion in 2008 was the December opening of our first Vietnam store in southern Ho Chi Minh City. With our second store on track to open in September 2009, we continue to explore compact store and other formats for future expansion as we sharpen and tune our merchandising for local tastes and pocketbooks in this fast-growing market.

The year also marked our full-scale entrance into the specialty toy retail business. Following the launch of our first Toys "R" Us store in Seoul just over two weeks before Christmas 2007, we went on to open three full-size Toys "R" Us stores and five smaller Toys "R" Us Toy Box stores-in-stores at Lotte Mart locations across the capital region during the year. In 2009, we plan to accelerate our rapid, multiyear expansion strategy that will give us well over 100 locations nationwide by 2012.



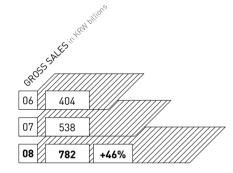
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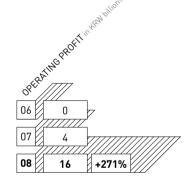
′3F ZONE 28 **BUSINESS SHOWCASE**



www.lottesuper.co.kr

Lotte Super, Seoul







FINANCIAL HIGHLIGHTS

Gross sales rose a robust 46% to KRW 782 billion as we added 31 stores nationwide, expanding our chain size by over 39% to 110 locations. We recorded our second straight operating profit with a strong 271% increase as we boosted our market share among the top-four industry players from 33% to 37%. We expect to soon move clearly into the industry lead as our stores steadily mature and we continue to generate strong double-digit sales growth for the foreseeable future.

We entered the supermarket space in May 2001 with the vision of bringing modern one-stop shopping convenience to local neighborhoods across Korea. Today, our 110-store chain is an industry leader in size and sales with the momentum to shape the future of this retail segment in the years ahead.

While major retailers such as ourselves have made significant inroads in the supermarket sector, the sector remains highly fragmented with small mom-and-pop stores accounting for nearly three-quarters of sales. We have found success in this sector by offering the convenience of a neighborhood market—nearby

LOTTE CINEMA

www.lottecinema.co.kr

locations, phone ordering, and free delivery—with a superior selection of fresh produce, meat, poultry, and fish as well as packaged foods, daily necessities, and household products at reasonable prices.

In 2008, we continued to aggressively expand our national chain, adding 31 stores nationwide. Half of our new openings were in southeastern Korea, more than doubling our presence in this important region that is second only to Seoul in population. Building on this core network of over 100 stores in all major population centers, we plan to strategically add around 25 new stores annually going forward as we further solidify our position as the industry leader in every metric of performance.

We have a number of ongoing initiatives focused on meeting the changing needs of our customers as well as improving profitability. Our private brand strategy continues to gain momentum as we aim to generate 15% of sales from them in 2009. We continue to expand our private brand portfolio and introduce lower-cost, individual-sized packaged goods to better meet the needs of today's smaller families and single urban professionals. We also continue to expand direct and local sourcing of farm produce to reduce costs and improve freshness.

STORES



We opened our first Lotte Cinema back in 1999 in the belief that shopping and entertainment could be a profitable, synergistic combination. Today, 15 of our 46 multiplexes are located near a Lotte department or discount store, generating greater crosstraffic and sales for both business segments.

Korean box office attendance has been on a downward trend since peaking at nearly 167 million in 2006. In 2008, the nation's 2,150 screens drew an audience of over 149 million, the equivalent of about three movies annually for every Korean. The top three chains, of which we are second, accounted for 66% of ticket sales. We captured 15.6% of national box office receipts, up two percentage points for the year and roughly in line with our 16.4% screen share.

Our nationwide chain of multiplexes currently boasts 352 screens at 46 locations as we continue lead the industry in growth. We plan to add around 10 multiplexes with an average of seven screens in 2009 as we aim for well over 400 screens in some 50 locations by the end of the year. We also continue to branch out into the wider international cinema exhibition and distribution marketplace as we take the next step toward our vision of becoming one of Asia's leading entertainment companies.

While the Internet, home theaters, and other technology trends give today's consumers a growing range of entertainment options, we believe that our focus on delivering a unique cinema experience with award-winning service will keep us growing and profit-

able even as overall box-office attendance declines. We continue to systematically upgrade our projection and sound systems with the most advanced 2D and 3D digital cinema technologies available. We are leading the way in customer service with more convenient ticking, unique seating options, and VIP lounges. We help credit card companies and mobile operators retain and reward their loyal customers with discount tickets and other copromotions. We also continue to partner with local and international charities for worthy causes such as kidney donation, missing child recovery, and child welfare

MULTIPLEXES / SCREENS





BUSINESS SHOWCASE

3F ZONE 30

KRISPY KREME DOUGHNUTS

www.krispykreme.co.kr

FOOD MANUFACTURING

www.lottefood.co.kr

Since opening our first Krispy Kreme store in December 2004 in Seoul's Sincheon district, we've opened a total of 30 doughnut stores across the Korean peninsula serving this quintessential American treat.

One of the things that makes the Krispy Kreme experience special is freshness and ambiance. While our competitors have their doughnuts delivered daily each morning, our customers can watch their fresh treats being made through glass-enclosed open kitchens we like to call "doughnut theaters" at most locations. In keeping with the times, all of our doughnuts are now produced with 0% trans fat shortening.

Today, our business is solidly profitable and growing. We continue to reach out to new customers with promotions and guerrilla sampling as we expand our appeal to all age groups with delicious, health-conscious choices such as whole-wheat mixes, organic coffees, and frozen fresh-fruit blends. We added four shops in 2008, and we plan to add at least one in 2009. Remarkably, we captured an 18.6% share of the market in 2008 despite having just one store for every 20 stores of the local industry leader, Dunkin' Donuts, proving once again that quality can compete with quantity.

Our wholly owned Lotte Food division produces a wide range of quality food additives, flavorings, seasonings, snack foods, chocolate, and coffee as well as sanitizers and disinfectants. In addition to being a key supplier to Lotte food and beverage affiliates, we market a growing number of Lotte-branded products at home and abroad through our own retail channels as well as third-party wholesalers and retailers.

The international food industry faced a number of challenges in 2008, including rapidly rising raw ingredient prices and a loss of consumer confidence triggered by the discovery of melamine contamination in a wide range of food products produced in China. During the year, we continued to improve our profitability by implementing an integrated procurement system, developing coffee bean cacao and sweet pop seasoning, and significantly reducing unnecessary product loss in our manufacturing systems.

Today, we're hard at work on new products that will healthily satisfy the full range of customer needs. We plan to launch a number of new snack food and seasoning products in 2009 as we expand our training programs and integrated purchasing system, further diversify into health foods, food additives, and pet foods, and expand global sourcing to sharpen our competitiveness.

STORES









/3F ZONE 31

DESTINATION RETAIL

GLOBAL FASHION





Lotte Premium Outlets, Gimhae

We launched our Shopping Malls & Outlets division in 2005 to spearhead our advance into these new "destination retail" formats that are just beginning to appear in Korea as rising incomes and an increasingly common five-day workweek give families more money and time for leisure and entertainment.

Outlet Malls

We launched our first outlet malls in the final quarter of 2008, culminating three years of planning and preparation. In October, we opened our first Lotte Outlets urban-style mall in Gwangju, Korea's sixth-largest city. Then in December, we opened our first Lotte Premium Outlets village-style mall in Gimhae near Busan, Korea's second-largest metro area. We continue to evaluate locations for future malls in both of these new formats.

Sky Park Mall

We broke ground for Sky Park shopping mall on a 195,000 sqm site at Gimpo International Airport in Seoul back in 2007. Currently on schedule to open in the first half of 2012, Sky Park will host a full lineup of Lotte retail and entertainment businesses, including a department store, discount store, cinema multiplex, and numerous specialty stores.

We launched our Global Fashion division in 2005 to enhance our competitiveness in this strategic retail category. The division is tasked with identifying and signing international brands with solid prospects in the Korean marketplace as well as supervising the development of our own world-class private brands.

In 2008, we added J. Press traditional lyy League men's wear and Gas Italian premium apparel to our global brand portfolio that currently includes Furla premium leather goods, Junior City children's wear, Gerard Darel women's wear, Hot Diamonds, and our private Tasse Tasse women's casual wear and Herrbon men's wear brands. We also continued to sharpen our merchandizing capabilities by collaborating with well-respected fashion directors to improve our planning system, sending staff overseas for training at global fashion houses, and organizing workshops with industry professionals.

Looking ahead to 2009, we plan to drop a number of underperforming brands as we sharpen our focus on successful ones. Furla is one of the latter, and we continue to add Furla shops at both our own and competing department stores as our ongoing channel diversification initiative continues to gain momentum.



/4F ZONE 33

06 19.4

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196

06 2.10%

07 1.51%

+213.6%

07

28.0 +17.0%

07



www.lottecard.com

CARDHOLDERS







FINANCIAL HIGHLIGHTS

We maintained our 7th-place industry ranking in 2008 as we improved our market share by 0.3 percentage points to 6.3%. Transaction volume climbed 17% to KRW 28 trillion as synergy with Lotte Group affiliates and income tax deductions for credit card usage continued to be catalysts for growth. Operating profit also rebounded to KRW 196 billion after a temporary dip in 2007 due to a substantial statutory increase in provisions for bad debts. Although our over-30-day delinquency ratio rose 0.37 percentage points, we continued to have the industry's lowest ratio at 1.88%. We currently hold a 92.5% stake in this subsidiary.

We launched our transformation from a department store credit card issuer to a full-service credit card company in 2002 with the acquisition of a controlling interest in Tongyang Card. Today, we are the Lotte Group's consumer credit specialist serving a combined total of over 7.3 million MasterCard, Visa, American Express, and JCB cardholders across Korea.

Credit card transaction volume in Korea continued to steadily climb for the first three quarters of 2008 as commodity prices and card usage rose sharply. This growth cooled in the final quarter of the year as the bankruptcy of global financial services firm Lehman Brothers ignited a global liquidity crisis. Overall, the industry handled transactions totaling KRW 387 trillion, a robust 13.1% increase for the year.

Lotte Card credit cards and the Lotte Members loyalty program play an invaluable role in helping us to better understand, reach, and retain current and prospective customers. Captured transaction data from our credit cards provides valuable insights on consumer preferences and spending patterns by brand, merchandise category, and store location as well as facilitating targeted marketing activities such as special promotional events and direct mailings. Our customer loyalty program also significantly enhances our ability to attract new

customers and expand our CRM database by rewarding customers with Lotte Points that can be earned and used at any Lotte Group affiliate. Growing over 26% in 2008 to just under 15 million members, this integrated membership program continues to see point redemption rates of over 90%, far higher than the 60% to 70% industry average.

Our long-term goal for Lotte Card is to break into the industry top-five with more than 10 million cardholders. We continue to see strong transaction volume growth, particularly at our department stores. While volume growth has kept us growing and profitable since 2005, our profit margin has come under increasing pressure lately as merchant fees have fallen, stiff competition for new customers has increased marketing costs, and the liquidity crisis has driven up our cost of borrowing. Despite the success of our ongoing efforts to improve financial soundness by reducing major loans as well as bad loan write-offs, we did see a slight increase in delinquencies in 2008 as the bear market dragged down asset values and corporate restructuring increased insecurity in the labor market.



/4F ZONE 34 SUBSIDIARIES



www.lotteimall.com

FINANCIAL HIGHLIGHTS

Our transaction volume grew a remarkable 31.2% in 2008, far exceeding the 13% average of the top five players. This performance was led by a robust 15.1% growth by our TV shopping business, a huge 58.8% jump in our Internet shopping business, and a solid launch of our new catalog shopping business. Overall, TV accounted for 68.3% of sales, followed by the Internet with 26.0% and catalog with 5.1%. Operating profit was down 2.3% as airtime fees paid to cable network operators outpaced TV sales growth, aggressive promotions increased advertising and marketing costs, and we launched our catalog business. We currently hold a 53.0% stake in this affiliate.

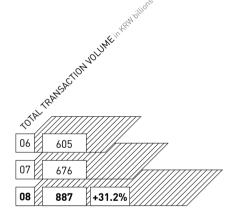
We entered Korea's highly competitive home shopping market in February 2007 by acquiring a controlling interest in Woori Home Shopping, a TV shopping channel that went on-air back in May 2001. Operating as Lotte Home Shopping since May 2007, our retail channels currently include cable TV, IPTV, mobile networks, the Internet, and catalog sales.

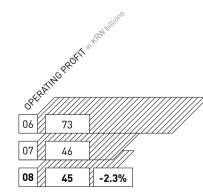
Korea's non-store retail segment—including TV, Internet, and catalog shopping—significantly outperformed the 4.9% growth of the overall retail sector in 2008, rising 12.6% for the year. While domestic retail growth is expected to slow to around 2% in 2009, non-store retail looks poised to continue to register robust double-digit growth in the 15% range.

At Lotte Home Shopping, we have a reputation for pushing the boundaries of information and broadcast technology to reach Korean consumers in new, innovative ways. We launched the industry's first m-commerce service—shopping via mobile phone—in July 2006. We made history again in April 2007 with the industry's first t-commerce service—shopping via the interactive features supported by digital cable TV networks. Most recently, we launched our first streaming IPTV channel on KT's MegaTV service in November 2008. IPTV will enable us to

reach out to a potentially broader audience than cable TV as well as simplify and personalize the home shopping experience. We expect consumer adoption of IPTV to increase dramatically in 2009 for all three of Korea's major IPTV services, reaching some 2 million homes by the end of the year.

We currently have a number of initiatives underway that will help keep us growing in today's challenging retail environment. Our collaboration with other Lotte retail businesses continues to grow. In 2008, we increased the department store brand offerings on our TV channel from 6 to 38 as we simultaneously expanded our online department store merchandise range. We continued to reap the benefits of Lotte Shopping's buying power as our cross-marketing efforts with Lotte Group affiliates helped us reach 139,000 new customers during the year. Our new catalog business also got off to a solid start, generating 5 1% of total sales





2008 LOTTE SHOPPING ANNUAL REPORT

/4F ZONE 35



www.lotte.com

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+20.5%

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07

FINANCIAL HIGHLIGHTS

Transaction volume rose 20.5% to KRW 461 billion as we once again significantly outperformed overall online sales growth and marked our fourth straight year operating in the black. In 2009, we aim to capture the No. 3 position in Korean e-tail as our new businesses help us outgrow this fast-growing industry. We currently hold a 34.4% stake in this affiliate.

We pioneered Korea's e-commerce revolution back in 1996 with the launch of Lotte.com, the nation's first online shopping mall. Now with over a decade of expertise in the e-tail business, we continue to innovate in the online space as we provide over 11.1 million registered customers with one-stop access to the full spectrum of merchandise and services offered by Lotte retail affiliates.

According to the Korea National Statistical Office, Korea's online marketplace was valued at KRW 24 trillion in 2008, a 13.8% increase over 2007. General e-tailers accounted for three-quarters of the total, with customer-to-customer (C2C) transactions making up the remainder. In 2009, the market is forecast to once again grow roughly 9% to reach KRW 26 trillion.

In 2008, we were Korea's fourth-largest general e-tailer in terms of transaction volume with 11.6% of the market, following InterPark, GS eShop, and DnShop. Our long-term goal is to make Lotte.com the hub of a seamless online-offline shopping experience that leverages the strengths of our e-tail and retail networks, enabling us to serve customers anywhere, anytime. We are currently in the middle of a 10-year strategic plan to upgrade and expand our existing online businesses as well as seek out growth opportunities in entirely new fields with new media platforms such as m- and t-commerce, Web 2.0 business models, and online presences in overseas markets where we already have brick-and-mortar retail operations.

5F

GLOBAL MARKETS

WE'RE LEARNING TO SATISFY THE WORLD At Lotte Shopping, we've protime and again in format aft why we are Korea's top retain pearly four decades now. To

At Lotte Shopping, we've proven time and again in format after format why we are Korea's top retailer for nearly four decades now. Today, we're doing the same in a growing number of emerging global markets as we take our unique brand of value and satisfaction to the world.



/5F ZONE 38









Our global retail debut came in September 2007 when we opened our first overseas department store in the heart of Moscow. Known as Lotte Plaza, this eight-floor luxury and premium shopper's

paradise has already made its mark on Russian retail with an unrivaled selection of high-end merchandise and a meticulous attention to customer service that's refreshingly new to the local service industry.





/5F ZONE 41









Our second advance into global retail came in December 2007 when we seized the opportunity to enter China's discount sector by acquiring the eight-store CTA Makro cash-and-carry wholesale chain.

Then in August 2008, we opened Intime Lotte—our second overseas department store—in Beijing's trendy Wangfujing shopping district, introducing locals as well as Olympic visitors to a whole new level of selection and service.



5F ZONE 42







Next advance into global retail came in December 2008 when we opened our first discount store in the Saigon South area of Ho Chi Minh City. Our flagship USD 75 million Lotte Mart is

Vietnam's largest retail development to date with 33,400 sqm of retail space on three floors and plenty of extra attractions, including a six-screen cinema multiplex, bowling and billiard centers, food court, and children's play area.





5F ZONE 44



Our most recent advance into global retail came in October 2008 when we entered the world's fourth most-populous market by acquiring Makro Indonesia, the local cash-and-carry leader with a dominant 45% market share. We

with a dominant 45% market share. We're now in the process of converting this 19-store wholesale chain to the discount format as we position ourselves to ride strong double-digit growth in the discount sector to the top of Indonesian retail in the coming years.



6F

FINANCIAL REVIEW

WE'RE BUILDING LONG-TERM SHARE-HOLDER HOLDER

At Lotte Shopping, we aggressively pursue top-line growth, but we always measure it by the bottom. It's a sound philosophy that's helped earn us an A3 issuer rating from Moody's and an A- rating from Fitch, both with stable outlooks. And one we're confident will make us one of the retail world's top blue-chip investments in the years ahead.

INDEPENDENT AUDITORS' REPORT February 12, 2009

6F ZONE 46



Based on a report originally issued in Korean

TO THE STOCKHOLDERS AND BOARD OF DIRECTORS LOTTE SHOPPING CO., LTD.;

We have audited the accompanying non-consolidated balance sheets of Lotte Shopping Co., Ltd. (the "Company") as of December 31, 2008 and 2007, and the related non-consolidated statements of income, appropriation of retained earnings, changes in equity and cash flows for the years then ended. These non-consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these non-consolidated financial statements based on our audits.

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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 our audits provide a reasonable basis for our opinion.

In our opinion, the non-consolidated financial statements referred to above present fairly, in all material respects, the financial position of Lotte Shopping Co., Ltd. as of December 31, 2008 and 2007 and the results of its operations, the appropriation of its retained earnings, the changes in its equity and its cash flows for the years then ended in conformity with accounting principles generally accepted in the Republic of Korea.

The accompanying non-consolidated financial statements as of and for the year ended December 31, 2008 have been translated into United States dollars solely for the convenience of the reader. We have audited the translation and, in our opinion, the non-consolidated financial statements expressed in Korean Won have been translated into dollars on the basis set forth in note 2 to the non-consolidated financial statements.

WITHOUT QUALIFYING OUR OPINION, WE DRAW ATTENTION TO THE FOLLOWING:

As discussed in note 2(a) to the non-consolidated financial statements, accounting principles and auditing standards and their application in practice vary among countries. The accompanying non-consolidated financial statements are not intended to present the financial position, results of operations, changes in equity and cash flows in accordance with accounting principles and practices generally accepted in countries other than the Republic of Korea. In addition, the procedures and practices utilized in the Republic of Korea to audit such non-consolidated financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying non-consolidated financial statements are for use by those knowledgeable about Korean accounting principles and auditing standards and their application in practice.

As discussed in note 34 to the non-consolidated financial statements, the Company changed its method of accounting for equity method investments in accordance with Statement of Korea Accounting Standard No. 15, Investment In Associates, revised February 22, 2008, which requires the difference between the acquisition cost of minority interest of subsidiaries and book value of net assets transferred to be recorded in capital surplus or capital adjustment, as appropriate, resulting in net assets of the non-consolidated financial statements to equal those of the consolidated financial statements. The Company restated prior period's non-consolidated financial statements in accordance with the transition requirements for changes in accounting policy.

KPMG Samjong Accounting Corp.

KPMG Samjong Accounting Corp.

Seoul, Korea

February 12, 2009

This report is effective as of February 12, 2009, 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 (non-consolidated) financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

ZONE 48

NON-CONSOLIDATED BALANCE SHEETS

AS OF DECEMBER 31, 2008 AND 2007

	2008 In KRW millions	2007 In KRW millions	2008 In USD thousands (note 2)	
ASSETS				
Current assets				
Cash and cash equivalents (notes 10)	₩ 309,696	₩ 467,026	\$ 246,279	
		,		
Short-term deposits (notes 4, 13 and 14)	43,901	318,985	34,911	
Short-term held-to-maturity securities (note 6)	159,445	_	126,795	
Trade accounts receivable, net of allowance				
for doubtful accounts of \(\psi_2,683\) million in 2008	22/71/	2/7 5/2	10/ /51	
and ₩2,838 million in 2007 (note 9)	234,714	247,543	186,651	
Other accounts receivable, net of allowance				
for doubtful accounts of \(\forall 2,813\) million in 2008	FF 0/F	55.545	F0 (F0	
and ₩1,164 million in 2007 (notes 9 and 14)	75,045	55,515	59,678	
Advance payments, net of allowance for				
doubtful accounts of ₩463 million in 2008	47.005	44 505	10.050	
and ₩379 million in 2007	16,285	11,585	12,950	
Inventories (notes 5, 9 and 10)	1,037,885	1,017,880	825,356	
Deferred income tax assets, net (note 28)	12,535	9,848	9,968	
Other current assets (note 7)	50,897	24,906	40,476	
Total current assets	₩ 1,940,403	₩ 2,153,288	\$ 1,543,064	
Non-current assets				
Available-for-sale securities (notes 6 and 13)	₩ 157,753	₩ 102,965	\$ 125,450	
Equity method investment securities (note 6)	2,854,947	2,096,901	2,270,335	
Derivative assets (notes 6 and 20)	208,866	-	166,097	
Other investment assets (notes 4, 12, 13 and 14)	42,413	16,602	33,728	
Property, plant and equipment, net of accumulated				
depreciation of ₩1,937,027 million in 2008				
and ₩1,611,546 million in 2007 (notes 10 and 35)	7,060,981	6,740,876	5,615,094	
Intangible assets, net of amortization (notes 11 and 35)	131,530	112,524	104,596	
Long-term prepaid expenses	190,700	161,226	151,650	
Long-term advance payments (note 31)	52,030	98,418	41,376	
Guarantee deposits (note 17)	664,060	459,555	528,080	
Total non-current assets	₩ 11,363,280	₩ 9,789,067	\$ 9,036,406	
TOTAL ASSETS	₩ 13,303,683	₩ 11,942,355	\$ 10,579,470	

2008 LOTTE SHOPPING ANNUAL REPORT

6F ZONE 49

NON-CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2008 AND 2007

	2008 In KRW millions	2007 In KRW millions	2008 In USD thousands (note 2
BILITIES AND STOCKHOLDERS' EQUITY			
rrent liabilities			
Trade accounts payable (notes 9 and 14)	₩ 1,642,378	₩ 1,613,779	\$ 1,306,066
Short-term borrowings (notes 15 and 31)	220,001	1	174,951
Other accounts payable (notes 9 and 14)	486,372	381,357	386,777
Advances from customers	17,596	14,435	13,993
Accrued expenses (note 14)	142,822	120,816	113,576
Accrual for gift certificates	339,526	322,108	270,001
Current portion of debentures, net of discount			
of W 442 million in 2007 (note 16)	-	549,558	
Income tax payable	214,128	195,873	170,281
Accrual for bonus points reward program (note 19)	30,808	29,362	24,499
Other current liabilities	53,842	65,322	42,817
		W 0 000 /44	₩ 2,502,96′
Total current liabilities ng-term liabilities Debentures, net of discount of ₩8,227 million in 2008	₩ 3,147,473	₩ 3,292,611	
ng-term liabilities	₩ 3,147,473	₩ 3,292,611	VV 2,302,76
ng-term liabilities Debentures, net of discount of ₩8,227 million in 2008 (notes 14, 16 and 20)	₩ 3,147,473 ₩ 899,001	₩ 3,292,611	\$ 714,911
ng-term liabilities Debentures, net of discount of \text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\tin\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\texi{\text{\texi{\texi\text{\text{\text{\text{\texi{\text{\text{\text{\text{\text{\text{\ti}\texi{\text{\	₩ 899,001 244,808		\$ 714,911
ng-term liabilities Debentures, net of discount of ₩8,227 million in 2008 (notes 14, 16 and 20)	₩ 899,001	₩-	\$ 714,911 194,679
ng-term liabilities Debentures, net of discount of \text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\tin\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\texi{\text{\texi{\texi\text{\text{\text{\text{\texi{\text{\text{\text{\text{\text{\text{\ti}\texi{\text{\	₩ 899,001 244,808	₩ - 246,011	\$ 714,911 194,679 37,775
ng-term liabilities Debentures, net of discount of \(\psi 8,227\) million in 2008 (notes 14, 16 and 20) Leasehold deposits (note 17) Accrual for retirement and severance benefits, net (note 18)	₩ 899,001 244,808 47,503	₩ - 246,011 43,265	\$ 714,911 194,679 37,779 106,748
ng-term liabilities Debentures, net of discount of \text{\$\psi 8,227\$ million in 2008} \(\text{notes 14, 16 and 20} \) Leasehold deposits (note 17) Accrual for retirement and severance benefits, net (note 18) Deferred income tax liabilities (note 28)	₩ 899,001 244,808 47,503 134,236	₩ - 246,011 43,265 186,393	\$ 714,91 194,67 37,77 106,74 \$ 1,054,11
ng-term liabilities Debentures, net of discount of \(\psi 8,227\) million in 2008 (notes 14, 16 and 20) Leasehold deposits (note 17) Accrual for retirement and severance benefits, net (note 18) Deferred income tax liabilities (note 28) Total long-term liabilities	₩ 899,001 244,808 47,503 134,236 ₩ 1,325,548	₩ - 246,011 43,265 186,393 ₩ 475,669	\$ 714,91° 194,67° 37,77° 106,74° \$ 1,054,11°
ng-term liabilities Debentures, net of discount of \(\foatsize{\pi}\)8,227 million in 2008 (notes 14, 16 and 20) Leasehold deposits (note 17) Accrual for retirement and severance benefits, net (note 18) Deferred income tax liabilities (note 28) Total long-term liabilities al liabilities	₩ 899,001 244,808 47,503 134,236 ₩ 1,325,548	₩ - 246,011 43,265 186,393 ₩ 475,669	\$ 714,911 194,679 37,779 106,748 \$ 1,054,113
ng-term liabilities Debentures, net of discount of \(\foatsize{\pi}\)8,227 million in 2008 (notes 14, 16 and 20) Leasehold deposits (note 17) Accrual for retirement and severance benefits, net (note 18) Deferred income tax liabilities (note 28) Total long-term liabilities al liabilities ckholders' equity	₩ 899,001 244,808 47,503 134,236 ₩ 1,325,548	₩ - 246,011 43,265 186,393 ₩ 475,669	\$ 714,911 194,679 37,779 106,748 \$ 1,054,113
ng-term liabilities Debentures, net of discount of \text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\t	₩ 899,001 244,808 47,503 134,236 ₩ 1,325,548	₩ - 246,011 43,265 186,393 ₩ 475,669	\$ 714,911 194,679 37,775 106,748 \$ 1,054,113 \$ 3,557,074
ng-term liabilities Debentures, net of discount of \text{\$\pi\$8,227 million in 2008} \\ (notes 14, 16 and 20) Leasehold deposits (note 17) Accrual for retirement and severance benefits, net (note 18) Deferred income tax liabilities (note 28) Total long-term liabilities al liabilities ckholders' equity Common stock of \text{\$\pi\$5,000 par value (note 21)} Authorized - 60,000,000 shares	₩ 899,001 244,808 47,503 134,236 ₩ 1,325,548 ₩ 4,473,021	₩ - 246,011 43,265 186,393 ₩ 475,669 ₩ 3,768,280	\$ 714,911 194,679 37,775 106,748 \$ 1,054,113 \$ 3,557,074
ng-term liabilities Debentures, net of discount of \(\psi 8,227\) million in 2008 (notes 14, 16 and 20) Leasehold deposits (note 17) Accrual for retirement and severance benefits, net (note 18) Deferred income tax liabilities (note 28) Total long-term liabilities al liabilities ckholders' equity Common stock of \(\psi 5,000\) par value (note 21) Authorized - 60,000,000 shares Issued and outstanding - 29,043,374 shares	₩ 899,001 244,808 47,503 134,236 ₩ 1,325,548 ₩ 4,473,021	₩ - 246,011 43,265 186,393 ₩ 475,669 ₩ 3,768,280	\$ 714,911 194,679 37,778 106,748 \$ 1,054,113 \$ 3,557,074 \$ 115,481 3,698,528
ng-term liabilities Debentures, net of discount of \(\foatsize 8,227 \) million in 2008 (notes 14, 16 and 20) Leasehold deposits (note 17) Accrual for retirement and severance benefits, net (note 18) Deferred income tax liabilities (note 28) Total long-term liabilities al liabilities ckholders' equity Common stock of \(\foatsize 5,000 \) par value (note 21) Authorized - 60,000,000 shares Issued and outstanding - 29,043,374 shares Capital surplus (note 21)	₩ 899,001 244,808 47,503 134,236 ₩ 1,325,548 ₩ 4,473,021 ₩ 145,217 4,650,895	₩ - 246,011 43,265 186,393 ₩ 475,669 ₩ 3,768,280	\$ 714,911 194,679 37,778 106,748 \$ 1,054,113 \$ 3,557,074 \$ 115,481 3,698,528 (12,939
ng-term liabilities Debentures, net of discount of \text{\$\pi 8,227\$ million in 2008} (notes 14, 16 and 20) Leasehold deposits (note 17) Accrual for retirement and severance benefits, net (note 18) Deferred income tax liabilities (note 28) Total long-term liabilities al liabilities ckholders' equity Common stock of \text{\$\pi 5,000\$ par value (note 21)} Authorized - 60,000,000 shares Issued and outstanding - 29,043,374 shares Capital surplus (note 21) Capital adjustments (note 22)	₩ 899,001 244,808 47,503 134,236 ₩ 1,325,548 ₩ 4,473,021 ₩ 145,217 4,650,895 [16,271]	₩ - 246,011 43,265 186,393 ₩ 475,669 ₩ 3,768,280 ₩ 145,217 4,652,123	\$ 714,911 194,679 37,779 106,748 \$ 1,054,113 \$ 3,557,074 \$ 115,486 3,698,529 (12,939 36,538
ng-term liabilities Debentures, net of discount of \(\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\tex{	₩ 899,001 244,808 47,503 134,236 ₩ 1,325,548 ₩ 4,473,021 ₩ 145,217 4,650,895 [16,271] 45,943	₩ - 246,011 43,265 186,393 ₩ 475,669 ₩ 3,768,280 ₩ 145,217 4,652,123 - 78,377	\$ 714,917 194,679 37,779 106,749 \$ 1,054,113 \$ 3,557,074 \$ 115,487 3,698,529 (12,939 36,539 36,539
ng-term liabilities Debentures, net of discount of \(\psi 8,227 \) million in 2008 (notes 14, 16 and 20) Leasehold deposits (note 17) Accrual for retirement and severance benefits, net (note 18) Deferred income tax liabilities (note 28) Total long-term liabilities al liabilities ckholders' equity Common stock of \(\psi 5,000 \) par value (note 21) Authorized - 60,000,000 shares Issued and outstanding - 29,043,374 shares Capital surplus (note 21) Capital adjustments (note 22) Accumulated other comprehensive income (note 23) Retained earnings (note 24)	₩ 899,001 244,808 47,503 134,236 ₩ 1,325,548 ₩ 4,473,021 ₩ 145,217 4,650,895 [16,271] 45,943 4,004,878	₩ - 246,011 43,265 186,393 ₩ 475,669 ₩ 3,768,280 ₩ 145,217 4,652,123 - 78,377 3,298,358	

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NON-CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED DEC EMBER 31, 2008 AND 2007

	2008	2007	2008
In	KRW millions (except for earnings	per share), In USD thousands (exce	pt for earnings per share
Sales (notes 9, 25, 26 and 35)	₩ 10,553,792	₩ 9,768,132	\$ 8,392,678
Cost of sales (notes 9, 25 and 26)	7,332,320	6,844,893	5,830,871
Gross profit	₩ 3,221,472	₩ 2,923,239	\$ 2,561,807
Selling and administrative expenses (notes 9 and 27)	2,452,483	2,166,568	1,950,284
Operating income (note 35)	₩ 768,989	₩ 756,671	\$ 611,523
Non-operating income			
Interest income	₩ 43,065	₩ 66,149	\$ 34,247
Dividend income	2,465	1,881	1,960
Gain on foreign currency transactions	762	4,910	606
Gain on foreign currency translation	5,415	-	4,306
Gain on valuation of derivative instruments (note 20)	184,663	-	146,849
Equity in earnings of equity method investment securities (n	note 6) 203,150	212,247	161,550
Gain on disposition of equity method investment securities (note 6) 20,395	-	16,219
Gain on disposition of available-for-sale securities	626	-	498
Gain on disposition of property, plant and equipment	48,839	378	38,838
Others	13,528	22,301	10,758
	₩ 522,908	₩ 307,866	\$ 415,831
Non-operating expenses			
Interest expense	₩ 28,839	₩ 36,524	\$ 22,934
Loss on foreign currency transactions	819	161	651
Loss on foreign currency translation	184,328	5	146,583
Loss on valuation of derivative instruments (note 20)	59	-	47
Loss on derivative instruments transactions	-	190	-
Equity in loss of equity method investment securities (note 6	5) 111,684	38,746	88,814
Loss on disposition of property, plant and equipment	13,610	642	10,823
Others	25,583	30,399	20,345
	₩ 364,922	₩ 106,667	\$ 290,197
Income before income taxes	₩ 926,975	₩ 957,870	\$ 737,157
Income taxes (note 28)	184,151	265,736	146,442
NET INCOME	₩ 742,824	₩ 692,134	\$ 590,715
BASIC EARNINGS PER SHARE IN WON AND U.S. DOLLARS (note	29) ₩ 25,576	₩ 23,831	\$ 20.34

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NON-CONSOLIDATED STATEMENTS OF APPROPRIATION OF RETAINED EARNINGS FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007	2008
	In KRW millions	In KRW millions	In USD thousands (note
Unappropriated retained earnings			
Balance at beginning of year	₩ 22,669	₩ 20,464	\$ 18,02
Net income	742,824	692,134	590,71
Balance at end of year before appropriation (note 24)	₩ 765,493	₩ 712,598	\$ 608,74
Transfer from voluntry reserves			
Reserve for finance structure improvement	₩ -	₩ 5	\$
Unappropriated retained earnings			
Available for appropriation	₩ 765,493	₩ 712,603	\$ 608,74
Appropriations of retained earnings			
Legal reserve	₩ 3,630	₩ 3,630	\$ 2,88
Voluntry reserve	710,000	650,000	\$ 564,61
Cash dividends (note 30) – 25.00% on par value at ₩1,250 per share	36,304	36,304	28,87
	₩ 749,934	₩ 689,934	\$ 596,36
UNAPPROPRIATED RETAINED EARNINGS			
TO BE CARRIED OVER TO SUBSEQUENT YEAR	₩ 15.559	₩ 22,669	\$ 12,37

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NON-CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	Capital	Capital	Capital	accumulated other comprehen-	Retained	Total	Total
	stock	surplus	adjustments	sive income	earnings	equity	equity
					In KE	RW millions, In USD t	housands (note 2)
Balance at january 1, 2007	₩ 145,217	₩ 4,650,895	₩ -	₩ 84,349		₩ 7,515,853	
Cumulative effect of change							
in accounting policy	₩ -	₩ 1,262	₩ -	₩ (20,550)	₩ 7,136	₩ (12,152)	\$ (9,663)
Balance at January 1, 2007, restated	145,217	4,652,157	-	63,799	2,642,528	7,503,701	5,967,158
Net income	-	-	-	-	692,134	692,134	550,405
Payment of cash dividends	-	-	-	-	(36,304)	(36,304)	(28,870)
Change in fair value of available-							
for-sale securities, net of tax	-	-	-	11,746	-	11,746	9,341
Change in equity of equity							
method investments, net of tax	-	(34)	-	3,074	-	3,040	2,417
Effective portion of changes in fair	· value						
of cash flow hedges, net of tax	-	-	-	(242)	-	(242)	(193)
BALANCE AT DECEMBER 31, 2007	₩ 145,217	₩ 4,652,123	₩ -	₩ 78,377	₩ 3,298,358	₩ 8,174,075	\$ 6,500,258
Balance at january 1, 2008	₩ 145 217	₩ 4,650,895	₩ -	₩ 98 892	₩ 3 288 549	₩ 8,183,553	\$ 6 507 796
Cumulative effect of change	140,217	4,000,070		,0,0,2	0,200,047	0,100,000	4 0,007,770
in accounting policy (note 34)	₩ -	₩ 1.228	₩ -	₩ (20,515)	₩ 9,809	₩ (9,478)	\$ (7,538)
Balance at January 1, 2008, restated	145.217	4,652,123	_	78.377	3,298,358	8,174,075	6,500,258
Net income	-		_	-	742,824	742,824	590,715
Payment of cash dividends	-	-	-	-	(36,304)		
Change in fair value of available-							
for-sale securities, net of tax	_		-	(29,505)	-	(29,505)	(23,463)
Change in equity of equity							
method investments, net of tax	_	(1,228)	[16,271]	17,263	_	(236)	(187)
Effective portion of changes in fair	value						
of cash flow hedges, net of tax	-	-	-	(20,192)	-	(20,192)	(16,057)
BALANCE AT DECEMBER 31, 2008	₩ 145,217	₩ 4,650,895	₩ (16,271)	₩ 45,943	₩ 4,004,878	₩ 8,830,662	\$ 7,022,396
				See accompany	ing notes to non-	consolidated finar	ncial statements.

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NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

Payment of retirement and severance benefits

Deposit for severance benefit insurance

Net cash provided by operating activities

Others

2008	2007	2008
In KRW millions	In KRW millions	In USD thousands (note 2)

	2008 In KRW millions	2007 In KRW millions	2008 In USD thousands (note 2)
ASH FLOWS FROM OPERATING ACTIVITIES			
let income	₩ 742,824	₩ 692,134	\$ 590,715
djustments to reconcile net income to net cash			
rovided by operating activities			
Depreciation	₩ 337,856	₩ 305,028	\$ 268,673
Amortization of intangible assets	28,844	27,350	22,937
Provision for retirement and severance benefits	55,642	38,045	44,248
Loss on inventory shrinkage	10,373	9,032	8,249
Loss on valuation of inventory	1,076	4,320	856
Amortization of discount on debentures	1,250	2,410	994
Bad dept expenses	153	506	122
Loss on foreign currency translation	184,328	5	146,583
Equity in loss of equity method investment securities	111,684	38,746	88,814
Loss on valuation of derivative instruments	59	-	47
Loss on disposition of property, plant and equipment	13,610	642	10,823
Gain on foreign currency translation	(5,415)	-	(4,306
Equity in earnings of equity method investment securities	(203,150)	(212,247)	(161,550
Gain on valuation of derivative instruments	(184,663)	-	(146,849
Gain on disposition of Available-for-sale securities	(626)	=	[498
Gain on disposition of equity method investment securities	(20,395)	-	(16,219
Gain on disposition of property, plant and equipment	(48,839)	(378)	(38,838
Others	2,858	1,087	2,272
hanges in operating assets and liabilities			
Trade accounts receivable	₩ 12,964	₩ (17,515)	\$ 10,309
Other accounts receivable	(9,034)	(11,038)	(7,184
Accrued interest income	8,140	(4,540)	6,473
Advance payments	(53,805)	8,858	(42,787
Inventories	(31,454)	(85,096)	(25,013
Prepaid expenses	(810)	(796)	(644
Long-term prepaid expenses	(29,447)	(18,946)	(23,418
Trade accounts payable	28,622	65,606	22,761
Other accounts payable	104,920	(50,044)	83,436
Advances from customers	3,161	(4,027)	2,514
Accrued expenses	22,014	4,222	17,506
Income taxes payable	18,255	71,577	14,517
Accrual for gift certificates	17,418	20,783	13,851
Accrual for bonus points reward program	1,446	6,078	1,149
Other current liabilities	(10,290)	6,678	(8,184
National Pension Fund	5	(2)	4

(50,188)

(4,596)

(36,605)

₩ 1,018,185

\$809,687

(39,911)

(3,656)

(29,109)

(26,355)

[16,912]

61,791

₩ 917,002

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NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007	2008
	In KRW millions	In KRW millions	In USD thousands (note 2)
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash inflows from investing activities			
Maturity of short-term deposits	₩ 668,485	₩ 2,546,806	\$ 531,598
Refund of guarantee deposits paid	14,018	11,653	11,148
Proceeds from disposition of property, plant and equipment	228,252	21,062	181,513
Others	20,007	4,572	15,909
	₩ 930,762	₩ 2,584,093	\$ 740,168
Cash outflows from investing activities			
Purchase of short-term deposits	₩ (393,401)	₩ (1,439,264)	\$ (312,844)
Purchase of available-for-sale securities	(97,072)	(10,944)	(77,194)
Purchase of held-to-maturity securities	(160,445)	_	(127,590)
Purchase of equity method investment securities	(601,123)	[342,129]	(478,030)
Payment of guarantee deposits	(87,016)	(78,729)	(69,198)
Payment of long-term advance payments	(89,940)	(57,212)	(71,523)
Purchase of property, plant and equipment	(888,866)	(1,002,121)	(706,852)
Additions to intangible assets	(18,273)	(47,246)	(14,531)
Purchase of long-term deposits	(12,500)	-	(9,940)
Purchase of derivative assets	(50,090)		(39,833)
Others	(55,113)	[12,246]	(43,827)
	₩ (2,453,839)	₩ (2,989,891)	\$ (1,951,362)
Net cash used in investing activities	₩ (1,523,077)	₩ (405,799)	\$ (1,211,194)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash inflows from financing activities			
Proceeds from short-term borrowings	₩ 480,001	₩ 252	\$ 381,711
Proceeds from issuance of debentures	715,068	-	568,643
Receipt of leasehold deposits	28,675	18,821	22,804
	₩ 1,223,744	₩ 19,073	\$ 973,158
Cash outflows from financing activities			
Repayment of short-term borrowings	₩ (260,001)	₩ (65,324)	\$ (206,760)
Redemption of debentures	(550,000)	(683,598)	(437,376)
Refund of leasehold deposits received	(29,877)	(25,611)	(23,759)
Dividends paid	(36,304)	(36,304)	(28,870)
	₩ (876,182)	₩ (810,837)	\$ (696,765)
Net cash provided by (used in) financing activities	₩ 347,562	₩ (791,764)	\$ 276,393
Net decrease in cash and cash equivalents	₩ (157,330)	₩ (280,560)	\$ (125,114)
Cash and cash equivalents at beginning of year	₩ 467,026	₩ 747,586	\$ 371,393
· · · · · · · · · · · · · · · · · · ·	,	₩ 467,026	\$ 246,279

See accompanying notes to non-consolidated financial statement

2008 LOTTE SHOPPING ANNUAL REPORT

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NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2008 AND 2007

1. Organization and Description of Business

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, among other things, a chain of multiplex movie theaters under the brand name Lotte Cinema, and a food manufacturing division. The Company was listed on the Korea Stock Exchange and London Stock Exchange through an initial public accounted for under the equity method of accounting (note 6). offering in February 2006.

The stockholders of the Company as of December 31, 2008 are as follows:

Stockholder	Number of shares	Ownership(%)
Shin Dong Bin	4,237,627	14.6%
Shin Dong Ju	4,235,883	14.6%
Shin Kyuk Ho	426,511	1.5%
Shin Young Ja	228,962	0.8%
Hotel Lotte Co., Ltd.	2,697,201	9.3%
Korea Fuji Film Co., Ltd.	2,474,543	8.5%
Lotte Confectionery Co., Ltd.	2,474,543	8.5%
Lotte Data		
Communication Company	1,515,653	5.2%
Lotte Chilsung		
Beverage Co., Ltd.	1,237,272	4.3%
Lotte Engineering &		
Construction Co., Ltd.	300,019	1.0%
Hotel Lotte Pusan Co., Ltd.	246,720	0.8%
Others	8,968,440	30.9%
TOTAL	29,043,374	100.0%

2. Summary of Significant Accounting Policies and Basis of **Presenting Financial Statements**

(a) Basis of Presenting Financial Statements

The Company maintains its accounting records in Korean Won and prepares statutory non-consolidated financial statements in the Korean language in conformity with accounting principles — merchandise that may be returned to vendors at any time. generally accepted in the Republic of Korea (Korean GAAP). Certain accounting principles applied by the Company that conform with financial accounting standards and accounting princi- Allowance for doubtful accounts is estimated based on an analyples in the Republic of Korea may not conform with generally ac- sis of individual accounts and past experience of collection. cepted accounting principles in other countries. Accordingly, these non-consolidated financial statements are intended solely able, interest rate or repayment period are changed unfavorably for use by only those who are informed about Korean accounting for the Company by a court, such as on commencement of reorprinciples and practices. The accompanying non-consolidated fi- ganization, or by mutual agreement and the difference between nancial statements have been condensed, restructured and — nominal value and present value is material, the difference is translated into English from the Korean language non-consoli- recognized as bad debt expense.

dated financial statements. Certain information included in the Korean language non-consolidated financial statements, but not required for a fair presentation of the Company's financial position, results of operations or cash flows, is not presented in the accompanying non-consolidated financial statements.

The accompanying non-consolidated financial statements include only the accounts of the Company, and do not consolidate the accounts of any of its subsidiaries. Instead, these subsidiaries are

The Company prepares the financial statements in accordance with generally accepted accounting principles in the Republic of Korea. Except for the change in accounting policy as discussed in note 34, the Company applied the same accounting policies that were adopted in the previous year's non-consolidated financial statements.

(b) Revenue Recognition

The Company recognizes revenue from the sale of goods upon purchase by end-customers or delivery. Revenue from sale of apartments in lots are recognized using the percentage-of-completion method, measured principally by the percentage of costs incurred to total estimated contract costs. Revenue other than the sale of goods and apartments in lots is recognized when the Company's earnings process is either complete or nearly complete in substance, the amount of revenue can be reliably measured, and it is probable that the Company will receive the economic benefits associated with the transaction.

Pursuant to Statement of Korea Accounting Standard ("SKAS") No. 4, Revenue Recognition, the Company recognizes sales on a gross basis for merchandise which the Company bears 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 Company recognizes sales on a net basis for

(c) Allowance for Doubtful Accounts

However, when the principal of trade accounts and notes receiv-

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ZONE 56

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

(d) Inventories

Inventories are stated at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated selling costs. The costs of inventories are determined as follows:

	Retail business segment (excluding Mart Division)	Retail business segment (Mart Division)	Food manufacturing business segment
Merchandise and finished goods	Retail method	Gross average method	Gross average method
Materials-in-transit	Specific identification method	Specific identification method	Specific identification method
Others	First-in, first-out method	First-in, first-out method	Gross average method

The amounts of any write-down of inventories to net realizable value due to obsolescence or excess inventory or other losses occurring in the normal course of business are recognized as cost of sales and such valuation losses are deducted from inventories as allowance for valuation losses.

The Company recognizes interest costs and other financial solidated income statement using the effective interest method. charges on borrowings associated with inventories that require a long period in the acquisition, construction or production as an expense in the period in which they are incurred.

(e) Investments in Securities (excluding investments in associates, subsidiaries and joint ventures)

(i) Classification

Upon acquisition, the Company classifies debt and equity securities into the following categories: held-to-maturity, available-forsale or trading securities. This classification is reassessed at each balance sheet date.

Investments in debt securities where the Company has the positive intent and ability to hold to maturity are classified as held-tomaturity. Securities that are acquired principally for the purpose of selling in the short term are classified as trading securities. Investments not classified as either held-to-maturity or trading urrent assets. Held-to-maturity securities, which mature within securities are classified as available-for-sale securities.

(ii) Initial recognition

Investments in securities are initially recognized at cost.

(iii) Subsequent measurement and income recognition

Trading securities are subsequently carried at fair value. Gains and losses arising from changes in the fair value of trading securities are included in the non-consolidated income statement in the period in which they arise. Available-for-sale securities are subsequently carried at fair value. Gains and losses arising from

changes in the fair value of available-for-sale securities are recognized as other comprehensive income, net of tax, directly in equity. Investments in available-for-sale securities that do not have readily determinable fair values are recognized at cost less impairment, if any. Held-to-maturity investments are carried at amortized cost with interest income recognized in the non-con-

(iv) Fair value information

The fair value of marketable securities is determined using quoted market prices as of the period end. Non-marketable debt securities are fair valued by discounting cash flows using the prevailing market rates for debt with a similar credit risk and remaining maturity. Credit risk is determined using issuer's credit rating as announced by accredited credit rating agencies in Korea. The fair value of investments in money market funds is determined by investment management companies.

Trading securities are presented as current assets. Availablefor-sale securities, which mature within one year from the balance sheet date or where the likelihood of disposal is within one year from the balance sheet date is probable, are presented as one year from the balance sheet date, are presented as current assets. All other available-for-sale securities and held-to-maturity securities are presented as non-current assets.

(vi) Impairment

The Company reviews investments in securities whenever events or changes in circumstances indicate that the carrying amount of the investments may not be recoverable. Impairment losses are recognized when reasonably estimated recoverable amounts are less than the carrying amount and it is not obviously evident that impairment is unnecessary.

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6F **ZONE 57** NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

sal is recognized directly in equity.

are entities controlled by the Company.

nized at cost.

(f) Investments in Associates and Subsidiaries

Associates are entities where the Company has the ability to sig-

nificantly influence its financial and operating policies. It is pre-

sumed to have significant influence if the Company holds directly

or indirectly 20 percent or more of the voting power unless it can

Investments in associates and subsidiaries are accounted for using the equity method of accounting and are initially recog-

The Company's investments in associates and subsidiaries in-

clude goodwill identified on the acquisition date (net of any accu-

sidiary over the Company's share of the fair value of the identifi-

straight-line method over 10 years. Amortization of goodwill is

When events or circumstances indicate that the carrying value of

goodwill may not be recoverable, the Company reviews goodwill

for impairment and records any impairment loss immediately in

The Company's share of its post-acquisition profits or losses in

sition movements in equity is recognized in equity. The cumula-

ing amount of each investment. Changes in the carrying amount

of an investment resulting from dividends by an associate or

subsidiary are recognized when the associate or subsidiary de-

the Company does not recognize further losses, unless it has in-

recorded together with equity in earnings (losses).

the non-consolidated statement of income.

An impairment loss is reversed if the reversal is objectively re- curred obligations or made payments on behalf of the associate lated to an event occurring after the impairment loss was recogor subsidiary. Unrealized gains on transactions between the nized and a reversal of an impairment loss shall not exceed the Company and its associates or subsidiaries are eliminated to the carrying amount that would have been determined (net of amorextent of the Company's interest in each associate or subsidiary. tization or depreciation) had no impairment loss been recognized in the asset in prior years. For held-to-maturity securities mea-If the investee is a subsidiary, net income and net assets of the sured at amortized cost and available-for-sale securities that are

parent company's separate financial statements should agree debt securities, the reversal is recognized in profit or loss. For with the parent company's share in the net income and net asavailable-for-sale securities that are equity securities, the reversets of the consolidated financial statements, except when the Company discontinues the application of the equity method due to its investment in a subsidiary being reduced to zero.

> Unrealized gains on transactions between the Company and its associates or subsidiaries are eliminated to the extent of the Company's interest in each associate or subsidiary.

be clearly demonstrated that this is not the case. Subsidiaries (g) Joint Venture Investments

Joint ventures are those entities or assets over whose activities the Company has joint control.

In respect to jointly controlled operations, the Company includes in its non-consolidated financial statements, the assets that it controls and the liabilities and expenses it has incurred, plus its share of the income (loss) from the joint operation. For its interest in jointly controlled assets, the Company recognizes in the mulated impairment loss). Goodwill is calculated as the excess on non-consolidated financial statements, its share of the assets of the acquisition cost of an investment in an associate or sub- it jointly controls, the liabilities jointly incurred and net income (loss), plus the liabilities and expenses it has solely incurred, if able net assets acquired. Goodwill is amortized using the any. In addition, the Company accounts for its interest in a jointly controlled entity using the equity method of accounting.

(h) Property, Plant and Equipment

Property, plant and equipment are stated at cost net of accumulated depreciation, except for revaluations made in accordance with the Asset Revaluation Law prior to the Law being revoked on December 2000.

Additions or improvements extending useful lives of assets investments in associates and subsidiaries is recognized in the are capitalized. However, normal maintenance and repairs are non-consolidated income statement, and its share of post-acqui- charged to expense as incurred.

tive post-acquisition movements are adjusted against the carry- Depreciation is computed by the straight-line method over their respective estimated useful lives for buildings, structures and by the declining-balance method for vehicles, display fixtures and other furniture and fixtures. For machinery used in the retail clares the dividend. When the Company's share of losses in an business segment, depreciation is computed by the straightassociate or subsidiary equals or exceeds its interest in the as- line method, whereas machinery used in all other segments is sociate or subsidiary, including preferred stock or other long computed by the declining-balance method. Estimated useful term loans and receivables issued by the associate or subsidiary, lives are as follows:

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NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

Useful lives (years)

Buildings	10 – 30
Structures	10 – 30
Machinery	4 – 30
Vehicles	4
Display fixtures	4
Other furniture and fixtures	4

The Company recognizes interest costs and other financial charges on borrowings associated with the production, acquisition, construction of property, plant and equipment as an expense in the period in which they are incurred.

The Company reviews property, plant and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss is recognized when the estimated undiscounted future net cash flows from the use of the asset including proceeds from ultimate disposal are less than its carrying amount.

(i) Intangible Assets

Intangible assets are stated at cost, net of accumulated amortization. Subsequent expenditures, which enable the assets to generate future economic benefits that can be measured and reliably attributed to the assets, are treated as additions to intangible assets.

The copyright on film is stated at cost and amortized over the estimated period the related revenue will be recognized. Estimated realization period is evaluated on a periodic basis. In addition, impairment loss on intangible assets is recognized when the realization of revenue is uncertain.

The Company accounts for acquisition of a business assuming the transaction occurred as of the most recent quarter end (the deemed acquisition date). Goodwill, which represents the excess of the acquisition cost over the fair value of net identifiable assets acquired, is amortized on a straight-line basis over the estimated useful life not to exceed 20 years. Impairment loss on goodwill is recognized when the recoverable amount declines below its carrying amount and its amount is material.

Amortization is computed using the straight-line method over the estimated useful lives as follows:

Useful lives (years)

Goodwill	10
Industrial property rights	5
Rights to use water supply facility	10
Rights to use electricity supply facility	10
Rights to use gas supply facility	10
Rights to use facility	20
Brand license	5~10
Film copyrights	Duration of related
	revenue to be realized
Software	

When the recoverable amount of the intangible assets is substantially below the carrying amount of the assets due to obsolescence or a sharp decline in their market value, the Company reduces the carrying amount to the recoverable amount and the amount impaired is recognized as an impairment loss.

(i) Leases

The Company accounts for and classifies its lease transactions as either an operating or capital lease, depending on the terms of

If a lease meets one or more of the criteria listed below, the present value of future minimum lease payments is capitalized with a corresponding obligation under capital lease. Otherwise, it is classified as an operating lease.

- Ownership of the leased property transfers to the lessee at the end of the lease term.
- The lease has a bargain purchase option which is reasonably certain to be exercised, at the inception of the lease.
- The lease term is equal to 75% or more of the estimated economic useful life of the leased property.
- The present value at the beginning of the lease term of the minimum lease payments equals or exceeds 90% of the fair value of the leased property.

In addition, if the leased property is specialized to the extent that only the lessee can use it without any major modification, it would be considered a capital lease.

Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

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NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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(k) Discount on Debentures

Discount on debentures issued, which represents the difference between the face value and issuance price of debentures, is amortized using the effective interest method over the life of the debentures. The amount amortized is included in interest expense.

(I) Retirement and Severance Benefits

Employees who have been with the Company for more than one year are entitled to lump-sum payments based on salary rates and length of service at the time they leave the Company. The Company's estimated liability under the plan which would be payable if all employees left on the balance sheet date is accrued in the accompanying non-consolidated balance sheets. A portion of the liability is covered by an employees' severance benefits trust where the employees have a vested interest in the deposit benefits held in trust is, therefore, reflected in the accompanying non-consolidated balance sheets as a reduction of the liability for retirement and severance benefits.

(m) Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into Korean Won at the balance sheet date, with the resulting gains or losses recognized in the current operations. Monetary assets and liabilities denominated in foreign currencies are translated into Korean Won at ₩1,257.5 to US\$1, the rate of exchange on December 31, 2008. Non-monetary assets and liabilities denominated in foreign currencies, which are foreign exchange rate on the date of the transaction.

Foreign currency assets and liabilities of foreign-based operations and companies accounted for using the equity method are translated at the rate of exchange at the balance sheet date. Foreign currency amounts in the statement of income are meets the criteria for hedge accounting, any cumulative gain or translated using an average rate and foreign currency balances in the capital account are translated using the historical rate. Translation gains and losses arising from collective translation of the foreign currency financial statements of foreign-based operations are recorded net as a component of accumulated other comprehensive income. These gains and losses are subsequently recognized as income (loss) in the period the foreign operations or companies are liquidated or sold.

(n) Derivatives and Hedge Accounting

The Company holds derivative financial instruments to hedge its mediately in current operations. foreign currency and interest rate risk exposures.

Derivatives are initially recognized at fair value on the date on Provisions are recognized when all of the following are met: [1] which a derivative contract is entered into and are subsequently

remeasured at their fair value. Attributable transaction costs are recognized in profit or loss when incurred.

(i) Hedge accounting

Where a derivative, which meets certain criteria, is used for hedging the exposure to changes in the fair value of a recognized asset, liability or firm commitment, it is designated as a fair value hedge. Where a derivative, which meets certain criteria, is used for hedging the exposure to the variability of the future cash flows of a forecasted transaction it is designated as a cash flow hedge.

The Company documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Company also documents with the insurance company in trust. The deposit for severance its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting the changes in fair values or cash flows of hedged items.

(ii) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the statement of income, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

(iii) Cash flow hedge

The effective portion of changes in the fair value of derivatives stated at historical cost, are translated into Korean Won at the that are designated and qualify as cash flow hedges is recognized in equity. The gain or loss relating to any ineffective portion is recognized immediately in the statement of income. Amounts accumulated in equity are recycled to the income statement in the periods in which the hedged item will affect profit or loss. When a hedging instrument expires or is sold, or when a hedge no longer loss existing in equity at the time remains in equity and is recognized when the forecast transaction is ultimately recognized in the statement of income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the non-consolidated statement of income.

(iv) Derivatives that do not qualify for hedge accounting

Changes in the fair value of derivative instruments that are not designated as fair value or cash flow hedges are recognized im-

(o) Provisions and Contingent Liabilities

an entity has a present obligation as a result of a past event, (2)

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NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

it is probable that an outflow of resources embodying economic Deferred tax assets and liabilities are classified as current or benefits will be required to settle the obligation, and (3) a reliable estimate can be made of the amount of the obligation. Where ability for financial reporting or the expected reversal date of the the effect of the time value of money is material, a provision is temporary difference for those with no related asset or liability recorded at the present value of the expenditures expected to be such as loss carryforwards and tax credit carryforwards. The

Where the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is rec- (r) Earnings Per Share ognized as a separate asset only when it is virtually certain that Earnings per common share are calculated by dividing net the Company will receive reimbursement upon settlement of the income by the weighted-average number of shares of common obligation. The expense relating to a provision is presented net of stock outstanding during each period. the reimbursement.

(p) Liability for Gift Certificates

required to settle the obligation.

and subsequently recognized as sales when redeemed. When the estimates and assumptions that affect the amounts reported exercise period (5 years after sale) of gift certificates expires, the in the non-consolidated financial statements and related notes Company recognizes the income as other non-operating income.

(q) Income Taxes

Income tax on the income or loss for the period comprises of 3. Basis of Translating the Non-Consolidated Financial current and deferred tax. Income tax is recognized in the nonconsolidated statement of income except to the extent that it relates to items recognized directly in equity, in which case it is ____ The non-consolidated financial statements are expressed in recognized in equity.

the year, using enacted tax rates.

Deferred tax is provided using the asset and liability method, pro- any other rate. viding for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable income will be available against which the unused tax losses and credits can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

non-current based on the classification of the related asset or lideferred tax amounts are presented as a net current asset or liability and a net non-current asset or liability.

(s) Use of Estimates

The preparation of non-consolidated financial statements in Gift certificates are recognized as liabilities when they are sold — accordance with Korean GAAP requires management to make to non-consolidated financial statements. Actual results could differ from those estimates.

Korean Won and, solely for the convenience of the reader, have been translated into U.S. dollars at the rate of ₩1,257.5 to US\$1, Current tax is the expected tax payable on the taxable income for the basic exchange rate on December 31, 2008. This translation should not be construed as a representation that any or all of the amounts shown could be converted into U.S. dollars at this or

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6F **ZONE 61**

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

4. Restricted Deposits

Restricted deposits included in short-term and long-term financial instruments as of December 31, 2008 and 2007 are as follows:

Account	Depositary	2008	2007	2008
			In KRW millions, In USD	thousands (note 3)
Short-term				
Guarantee deposits for performance				
of contracts	Kookmin Bank and others	₩12,208	₩1,985	\$9,708
Long-term				
Guarantee deposits for performance				
of contracts	Shinhan Bank	12,500	<u>-</u>	9,940
Guarantee deposits for				
checking accounts	Shinhan Bank and others	31	31	25
TOTAL		₩24,739	₩2,016	\$19,673

5. Inventories

(a) Inventories as of December 31, 2008 and 2007 are as follows:

Description	2008	2007	2008
Merchandise, net of allowance for		In KRW millions, I	n USD thousands (note 3)
valuation losses of ₩5,396 million in 2008			
and ₩4,320 million in 2007	₩ 1,004,912	₩ 979,499	\$ 799,134
Finished goods	3,615	3,974	2,875
Raw materials	3,722	2,935	2,960
Supplies	733	942	583
Materials-in-transit	1,423	811	1,132
Plots of land	9,749	22,804	7,753
Unfinished apartment units	13,731	6,915	10,919
TOTAL	₩ 1,037,885	₩ 1,017,880	\$ 825,356

(b) Loss on inventory shrinkage for the years ended December 31, 2008 and 2007 are \(\psi\)10,373 million and \(\psi\)9,032 million, respectively.

6. Investment in Securities

Investments in securities as of December 31, 2008 and 2007 are as follows:

(a) Available-for-sale securities

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TOTAL

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

ZONE 62

i) Equity securities		2008	3 200	2008	2007	2008
Description	Owned shares	Cost	Fair valu	e Book value	Book value	Book value
Marketable securities (*1):					III KKW IIIIIIIIIIs, III 031	o tilousarius (flote s
Busan Bank (*2)	3,892,318	₩ 18,041	₩ 22,65	53 ₩ 22,653	₩ 61,109	\$ 18,015
Shinhan Financial Group	271,662	1,584	8,06	8,068	14,534	6,416
Eyesvision Corporation	20,256	491	2	27 27	73	21
Korea Investment Corporation	10,869	100	2	21 21	16	16
Korea Express Co., Ltd. (*3)	584,795	49,910	52,04	7 52,047	-	41,389
Subtotal		₩ 70,126	₩ 82,81	6 ₩ 82,816	₩ 75,732	\$ 65,857
			2008	2008	2007	2008
Description	0wn	ed shares	Cost	Book value	Book value	Book value
Non-marketable securities (*4):					In KRW millions, In USD	thousands (note 3)
Lotte Giants (*5)		6,000	₩ 30	₩ 30	₩ 30	\$ 24
Korea Foods Industry Association		-	5	5	5	4
Hankyung Economic Daily		1,722	31	31	31	25
Agentrics		1,913,479	346	346	865	275
I Venture Media Investment Union		14	700	700	700	557
So Big 5 Contents Investment Union		18	1,800	1,800	1,800	1,431
M-cieta Development Co., Ltd.		499,800	2,499	2,499	2,205	1,987
M-cieta Co., Ltd.		2,940	15	15	15	12
Corona Development (formerly Inch	eon PF)	172,000	860	860	860	684
Lakepark AMC (*5)		14,340	72	72	72	57
Zara Retail Korea Co., Ltd.		-	-	-	130	-
STX Construction Industrial Co., Ltd		139	1	1	1	1
Union Ark Development Co., Ltd.		362,980	1,815	1,815	-	1,443
Union Ark Co., Ltd.		3,000	15	15	-	12
Biche-Nuri Development Co., Ltd.		30,000	150	150	-	119
Biche-Nuri Co., Ltd.		3,000	15	15	-	12
Daol Union Ark Private equity real						
estate 1 investment Co.		-	1,320	1,320	-	1,050
Lotte Jeju Resort Co.		500,000	2,500	2,500	-	1,988
Lotte Buyeo Resort Co.		1,333,333	6,667	6,667	-	5,302
Lotte Properties (Shenyang) Limited	d	-	28,726	28,726	-	22,844
Herald Media Inc.		12,000	60	-	-	_
V Bank Consulting		2,500	13	_	-	_
Incheon United Football Club		400	2	-	-	-
Subtotal			47,642	47,567	6,714	37,827

^(*1) The equity securities above are stated at fair value and the difference between acquisition cost and market value are recorded as unrealized gains on valuation of available-for-sale securities in other comprehensive income.

₩ 117,768

₩ 130,383

₩ 82,446

\$ 103,684

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6F **ZONE 63** NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

[*3] The Company participated in the Kumho Asiana Consortium ("KAC") which acquired Korea Express Co., Ltd.'s stocks in March 2008. According to the shareholders' agreement with Asiana Airlines Inc., a participant of KAC, the Company is prohibited to sell, assign or pledge the stocks as collateral to any 3rd party without prior permission of Asiana Airlines Inc. for 2 years after acquisition, and after 2 years, Asiana Airlines Inc. has the right of first refusal to purchase the stocks. If Asiana Airlines Inc. is no longer the majority stockholder by assigning stocks to 3rd parties, it will provide the Company with right of first refusal with the same terms and conditions. Also, according to the agreement with Kumho rent-a-car Co., Ltd., another participant of KAC, as the Company holds a put option to sell its stock at acquisition cost plus interest after 3 years of acquisition, the Company has recorded the fair value of the put option of ₩51,628 million as a non-current derivative asset. (see note 20)

(*4) The equity securities are stated at acquisition cost since their fair values are not available or readily determinable.

(*5) As described in note 2(f), investments in affiliates in which the Company owns 20% or more of the voting stock are stated at amounts as determined using the equity method. However, as the difference between the amount evaluated using the equity method and cost is considered to be immaterial, the Company recorded the investment at cost.

(ii) Debt securities

	2008	2007	2008
		In KRW millions, In	USD thousands (note 3)
Current assets			
Government and public bonds (note 7)	₩ 2	₩ 32	\$ 2
Non-current assets			
Government and public bonds	27,370	20,519	21,766
TOTAL	₩ 27,372	₩ 20,551	\$ 21,768
Government and public bonds	,	,	

(iii) Changes in unrealized holding gains (losses)

Changes in unrealized gains (losses) for the years ended December 31, 2008 and 2007 are summarized as follows:

	2008	2007	2008	
	In KRW millions, In USD			
Balance at beginning of period	₩ 38,479	₩ 26,733	\$ 30,599	
Unrealized gains (losses) on valuation of securities, net of tax	(29,505)	11,746	(23,463)	
BALANCE AT END OF PERIOD (note 23)	₩ 8,974	₩ 38,479	\$ 7,136	

(b) Held-to-maturity Securities

Held-to-maturity securities as of December 31, 2008 and 2007 are summarized as follows:

	2008	2007	2008
		In KRW millions, In l	JSD thousands (note 3)
Current assets			
Corporate debt securities	₩ 159,445	₩ -	\$ 126,795
Non-current assets			
Corporate debt securities (note 12)	1,000	-	795
TOTAL	₩ 160,445	₩ -	\$ 127,590

^(*2) As of December 31, 2008, the Company has pledged 1,345,607 shares of Busan Bank to Gyeongsangnam-do Province as a performance guarantee for the construction of a large retail complex. The Company has also pledged 1,313,827 shares of Busan Bank to Busan Metropolitan City as a construction performance guarantee.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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(c) Equity method accounted investments

(i) Investments in subsidiaries and associates accounted for using the equity method as of December 31, 2008 and 2007 are as follows:

2008

					2008
Affiliate	owned shares	Percentage of ownership	Cost	Net asset value	Balance at December 31, 2008 In KRW millions
Lotte Station Building Co., Ltd.	900,000	25.00%	₩ 4,500	₩ 143,441	₩ 143,441
Daehong Communications Co.,Ltd.	12,000	30.00%	6,277	60,920	60,921
Lotte.Com Inc.	1,600,000	34.39%	8,000	10,284	10,316
Lotte Boulangerie Co., Ltd.	4,020,222	95.71%	19,942	10,111	10,111
Foodstar Inc. (*3)	5,582,896	39.76%	33,995	-	-
Lotte Midopa Co., Ltd. (*2)	51,475,843	79.01%	257,379	445,647	471,005
Lotte Card Co., Ltd.	69,995,159	92.54%	432,907	854,187	863,303
Lotte Capital Co., Ltd.	6,731,600	20.22%	70,573	56,898	56,898
FRL Korea Co., Ltd.	2,352,000	49.00%	11,760	17,127	17,127
Woori Home Shopping & Television Co., Ltd.	4,242,796	53.03%	466,708	97,484	407,415
Lakepark Co, Ltd.	860,400	23.90%	4,302	3,727	3,727
KTB Media Investment Union	15	30.00%	1,500	932	932
Isu Entertainment Investment Union	30	37.50%	3,000	1,882	1,882
Lotte Engineering &					
Machinery Manufacturing Co., Ltd. (*1)	393,283	13.71%	2,069	3,179	3,179
Lotte Trading Co., Ltd. (*1)	74,561	9.39%	7,687	23,091	42,578
Lotte Aluminium Co., Ltd. (*1)	48,391	5.08%	23,038	28,941	32,859
Lotteria Co., Ltd. (*1)	74,000	19.94%	39,719	54,631	59,562
Lotte Vietnam Shopping Co., Ltd.	-	80.00%	11,442	3,498	3,498
Lotte Asset Development Co., Ltd.	6,060,023	29.85%	31,700	30,486	30,486
Lotte Logistics Co., Ltd. (*1)	66,308	4.64%	4,000	5,026	4,110
Qingdao Lottemart Commercial Co., Ltd.	-	100.00%	33,219	46,632	46,632
D-Cinema of Korea Co., Ltd.	300,000	50.00%	1,500	798	798
Lotte Mart Co., Ltd.	-	100.00%	183,033	67,076	185,903
Lotte Europe Holdings B.V.	97,584	29.93%	78,766	71,487	68,707
Intime Lotte Department Store Co., Ltd.	_	50.00%	10,339	3,980	3,980
Lottecinema Vietnam Co., Ltd.	_	90.00%	3,629	1,210	3,620
Zara Retail Korea Co., Ltd.	162,600	20.00%	8,130	8,133	8,133
Shenyang Lottemart Commercial Co., Ltd.	_	100.00%	2,107	2,495	2,495
Lotte Shopping Holdings (Hongkong), Ltd.	180,000	100.00%	259	259	259
Lotte Shopping Holdings (Singapore), Ltd.	70,667,029	100.00%	98,449	96,207	96,207
PT Makro Indonesia	2,622,812	55.00%	219,737	41,864	214,863
TOTAL			₩ 2,079,666	₩ 2,191,633	₩ 2,854,947

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NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

2007

					2007	
Affiliate	owned shares	Percentage of ownership	Cost	Net asset value	Balance at December 31, 2007	
Lotte Station Building Co., Ltd.	900,000	25.00%	₩ 4,500	₩ 126,488	₩ 126,488	
Daehong Communications Co., Ltd.	12,006	30.02%	6,280	58,389	58,390	
Lotte.Com Inc.	1,600,000	34.39%	8,000	8,121	8,153	
Lotte Boulangerie Co., Ltd.	3,920,222	93.33%	19,601	13,143	13,143	
Foodstar Inc.	5,582,896	39.76%	33,994	4,523	4,523	
Lotte Midopa Co., Ltd. (*2)	51,475,843	79.01%	257,379	419,703	451,816	
Lotte Card Co., Ltd.	69,995,159	92.54%	432,907	729,682	740,530	
Lotte Capital Co., Ltd.	6,434,128	20.55%	67,573	44,926	44,926	
FRL Korea Co., Ltd.	2,352,000	49.00%	11,760	13,165	13,165	
Woori Home Shopping & Television Co., Ltd.	4,046,796	50.58%	445,148	76,827	425,800	
Lakepark Co., Ltd.	621,400	23.90%	3,107	2,714	2,714	
Nexus Media Contents Investment Union	20	20.00%	2,000	948	948	
KTB Media Investment Union	15	30.00%	1,500	960	960	
Isu Entertainment Investment Union	30	37.50%	3,000	2,028	2,028	
Lotte RUS Ltd. (*1)	64,457	17.69%	13,154	12,585	13,497	
Lotte Engineering &						
Machinery Manufacturing Co., Ltd. (*1)	393,283	13.71%	2,069	13,744	13,745	
Lotte Trading Co., Ltd. (*1)	53,393	8.77%	1,981	22,816	42,303	
Lotte Aluminium Co., Ltd. (*1)	48,391	5.08%	23,038	29,321	34,218	
Lotteria Co., Ltd. (*1)	74,000	19.94%	39,719	49,874	56,449	
Lotteshopping RUS	-	100.00%	22,394	14,818	14,818	
Lotte Vietnam Shopping Co., Ltd.	-	85.96%	8,641	6,360	6,360	
Lotte Asset Development Co., Ltd.	3,600,000	60.00%	18,000	17,856	17,856	
Lotte Logistics Co., Ltd. (*1)	66,308	4.64%	4,000	4,987	4,071	
TOTAL			₩ 1,429,745	₩ 1,673,978	₩ 2,096,901	

- (*1) The equity interest in Lotte Engineering & Machinery Manufacturing Co., Ltd., Lotte RUS Co., Ltd., Lotte Trading Co., Ltd., Lotte Aluminium Co., Ltd., Lotteria Co., Ltd. and Lotte Logistics Co., Ltd. is under 20%; however, as the Company is able to exercise significant influence over their operations, the Company applies the equity method of accounting to these investments.
- (*2) The quoted market value of Lotte Midopa Co., Ltd., based on the closing price at the Korea Stock Exchange, are \pm 326,872 million and \pm 640,874 million as of December 31, 2008 and 2007, respectively.
- [*3] The Company did not recognize further losses, since the Company's share of losses in Foodstar Inc. exceeded its interest.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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(ii) Changes in the difference between the acquisition cost and the Company's share of the investee's identifiable net assets for the years ended December 31, 2008 and 2007 are as follows:

2008

				2000
Affiliate	Beginning balance	Increase (Decrease)	Amortization	Balance at December 31, 2008 In KRW millions
Lotte Midopa Co., Ltd.	₩ 33,606	₩ -	₩ (6,725)	₩ 26,881
Lotte Card Co., Ltd.	10,245	_	(1,731)	8,514
Woori Home Shopping & Television Co., Ltd.	348,964	-	(39,042)	309,922
Lotte RUS Ltd.	913	(830)	(83)	-
Lotte Trading Co., Ltd.	19,487	-	-	19,487
Lotte Aluminium Co., Ltd.	4,897	-	(979)	3,918
Lotteria Co., Ltd.	6,574	-	(1,644)	4,930
Lotte Logistics Co., Ltd.	(917)	-	-	(917)
Lotte Mart Co., Ltd.	-	126,189	(7,361)	118,828
Lottecinema Vietnam Co., Ltd.	-	2,537	(127)	2,410
PT Makro Indonesia	-	175,087	(2,087)	173,000
TOTAL ,	₩ 423,769	₩ 302,983	₩ (59,779)	₩ 666,973
	,			

2007

Affiliate	Beginning balance	Increase (Decrease)	Amortization	Balance at December 31, 2007 In KRW millions
Lotte Midopa Co., Ltd.	₩ 40,331	₩ -	₩ (6,725)	₩ 33,606
Lotte Card Co., Ltd.	11,976	-	(1,731)	10,245
Woori Home Shopping & Television Co., Ltd.	-	388,006	(39,042)	348,964
Lotte RUS Ltd.	1,078	-	(165)	913
Lotte Trading Co., Ltd.	13,319	6,206	(38)	19,487
Lotte Aluminium Co., Ltd.	5,877	-	(980)	4,897
Lotteria Co., Ltd.	8,218	-	(1,644)	6,574
Lotte Logistics Co., Ltd.	-	(1,001)	84	(917)
TOTAL	₩ 80,799	₩ 393,211	₩ (50,241)	₩ 423,769

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NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

(iii) Eliminated net unrealized losses (gains) from intercompany transactions as of December 31, 2008 and 2007 are as follows:

2008

Affiliate	Allowance for doubtful accounts	Investment assets	Property, plant and equipment and intangible assets In KRW millions
Daehong Communications Co., Ltd.	₩ 1	₩ -	₩ -
Lotte.Com Inc.	31	-	<u>-</u>
Lotte Boulangerie Co., Ltd.	1	-	
Lotte Midopa Co., Ltd.	67	-	(1,590)
Lotte Card Co., Ltd.	603	-	-
Woori Home Shopping & Television Co., Ltd.	9	-	<u>-</u>
Lotte Europe Holdings B.V.	-	(2,781)	-
TOTAL	₩ 712	₩ (2,781)	₩ (1,590)

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			2007
Affiliate	Allowance for doubtful accounts	Investment assets	Property, plant and equipment and intangible assets
Daehong Communications Co., Ltd.	₩1	₩ -	₩ -
Lotte.Com Inc.	31	-	-
Lotte Boulangerie Co., Ltd.	1	-	_
Lotte Midopa Co., Ltd.	67	<u>-</u>	(1,558)
Lotte Card Co., Ltd.	603	-	-
Woori Home Shopping & Television Co., Ltd.	9	-	-
TOTAL	₩ 712	₩ -	₩ (1,558)

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NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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(iv) Details of changes in investments in subsidiaries and associates accounted for using the equity method for the years ended December 31, 2008 and 2007 are as follows:

						2008
			Adjustment to			
Affiliate	Percentage of ownership	Beginning balance	Net income (loss)	Other com- prehensive income(loss)	Other (*1)	Balance at December 31, 2008 In KRW millions
Lotte Station Building Co., Ltd.	25.00%	₩ 126,488	₩ 17,094	₩ 1,209	₩ (1,350)	₩ 143,441
Daehong Communications Co., Ltd.	30.00%	58,390	6,265	(3,706)	(28)	60,921
Lotte.Com Inc.	34.39%	8,153	1,556	607	-	10,316
Lotte Boulangerie Co., Ltd.	95.71%	13,143	(2,178)	(1,155)	301	10,111
Foodstar Inc.	39.76%	4,523	(4,647)	124	-	-
Lotte Midopa Co., Ltd.	79.01%	451,816	31,783	(12,594)		471,005
Lotte Card Co., Ltd.	92.54%	740,530	125,160	(2,387)	-	863,303
Lotte Capital Co., Ltd.	20.22%	44,926	10,960	(429)	1,441	56,898
FRL Korea Co., Ltd.	49.00%	13,165	3,914	48	-	17,127
Woori Home Shopping & Television Co., L	td. 53.03%	425,800	(17,664)	243	(964)	407,415
Lakepark Co., Ltd.	23.90%	2,714	(176)	(6)	1,195	3,727
Nexus Media Contents Investment Union	20.00%	948	(448)	-	(500)	-
KTB Media Investment Union	30.00%	960	(28)	-	-	932
Isu Entertainment Investment Union	37.50%	2,028	(146)	-	-	1,882
Lotte RUS Ltd. (*2)	17.69%	13,497	1,608	491	(15,596)	-
Lotte Engineering &						
Machinery Manufacturing Co., Ltd.	13.71%	13,745	(10,450)	(116)	-	3,179
Lotte Trading Co., Ltd.	9.39%	42,303	(5,291)	(141)	5,707	42,578
Lotte Aluminium Co., Ltd.	5.08%	34,218	(62)	(1,297)	-	32,859
Lotteria Co., Ltd.	19.94%	56,449	4,563	(1,450)	-	59,562
Lotteshopping RUS (*2)	100.00%	14,818	(7,107)	(882)	(6,829)	-
Lotte Vietnam Shopping Co., Ltd.	80.00%	6,360	(7,573)	1,910	2,801	3,498
Lotte Asset Development Co., Ltd.	29.85%	17,856	(794)	46	13,378	30,486
Lotte Logistics Co., Ltd.	4.64%	4,071	129	(56)	(34)	4,110
Qingdao Lottemart Commercial Co., Ltd.	100.00%	-	(1,692)	15,104	33,220	46,632
D-Cinema of Korea Co., Ltd.	50.00%	-	(702)		1,500	798
Lotte Mart Co., Ltd.	100.00%	-	(12,483)	15,353	183,033	185,903
Lotte Europe Holdings B.V. (*2)	29.93%	-	(28,732)	7,569	89,870	68,707
Intime Lotte Department Store Co., Ltd.	50.00%	-	(8,617)	2,257	10,340	3,980
Lottecinema Vietnam Co., Ltd.	90.00%	-	(240)	231	3,629	3,620
Zara Retail Korea Co., Ltd.	20.00%	-	119	(115)	8,129	8,133
Shenyang Lottemart Commercial Co., Ltd	. 100.00%	-	(148)	536	2,107	2,495
Lotte Shopping Holdings (Hongkong), Ltd.	100.00%	-	-	-	259	259
Lotte Shopping Holdings (Singapore), Ltd.	100.00%	-	(802)	(1,440)	98,449	96,207
PT Makro Indonesia	55.00%	-	(1,705)	(3,168)	219,736	214,863
TOTAL		₩ 2,096,901	₩ 91,466	₩ 16,786	₩ 649,794	₩ 2,854,947

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NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

(*1) Include dividends from equity method accounted investments, acquisitions, reclassification from available-for-sale securities to equity method investments, and reclassification from other investment assets.

(*2) As of May 30, 2008, the Company received Lotte Europe Holdings B.V. stocks through an in-kind exchange of Lotte RUS Ltd. and Lotteshopping RUS stocks. As a result, the Company recorded gain on disposition of equity method investment securities of W9,292 million.

						2007
			Adjustment to			
Affiliate	Percentage of ownership	Beginning balance	Net income (loss)	Other com- prehensive income(loss)	Other	Balance at December 31, 2007 In KRW millions
Lotte Station Building Co., Ltd.	25.00%	₩ 110,429	₩ 16,956	₩ 3	₩ (900)	₩ 126,488
Daehong Communications Co., Ltd.	30.02%	49,909	3,910	4,574	(3)	58,390
Lotte.Com Inc.	34.39%	5,400	2,753	-	-	8,153
Lotte Boulangerie Co., Ltd.	93.33%	7,120	6,023	-	-	13,143
Foodstar Inc.	39.76%	9,438	(4,926)	11	-	4,523
Lotte Midopa Co., Ltd.	79.01%	337,390	114,151	275	-	451,816
Lotte Card Co., Ltd.	92.54%	696,168	49,385	(5,023)	-	740,530
Lotte Capital Co., Ltd.	20.55%	34,325	10,527	74	-	44,926
FRL Korea Co., Ltd.	49.00%	5,333	1,984	(32)	5,880	13,165
Woori Home Shopping & Television Co., Lt	d. 50.58%	-	(19,135)	(213)	445,148	425,800
Lakepark Co., Ltd.	23.90%	1,893	(368)	(6)	1,195	2,714
Nexus Media Contents Investment Union	20.00%	1,856	(908)	-	-	948
KTB Media Investment Union	30.00%	1,160	(200)	-	-	960
Isu Entertainment Investment Union	37.50%	2,903	(875)	-	-	2,028
Lotte RUS Ltd.	17.69%	11,556	1,035	906	-	13,497
Lotte Engineering &						
Machinery Manufacturing Co., Ltd.	13.71%	11,241	2,497	7	-	13,745
Lotte Trading Co., Ltd.	8.77%	43,777	(1,484)	10	-	42,303
Lotte Aluminium Co., Ltd.	5.08%	33,200	1,057	(39)	-	34,218
Lotteria Co., Ltd.	19.94%	52,321	1,897	2,231	-	56,449
Lotteshopping RUS	100.00%	-	(8,458)	882	22,394	14,818
Lotte Vietnam Shopping Co., Ltd.	85.96%	-	(2,248)	(33)	8,641	6,360
Lotte Asset Development Co., Ltd.	60.00%	-	(144)	-	18,000	17,856
Lotte Logistics Co., Ltd.	4.64%	-	71	-	4,000	4,071
TOTAL		₩ 1,415,419	₩ 173,500	₩ 3,627	₩ 504,355	₩ 2,096,901



NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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(v) Summarized financial information of equity-accounted investments as of and for the year ended December 31, 2008 is as follows:

Affiliate	Total assets	Total liabilities	Sales	Net income (loss)
				In KRW millions
Lotte Station Building Co., Ltd.	₩ 790,935	₩ 217,171	₩ 645,092	₩ 68,377
Daehong Communications Co., Ltd.	285,995	120,497	174,391	13,018
Lotte.Com Inc.	75,447	45,548	80,593	6,264
Lotte Boulangerie Co., Ltd.	48,914	38,350	55,112	(2,323)
Foodstar Inc.	57,487	71,337	71,211	(25,510)
Lotte Midopa Co., Ltd.	720,280	156,265	344,827	48,774
Lotte Card Co., Ltd.	3,731,241	2,808,146	999,870	137,120
Lotte Capital Co., Ltd.	2,485,720	2,204,276	363,190	53,344
FRL Korea Co., Ltd.	55,452	20,498	94,376	8,085
Woori Home Shopping & Television Co., Ltd.	305,337	121,526	306,650	41,476
Lakepark Co., Ltd.	60,245	44,652	57,840	(738)
KTB Media Investment Union	3,271	166	28	(94)
Isu Entertainment Investment Union	5,018	-	305	(390)
Lotte Engineering & Machinery Manufacturing Co., Ltd.	456,884	432,901	549,550	(72,483)
Lotte Trading Co., Ltd.	943,382	649,470	928,028	(36,539)
Lotte Aluminium Co., Ltd.	967,709	422,963	661,976	(507)
Lotteria Co., Ltd.	337,653	141,870	298,221	11,890
Lotte Vietnam Shopping Co., Ltd.	134,331	124,732	1,343	(6,221)
Lotte Asset Development Co., Ltd.	112,744	10,610	3,556	(2,199)
Lotte Logistics Co., Ltd.	212,533	99,907	556,792	6,350
Qingdao Lottemart Commercial Co., Ltd.	69,190	22,558	-	(1,692)
D-Cinema of Korea Co., Ltd.	1,769	172		(1,404)
Lotte Mart Co., Ltd.	119,807	52,730	139,648	(5,122)
Lotte Europe Holdings B.V.	603,508	367,198	40,600	(67,382)
Intime Lotte Department Store Co., Ltd.	48,499	40,540	15,096	(17,233)
Lottecinema Vietnam Co., Ltd.	7,666	6,322	628	(126)
Zara Retail Korea Co., Ltd.	49,525	8,859	28,799	652
Shenyang Lottemart Commercial Co., Ltd.	2,497	2	-	(147)
Lotte Shopping Holdings (Hongkong), Ltd.	259	-	-	-
Lotte Shopping Holdings (Singapore), Ltd.	104,935	-	-	(27)
PT Makro Indonesia	147,807	73,479	94,983	697
TOTAL	₩ 12,946,040	₩ 8,302,745	₩ 6,512,705	₩ 155,910

The Company used unaudited financial statements as of December 31, 2008 of the companies when applying the equity method of accounting.

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NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

7. Other Current Assets

Other current assets as of December 31, 2008 and 2007 are as follows:

	2008	2007	2008	
		In KRW millions, In	USD thousands (note 3)	
Accrued interest income	₩ 4,608	₩ 12,721	\$ 3,664	
Available-for-sale securities (note 6)	2	32	2	
Short-term loans	33,722	396	26,816	
Prepaid expenses	12,565	11,757	9,994	
TOTAL	₩ 50,897	₩ 24,906	\$ 40,476	

8. Joint Venture Investments

Details of joint venture investments as of December 31, 2008 are as follows:

Joint venture investment	Ownership	Equity holder	Principal business
Intime LotteDepartment Store Co., Ltd.	50.00%	Zhejiang Intime Department Store Co., Ltd.	Department stores
D-Cinema of Korea Co., Ltd.	50.00%	CJ CGV Co., Ltd.	Cineprojector rental service
Kookge Building	6.00%	Honam Petro Chemical and others	Building leasing services
Busan Underground Shopping Center	45.00%	Hotel Lotte Co., Ltd.	Building leasing services

9. Transactions and Balances with Related Companies

(a) Details of investor and subsidiary relationships with the Company as of December 31, 2008 are as follows:

Investor company	Ownership (%)	Control relationship (*1)
Hotel Lotte Co., Ltd.	9.29%	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

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Controlled subsidiary (*2)	Ownership (%)	Principal business
Lotte Midopa Co., Ltd.	79.01%	Department stores
Lotte Boulangerie Co., Ltd.	95.71%	Bakery
Lotte.Com Inc.	34.39%	Internet shopping
Lotte Card Co., Ltd.	92.54%	Credit card and lending
Woori Home Shopping & Television Co., Ltd.	53.03%	TV home shopping
Lotte Vietnam Shopping Co., Ltd.	80.00%	Discount stores
Qingdao Lottemart Commercial Co., Ltd.	100.00%	Discount stores
Lotte Mart Co.,Ltd	100.00%	Discount stores
Lottecinema Vietnam Co., Ltd.	90.00%	Cinema
Shenyang Lottemart Commercial Co., Ltd.	100.00%	Discount stores
Lotte Shopping Holdings(Hongkong), Ltd.	100.00%	Holding company
Lotte Shopping Holdings(Singapore), Ltd.	100.00%	Holding company
PT Makro Indonesia	55.00%	Discount stores

^[*1] Lotte Group represents a group of entities as defined and restricted by the Monopoly Regulation and Fair Trade Act in Korea.

(*2) Controlled subsidiaries represent majority-owned entities by the Company or a controlled subsidiary and other entities where the Company or its controlled subsidiary, collectively or individually, owns more than 30% of total outstanding common stock and is the largest shareholder.

(b) Significant transactions which occurred in the normal course of business with related companies for the years ended December 31, 2008 and 2007 are summarized as follows:

2008

	Revenue	Expen	se and purchase	d purchase		
Related company	Sales and non- operating income	Purchase of goods	Fees and commissions	Other In KRW millions		
Hotel Lotte Co., Ltd.	₩ 25,851	₩ 537	₩ 58,508	₩ 4,867		
Lotte Confectionery Co., Ltd.	22,578	48,197	16,712	1		
Lotte Data Communication Company	2,289	1,182	37,556	34,209		
Lotte Chilsung Beverage Co., Ltd.	10,486	28,499	2,096	127		
Lotte Engineering & Construction Co., Ltd.	2,886	126,529	67	368,745		
Hotel Lotte Pusan Co., Ltd.	5,145	359	16,152	21,054		
Lotte Midopa Co., Ltd. (*)	7,614	8	7,216	-		
Lotte.Com Inc.	183	1,286	32,451	647		
Lotte Card Co., Ltd.	2,680	29	118,277	336		
Lotte Station Building Co., Ltd. (*)	15,204	16	6,437	10		
Daehong Communications Co., Ltd.	8,889	5,042	29,604	90		
Lotte Aluminium Co., Ltd.	1,188	1,072	15,676	20,092		
Lotte Engineering &						
Machinery Manufacturing Co., Ltd.	346	4,579	432	15,153		
Lotteria Co., Ltd.	5,999	2	27	-		
Lotte Trading Co., Ltd.	4,428	156,017	27,163	565		
Lotte Samkang Co., Ltd.	5,790	8,125	1,959	9		
Lotte Ham Co., Ltd.	4,880	33,627	69	3		
Others	24,431	78,622	59,365	14,601		
TOTAL	₩ 150,867	₩ 493,728	₩ 429,767	₩ 480,509		

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NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

2007

	Revenue	Expen	se and purchase	
Related company	Sales and non- operating income	Purchase of goods	Fees and commissions	Other In KRW millions
Hotel Lotte Co., Ltd.	₩ 14,773	₩ 3,243	₩ 58,872	₩ 1,419
Lotte Confectionery Co., Ltd.	26,813	54,418	364	-
Lotte Data Communication Company	995	13,138	34,170	21,492
Lotte Chilsung Beverage Co., Ltd.	11,741	26,210	286	178
Lotte Engineering & Construction Co., Ltd.	2,265	56	526	415,956
Hotel Lotte Pusan Co., Ltd.	5,187	75	14,296	-
Lotte Midopa Co., Ltd. (*)	7,197	2	7,206	-
Lotte.Com Inc.	211	271	27,898	771
Lotte Card Co., Ltd.	2,096	4,979	101,711	-
Lotte Station Building Co., Ltd. (*)	5,538	1,439	19,362	15
Daehong Communications Co., Ltd.	14,817	12	6,338	65
Lotte Aluminium Co., Ltd.	1,202	13,674	11,259	8,619
Lotte Engineering &				
Machinery Manufacturing Co., Ltd.	245	3,670	647	4,748
Lotteria Co., Ltd.	5,348	5	69	-
Lotte Trading Co., Ltd.	2,788	143,420	561	1,043
Lotte Samkang Co., Ltd.	5,173	6,516	1,580	-
Lotte Ham Co., Ltd.	4,220	30,470	23	-
Others	18,820	51,803	42,624	815
TOTAL	₩ 129,429	₩ 353,401	₩ 327,792	₩ 455,121

^(*) The Company has entered into contracts with Lotte Midopa Co., Ltd. and Lotte Station Building Co., Ltd., to provide management services. The Company receives an annual management fee equal to 10 percent of ordinary income before depreciation expense of the respective companies.



NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

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(c) Account balances with related companies as of December 31, 2008 and 2007 are summarized as follows:

						2000
	Receivables				Payables	
Related company	Trade Accounts receivable	Other accounts receivable	Other	Trade accounts payable	Other accounts payable	Other In KRW millions
Hotel Lotte Co., Ltd.	₩ 162	₩ 525	₩ 22,217	₩ 1	₩ 1,100	₩ 9,104
Lotte Confectionery Co., Ltd.	1,318	463	-	9,309	66	592
Lotte Data Communication Company	42	1,387	1,064	-	4,671	1,866
Lotte Chilsung Beverage Co., Ltd.	19	430	-	2,438	29	11
Lotte Engineering & Construction Co., Ltd.	-	393	644	-	89,846	268
Hotel Lotte Pusan Co., Ltd.	3	300	220	4	423	754
Lotte Midopa Co., Ltd.	6,550	1,558	38,674	-	1,835	391
Lotte Card Co., Ltd.	50,346	677	-	-	100	6,656
Daehong Communications Co., Ltd.	743	263	_	_	9,325	2,772
Lotte Station Building Co., Ltd.	12,325	3,128	9,889	-	4,457	277
Lotteria Co., Ltd.	750	16	-	426	757	5,519
Lotte Trading Co., Ltd.	137	196	-	5,251	1,709	114
Lotte Ham Co., Ltd.	8	180	-	2,812	46	-
Others	14,924	2,668	1,396	6,415	18,820	14,213
TOTAL	₩ 87,327	₩ 12,184	₩ 74,104	₩ 26,656	₩ 133,184	₩ 42,537

2007

		Receivables			Payables	les	
Related company	Trade Accounts receivable	Other accounts receivable	Other	Trade accounts payable	Other accounts payable	Other In KRW millions	
Hotel Lotte Co., Ltd.	₩ 159	₩ 1,965	₩ 23,953	₩ -	₩ 1,664	₩ 9,548	
Lotte Confectionery Co., Ltd.	1,302	706	-	9,239	127	415	
Lotte Data Communication Company	-	204	-	4	7,276	1,804	
Lotte Chilsung Beverage Co., Ltd.	2,204	319	-	2,696	107	4	
Lotte Engineering & Construction Co., Ltd.	27	475	410	-	76,772	20	
Hotel Lotte Pusan Co., Ltd.	95	66	300	16	422	956	
Lotte Midopa Co., Ltd.	6,180	1,375	19,673		2,179	1	
Lotte Card Co., Ltd.	63,979	1,206	-	-	59,293	6,455	
Daehong Communications Co., Ltd.	298	221	-	-	207	14,752	
Lotte Station Building Co., Ltd.	12,097	4,743	9,889		4,681	276	
Lotteria Co., Ltd.	712	33	-	-	769	6,214	
Lotte Trading Co., Ltd.	28	326	594	6,925	2,706	226	
Lotte Ham Co., Ltd.	242	214	-	2,076	86	-	
Others	11,402	3,736	1,314	6,241	14,956	7,485	
TOTAL	₩ 98,725	₩ 15,589	₩ 56,133	₩ 27,197	₩ 171,245	₩ 48,156	

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(d) Salaries and provision for retirement and severance benefits of the directors for the years ended December 31, 2008 and 2007 are \$26,965 million and \$17,259 million, respectively.

(e) The Company has provided guarantees for related companies as of December 31, 2008 as follows:

		2008		
Related company	Guarantee recipient	Type of borrowings	Guaranteed Amount (thousand)	
Lotte Vietnam Shopping Co., Ltd.	Citibank N.A. Hochiminh	Working capital	US\$ 60,000 and interest thereon	
Lotte Vietnam Shopping Co., Ltd.	Korea Exchange Bank (Vietnam)	Working capital	US\$ 7,500	
Qingdao Lottemart Commercial Co., Ltd.	Hana Bank (China) Co., Ltd.	Working capital	RMB150,000	
Lotte Cinema Vietnam Co., Ltd.	Export-Import Bank of Korea	Working capital	US\$ 4,000 and	

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

10. Property, Plant and Equipment

(a) The Company revalued its land and buildings in 1998 under the then Korean Assets Revaluation Law. As a result, the Company recorded a revaluation surplus of \$1,028,713 million, net of asset revaluation tax, in other capital surplus.

(b) Changes in property, plant and equipment for the years ended December 31, 2008 and 2007 are as follows:

						2008
	Book value as of January 1, 2008	Acquisitions	Disposals	Depreciation	Transfers	Book value as of December 31, 2008 In KRW millions
Land	₩ 2,923,107	₩ 17,961	₩ (70,058)	₩ -	₩ 154,710	₩ 3,025,720
Buildings	2,762,232	24,060	(117,200)	(137,107)	289,895	2,821,880
Structures	145,500	1,806	(3,765)	(6,736)	49,092	185,897
Machinery	24,922	149	(12)	(5,807)	4,551	23,803
Vehicles	709	516	(2)	(486)	21	758
Furniture and equipment	17,124	6,402	(392)	(13,498)	10,364	20,000
Other	221,386	87,650	(1,594)	(174,222)	142,593	275,813
Construction-in-progress	645,896	750,322	-	-	(689,108)	707,110
TOTAL	₩ 6,740,876	₩ 888,866	₩ (193,023)	₩ (337,856)	₩ (37,882)	₩ 7,060,981

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NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

						2007
	Book value as of January 1, 2007	Acquisitions	Disposals	Depreciation	Transfers	Book value as of December 31, 2007 In KRW millions
Land	₩ 2,673,274	₩ 99,723	₩ (122)	₩ -	₩ 150,232	₩ 2,923,107
Buildings	2,480,615	29,465	(15,023)	(126,432)	393,607	2,762,232
Structures	117,616	1,843	(1,578)	(5,753)	33,372	145,500
Machinery	13,020	2,040	(1)	(4,900)	14,763	24,922
Vehicles	512	730	[4]	(529)	-	709
Furniture and equipment	11,556	8,516	(7)	(12,254)	9,313	17,124
Other	195,980	106,335	(4,591)	(155,160)	78,822	221,386
Construction-in-progress	618,535	753,469	-	-	(726,108)	645,896
TOTAL	₩ 6,111,108	₩ 1,002,121	₩ (21,326)	₩ (305,028)	₩ (45,999)	₩ 6,740,876

(c) The officially declared value and book value of land as of December 31, 2008 are as follows:

2008

	Book value	Declared value In KRW millions
Land	₩ 3,025,720	₩ 4,666,724

The officially declared value, which is used for government purposes, is not intended to represent fair value.

(d) The Company has pledged certain property, plant and equipment as collateral for an amount equal to 130% of lease deposits, amounted to \pm 67,244 million, received from Woori Bank, Shinhan Bank and other.

(e) Details of coverage under major insurance policies carried by the Company as of December 31, 2008 and 2007 are as follows:

		Amount	Amount covered	
Type of insurance	Covered assets	2008	2007	2008
			In KRW millions	, In USD thousands (note 3)
Theft insurance	Cash	₩ 41,570	₩ 39,722	\$ 33,057
Fire insurance	Merchandise, buildings and tools	6,343,132	5,214,226	5,044,240
Engine and machinery insurance	Machinery and equipment	137,755	87,610	109,547
Business liability insurance	Facilities and products	478,632	421,644	380,622
Directors & officers liability insura	nce -	70,000	50,000	55,666
Others	Other utilities	39,934	29,610	31,757
TOTAL		₩ 7,111,023	₩ 5,842,812	\$ 5,654,889

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NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

11. Intangible Assets

Changes in intangible assets for the years ended December 31, 2008 and 2007 are as follows:

2008

	Book value as of January 1, 2008	Acquisition	Amortization	Others	Book value as of December 31, 2008 In KRW millions
Goodwill	₩ 31,217	₩ 2,037	₩ (4,314)	₩ 6,813	₩ 35,753
Industrial property rights	446	160	(168)	10	448
Rights to use water supply facility	3,489	-	(518)	874	3,845
Rights to use electricity supply facility	3,386	-	(503)	430	3,313
Rights to use gas supply facility	2,268	<u>-</u> Y	(208)	(852)	1,208
Rights to use facility	59,876	-	(3,655)	22,302	78,523
License	6,309	-	(899)	-	5,410
Copyrights	3,800	16,076	(17,764)	-	2,112
Software	1,733	-	(815)	-	918
TOTAL	₩ 112,524	₩ 18,273	₩ (28,844)	₩ 29,577	₩ 131,530

					2007
	Book value as of January 1, 2007	Acquisition	Amortization	Others	Book value as of December 31, 2007 In KRW millions
Goodwill	₩ 13,145	₩ 20,760	₩ (2,688)	₩ -	₩ 31,217
Industrial property rights	245	335	(136)	2	446
Rights to use water supply facility	3,139	-	(446)	796	3,489
Rights to use electricity supply facility	2,852	-	(430)	964	3,386
Rights to use gas supply facility	1,438	-	(215)	1,045	2,268
Rights to use facility	9,277	-	(3,565)	54,164	59,876
License	1,499	5,645	(900)	65	6,309
Copyrights	1,514	20,391	(18,105)	-	3,800
Software	2,483	115	(865)	-	1,733
TOTAL	₩ 35,592	₩ 47,246	₩ (27,350)	₩ 57,036	₩ 112,524

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12. Other Investment Assets

Other assets as of December 31, 2008 and 2007 are as follows:

	2008	2007	2008
		In KRW millions, In	USD thousands (note 3)
Long-term deposits (note 4)	₩ 12,531	₩ 31	\$ 9,965
Long-term loans	26,963	8,245	21,442
Long-term held-to-maturity securities (note 6(b))	1,000	- ,	795
Others	1,919	8,326	1,526
TOTAL	₩ 42,413	₩ 16,602	\$ 33,728

13. Pledged Assets and Guarantees

(a) The following assets are pledged as collateral for the Company's contract performance as of December 31, 2008:

Assets			Guarantee for
	"		In KRW millions, In USD thousands (note 3)
Short-term deposits	₩ 12,208	\$ 9,708	Guarantee deposits for performance of contracts
Long-term deposits	12,531	9,965	Billing and settlement plan
Available-for-sale securities (note 6(a))	15,478	12,308	Guarantee deposits for performance of contracts
TOTAL	₩ 40,217	\$ 31,981	

(b) Guarantees provided by third parties for the Company as of December 31, 2008 are as follows:

Guarantor			Guarantee for
			In KRW millions, In USD thousands (note 3)
Seoul Guarantee Insurance Company	₩ 135,073	\$ 107,414	Completion of construction

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6F ZONE 79 NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

14. Assets and Liabilities Denominated in Foreign Currency

Assets and liabilities denominated in foreign currency as of December 31, 2008 and 2007 are summarized as follows:

	2008	2008	2007	2007
		Foreign cu	urrency (thousands), Won e	equivalent(millions)
Assets				
Short-term deposits	US\$ -	₩ -	\$ 7	₩ 7
Other accounts receivable	US\$ 120	157	-	-
Accrued interest income	233	293		
Short-term loans	US\$ 25,000	31,438		-
Other investment assets	US\$ 1,500	1,886	-	-
TOTAL	US\$ 26,853	₩ 33,774	\$ 7	₩ 7
Liabilities				
Trade accounts payable	US\$ 23	₩ 29	\$ 640	₩ 600
	EUR 343	609	23	32
	YEN -	-	6,556	55
Other accounts payable	US\$ 250	327	277	260
	EUR 6	10	-	-
Accrued expenses	US\$ -	_	330	309
Debentures	US\$ 400,000	503,000	-	-
	YEN 29,000,000	404,228	-	_
TOTAL	US\$ 400,273	₩ 503,356	\$ 1,247	₩ 1,169
	EUR 349	619	23	32
	YEN 29,000,000	404,228	6,556	55

15. Short-Term Borrowings

Short-term borrowings as of December 31, 2008 and 2007 are summarized as follows:

Lender	Purpose of borrowings	Annual interest rate(%)	2008	2007	2008
				I In KRW millions, In US	D thousands (note 3)
Korea Agro-Fisheries					
Trade Corporation	Working capital	4.00	₩ 10,000	₩ -	\$ 7,952
Woori Bank	Working capital	6.63~7.10	35,000	-	27,833
SK Securities Co., Ltd.	Working capital	6.38~6.90	175,000	_	139,165
Shinhan Bank and other	Working capital	7.48	1	1	1
TOTAL			₩ 220,001	₩ 1	\$ 174,951

note 12

6F ZONE 80 NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

16. Debentures

2011.01.01~2011.12.31

(b) Guarantees provided by third parties for the Company as of December 31, 2008 are as follows:

Description	Maturity	Interest rate(%)	2008	2007	2008
				In KRW millions, In l	JSD thousands (note 3)
Denominated in Won					
41st placed	April 9, 2008	5.00	₩ -	₩ 200,000	\$ -
44th placed	May 3, 2008	3.95	-	250,000	-
45th placed	September 12, 2008	4.71	-	100,000	<u>-</u>
Denominated in foreig	n currency				
46th placed	April 29, 2011	6M Libor+1.00	125,750		100,000
47th placed	May 29, 2011	6M Euro Yen			
		Tibor+1.20	250,900	-	199,523
48th placed	September 29, 2011	3M Euro Yen			
		Libor+1.60	153,328	-	121,931
49th placed	October 17, 2011	3M USD Yen			
		Libor+1.75	377,250	-	300,000
Subtotal			₩ 907,228	₩ 550,000	\$ 721,454
Less					
Discount on debenture	s issued		(8,227)	(442)	(6,543)
TOTAL BOOK VALUE			₩ 899,001	₩ 549,558	\$ 714,911
Less					
Current portion of debe	entures, net of discount		-	(549,558)	-
			₩ 899,001	₩ -	\$ 714,911
(b) Aggregate maturiti	es of debentures as of D	ecember 31, 2008 are a	s follows:		
Period					
				In KRW millions, In I	JSD thousands (note 3)
2009.01.01~2009.12.3	1		₩ -		\$ -
2010.01.01~2010.12.3	1		-		-

907,228

₩ 907,228

721,454

\$ 721,454

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6F ZONE 81 NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

17. Leases

(a) The Company leases facilities including stores and distribution centers from third parties. Under the terms of the lease arrangements, the Company is required to make security deposits at the inception of the lease which are refundable at the end of the lease terms. Lease deposits made as of December 31, 2008 amounted to $\frac{1}{2}$ 631,761 million.

(b) Future minimum lease payments under operating leases as of December 31, 2008 are as follows:

Period

		In KRW millions, In USD thousands (note 3)
2009.1.1~2009.12.31	₩ 88,353	\$ 70,261
2010.1.1~2013.12.31	322,657	256,586
2014 and thereafter	530,356	421,754
TOTAL	₩ 941,366	\$ 748,601

(c) The Company leases some land and buildings of the Company to third parties. The Company received advance rental deposits of \$244,808 million as of December 31, 2008 and rental income of \$346,520 million and \$312,654 million for the years ended December 31, 2008 and 2007, respectively. The majority of the leases are renewed annually.

18. Retirement and Severance Benefits

Changes in retirement and severance benefits for the years ended December 31, 2008 and 2007 are summarized as follows:

	2008	2007	2008
		In KRW millions. In II	ISD thousands (note 3)
Estimated retirement and severance benefits at beginning of period	₩ 128.850	₩ 114.101	\$ 102,465
Provision for retirement and severance benefits	55,642	38,045	44,248
Payments	(50,188)	(26,355)	(39,911)
Transfer of severance benefits from affiliated companies	3,375	3,059	2,684
Estimated retirement and severance benefits at end of period	137,679	128,850	109,486
Transfer to National Pension Fund	(48)	(53)	(38)
Deposit for severance benefit insurance	(90,128)	(85,532)	(71,673)
NET BALANCE AT END OF PERIOD	₩ 47,503	₩ 43,265	\$ 37,775

The Company maintains severance benefit insurance arrangements with Samsung Life Insurance Co., Ltd., etc. Under the contracts, payments of the Company's retirement and severance benefit liability to employees are guaranteed to the extent of the aggregate deposit held by the insurance companies in trust. The aggregate deposit at the insurance companies is presented as a reduction of the retirement and severance benefits liability.

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6F ZONE 82 NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

19. Accrual for Bonus Points Reward Program

The Company recognizes an accrual for bonus points reward program which provides free services and mileage for customers registered with and who make purchases with various Lotte Membership Cards. The accrual is based on the historical redemption experience of the points compared to the customers' purchases. Changes in the accrual for the reward program for the years ended December 31, 2008 and 2007 are summarized as follows:

	2008	2007	2008
		In KRW millions, In	JSD thousands (note 3)
Beginning of year	₩ 29,362	₩ 23,284	\$ 23,350
Provision	47,859	45,695	38,059
Payment	(46,413)	(39,617)	(36,910)
END OF YEAR	₩ 30,808	₩ 29,362	\$ 24,499

20. Derivative Instruments and Hedge Accounting

(a) As described in note 6(a), the Company has a put option to sell stocks of Korea Express Co., Ltd. to Kumho rent-a-car Co., Ltd. Contract terms of the option are as follows:

- -Date of acquisition: 2008.3.14
- -Underlying instrument: 584,795 common shares of Korea Express Co., Ltd.
- -Exercise period: After 3 years of acquisition of stock
- -Strike price: Acquisition cost plus interest (6.5%)

(b) Detail of foreign currency forwards outstanding as of December 31, 2008 was as follows.

Contract amount (thousands)	Forward rate	Maturity date	Bank
US\$ 1,000	₩ 1,277.8 / US\$ 1	2009.01.05	Hana Bank
US\$ 1,000	₩ 1,274.8 / US\$ 1	2009.01.05	
US\$ 1,000	₩ 1,276.8 / US\$ 1	2009.01.05	
US\$ 2,000	₩ 1,258.5 / US\$ 1	2009.01.05	

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(c) The Company entered into currency and interest swap contracts with the Bank of Tokyo-Mitsubishi UFJ and others to hedge the exposure to the changes in foreign exchange rates and interest rates related to debentures (US\$400,000 thousand and JPY29,000,000 thousand). Contract terms of the currency and interest swap contracts are as follows:

Contract amount (thousands)	Foreign exchange rate	Variable interest rate	Fixed interest rate	Maturity date	Bank
US\$ 100,000	₩976.0	6M			BNP Paribas Bank
_	/US\$1	Libor+1.00%	3.98%	2011.4.29	and others
JPY18,000,000					The Bank of
	₩ 10.0	6M Euro Yen			Tokyo-Mitsubishi
	/JPY1	Tibor+1.20%	5.13%	2011.5.29	UFJ and others
JPY11,000,000	W10.2	3M Euro Yen			
	/JPY1	Libor+1.60%	6.05%	2011.9.29	Mizuho Bank
US\$ 300,000	₩1,113.0	3M USD			BNP Paribas
	/US\$1	Libor+1.75%	5.52%	2011.10.17	Bank and others

(d) Changes in the fair value of derivative instruments for the year ended December 31, 2008 are as follows:

Type of derivatives	Description	Related accounts		
			In KRW millions, In US	D thousands (note 3)
Trade	Put option	Gain on valuation of		
		derivative instruments	₩ 1,538	\$ 1,223
Trade	Currency forward	Loss on valuation of		
		derivative instruments	(59)	[47]
Cash flow hedge	Currency and interest swap	Gain on valuation of		
		derivative instruments	183,125	145,626
Cash flow hedge	Currency and interest swap	Unrealized loss on		
		valuation of		
		derivative instruments	(20,192)	(16,057)

21. 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 \(\psi_5,000\) 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, 2008, the Company has not issued any preferred stock and 29,043,374 shares of common stock were issued and outstanding as of December 31, 2008.

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NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

(b) Capital surplus as of December 31, 2008 and 2007 consists of the following:

	2008	2007	2008
		In KRW millions, In	USD thousands (note 3)
Paid-in capital in excess of par value	₩ 3,605,117	₩ 3,605,117	\$ 2,866,892
Gain on capital reduction	1,793	1,793	1,426
Other capital surplus	1,043,985	1,045,213	830,207
	₩ 4,650,895	₩ 4,652,123	\$ 3,698,525

(i) Gain on capital reduction

The Company retired 745,470 shares of treasury stock ($\mbox{$W1,934$}$ 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 $\mbox{$W3,727$}$ million and a gain on capital reduction amounting to $\mbox{$W1,793$}$ million was recorded as a capital surplus.

(ii) Gain on merge

In 1997, SongGok Trading Co., Ltd. was merged into the Company resulting in a gain on merger of \forall 15,272 million which was recorded as a component of other capital surplus.

(iii) Asset revaluation

The Company revalued its property, plant and equipment on July 1, 1998 in accordance with the then Assets Revaluation Law. Details of the asset revaluation surplus included in stockholders' equity are as follows:

Date of revaluation	Total revaluation surplus	Revaluation tax	Transfer to capital	Others	Net revaluation surplus
July 1, 1998	₩ 1,122,229	₩ (19,030)	₩ (73,500)	₩ (986)	₩ 1,028,713

(iv) Capital surplus on equity method

The ownership percentage of the Company in Lotte Boulangerie Co., Ltd. and Lotte.Com Inc., which are controlled subsidiaries of the Company, changed and the differences of $\mbox{$W1,188$}$ million between the additional acquisition cost and the change in the Company's share of net asset were recorded as capital surplus under the equity method.

Due to capital adjustments which result from the change of the ownership percentage of the Company in Woori Home Shopping & Television Co., Ltd., which is controlled subsidiary of the Company, capital surplus on equity method was offset and 0(zero) on December 31, 2008.

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NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

22. Capital Adjustments

The Company acquired additional 196 thousand shares of Woori Home Shopping & Television Co., Ltd., which is controlled subsidiary of the Company, on July 2008. As a result, the difference between the additional acquisition cost and the change in the Company's share of net asset amounted to \$17,466 million. As discussed in note 21(b), after offset, the residual of \$16,271 million was recorded as capital adjustments under the equity method.

23. Accumulated Other Comprehensive Income

Details of accumulated other comprehensive income as of December 31, 2008 and 2007 are as follows:

Accounts	2008	2007	2008
Unrealized gain on valuation of available-for-sale securities,		In KRW millions, In U	SD thousands (note 3)
net of tax effect of ₩(2,531) million in 2008			
and ₩(14,595) million in 2007	₩ 8,974	₩ 38,479	\$ 7,136
Unrealized gain on investments under equity method,			
net of tax effect of ₩(13,378) million in 2008			
and ₩(13,856) million in 2007	57,161	39,898	45,456
Unrealized loss on valuation of derivative instruments,			
net of tax effect of ₩5,695 million in 2008	(20,192)	-	(16,057)
	₩ 45,943	₩ 78.377	\$ 36,535

24. Retained Earnings

Retained earnings as of December 31, 2008 and 2007 are summarized as follows:

Accounts	2008	2007	2008
		In ICDW and this are In-	LICD the control (note 2)
Appropriated		in KKW millions, in	USD thousands (note 3)
Legal reserve	₩ 25,333	₩ 21,703	\$ 20,145
Reserve for business rationalization	10,552	10,552	8,391
Reserve for corporate development	134,000	134,000	106,562
Reserve for improvement of financial structure	-	5	
Discretionary reserve	3,069,500	2,419,500	2,440,954
	₩ 3,239,385	₩ 2,585,760	\$ 2,576,052
Unappropriated	765,493	712,598	608,742
	₩ 4,004,878	₩ 3,298,358	\$ 3,184,794

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NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

(a) Legal reserve

The Korean Commercial Code requires the Company to appropriate as legal reserve an amount equal to at least 10% of cash dividends for each accounting period until the reserve equals 50% of stated capital. This reserve is not available for cash dividends but may be used to reduce any deficit or be transferred to capital stock.

(b) Reserve for business rationalization

Under the Special Tax Treatment Control Law, investment tax credit was allowed for certain investments. The Company was, however, required to appropriate from retained earnings the amount of tax benefits obtained and transfer such amount into a reserve for business rationalization.

Effective December 11, 2002, the Company is no longer required to establish a reserve for business rationalization despite tax benefits received for certain investments and, consequently, the existing balance is now regarded as a discretionary reserve.

(c) Reserve for corporate development

Under Korean Corporation Tax Law, the Company was required to appropriate a reserve for corporate development. However, effective as of December 31, 2001, the Company is no longer required to establish such a reserve. This reserve is not available for payment of dividends; however, it may be used for a specific purpose upon approval by the shareholders or remain as a reserve.

25. Sale of Apartments

(a) Commitments for housing construction contracts with future home owners as of and for the years ended December 31, 2008 and 2007 are as follows:

	2008	2007	2008
		In KRW millions, In U	SD thousands (note 3)
Beginning of year	₩ 80,778	₩ 107,080	\$ 64,237
Increase	2,141	725	1,702
Revenue recognized in current year	(47,750)	(27,027)	(37,972)
END OF YEAR	₩ 35,169	₩ 80,778	\$ 27,967

(b) Cumulative revenue and cost on lotting-out housing construction contracts as of December 31, 2008 are summarized as follows:

Project	Cumulative revenue	Cumulative cost	Cumulative revenue	Cumulative cost
	'		In KRW mil	llions, In USD thousands (note 3)
Beome-dong project	₩ 83,484	₩ 66,976	\$ 66,389	\$ 53,261

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6F ZONE 87 NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

26. Sales and Cost of Sales

Details of sales and cost of sales for the years ended December 31, 2008 and 2007 are as follows:

	2008	2007	2008
		In KRW millions, Ir	uSD thousands (note 3
SALES			
Sale of merchandise	₩ 9,828,404	₩ 9,135,745	\$ 7,815,828
Specific sales (*1)	525,082	405,537	417,560
Sale of finished goods	82,073	71,757	65,267
Sale of apartments	47,750	27,027	37,972
Ancillary property operation revenue (*2)	130,432	122,428	103,723
Other operating revenue	516,630	473,496	410,840
Deduction			
Cost of specific sales	(415,737)	(317,005)	[330,606]
Sales discounts	(160,842)	(150,853)	(127,906)
	₩ 10,553,792	₩ 9,768,132	\$ 8,392,678
COST OF SALES			
Cost of merchandise sold			
Beginning inventory of merchandise	₩ 979,499	₩ 906,761	\$ 778,926
Purchases of merchandise for the year	7,218,678	6,796,632	5,740,499
Transfer to other accounts	(8)	=	[6]
Ending inventory of merchandise	(1,004,912)	(979,499)	(799,134)
	₩ 7,193,257	₩ 6,723,894	\$ 5,720,285
Cost of finished goods sold			
Beginning inventory of finished goods	₩ 3,974	₩ 1,867	\$ 3,161
Cost of finished goods for the year	42,082	42,286	33,465
Transfer to other accounts	(3,147)	(1,925)	(2,503)
Ending inventory of finished goods	(3,615)	(3,974)	(2,875)
	₩ 39,294	₩ 38,254	\$ 31,248
Cost of sales - apartments	₩ 38,308	₩ 21,683	\$ 30,463
Ancillary property operating cost	61,461	61,062	48,875
	99,769	82,745	79,338
	₩ 7,332,320	₩ 6,844,893	\$ 5,830,871
GROSS PROFIT	₩ 3,221,472	2,923,239	\$ 2,561,807

(*1) As described in note 1(c), specific sales are recognized on a net basis for merchandise that may be returned to vendors at any time.

(*2) Ancillary property operation revenue consists of box office and joint venture revenue.

6F ZONE 88 NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

27. Selling and Administrative Expenses

Details of selling and administrative for the years ended December 31, 2008 and 2007 are as follows:

	2008	2007	2008
		In KRW millions, In	USD thousands (note 3)
Salaries	₩ 463,973	₩ 417,824	\$ 368,964
Accrual for retirement and severance benefits	55,486	37,794	44,124
Other employee benefits	72,304	66,002	57,498
Education and training	6,484	5,282	5,156
Travel	13,128	11,945	10,440
Service contract expense	335,026	281,015	266,423
Advertising	139,782	134,918	111,159
Sales promotion and commissions	256,536	232,597	204,005
Supplies	31,783	29,958	25,275
Communications	8,880	8,068	7,062
Utilities	120,977	111,692	96,204
Maintenance	16,189	19,326	12,874
Commissions and fees	294,521	253,571	234,211
Insurance	5,600	5,747	4,454
Transportation	3,684	2,670	2,930
Depreciation	335,191	301,923	266,553
Amortization of intangible assets	11,080	9,245	8,811
Taxes and dues	108,364	93,591	86,174
Rent	135,992	109,322	108,145
Others	37,503	34,078	29,822
	₩ 2,452,483	₩ 2,166,568	\$ 1,950,284

28. Income Taxes

(a) The Company was subject to income taxes on taxable income at the following normal tax rates:

	Taxable income				Tax rate
Prior to 2008	Thereafter	Prior to 2008	2008	2009	Thereafter
Up to ₩ 100 million	Up to ₩ 200 million	14.3%	12.1%	12.1%	11.0%
Over ₩ 100 million	Over ₩ 200 million	27.5%	27.5%	24.2%	22.0%

In December 2008, the Korean government reduced the corporate income tax rate (including resident tax) and increased the tax base from $\mbox{$W$}100$ million to $\mbox{$W$}200$ million beginning in 2008. Effective January 1, 2008, the income tax rate for those having their taxable income less than $\mbox{$W$}200$ million was reduced from 14.3 % to 12.1%.

2008 LOTTE SHOPPING ANNUAL REPORT

6F ZONE 89 NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

(b) The components of income tax expense for the years ended December 31, 2008 and 2007 are summarized as follows:

	2008	2007	2008
		In KRW millions, Ir	n USD thousands (note 3)
Current income tax expense	₩ 220,752	₩ 203,945	\$ 175,548
Deferred income tax expense	(54,845)	66,744	(43,614)
Income taxes directly charged (credited) to equity	18,244	(4,953)	14,508
INCOME TAX EXPENSE	₩ 184,151	₩ 265,736	\$ 146,442

(c) 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, and the change in deferred tax assets (liabilities) due to the change in the income tax rate amounting to $\pm 29,289$ was recognized in current income tax expense.

(d) The income tax expense calculated by applying statutory tax rates to the Company's taxable income for the year differs from the actual tax expense in the statement of income for the years ended December 31, 2008 and 2007 for the following reasons:

	2008	2007	2008
		In KRW millions, In l	JSD thousands (note 3)
Income before income taxes	₩ 926,975	₩ 957,870	\$ 737,157
Expense for income taxes at normal tax rates	254,888	263,401	202,694
Adjustments			
Non-taxable income	(766)	(225)	(609)
Non-deductible expense	967	527	769
Tax credit	[4,619]	(5,708)	(3,674)
The change in the income tax rate	(29,289)	-	(23,291)
Change in temporary differences	(37,030)	7,741	(29,447)
Income tax expense	₩ 184,151	₩ 265,736	\$ 146,442
EFFECTIVE TAX RATE	% 19.9	% 27.7	% 19.9

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NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

(e) The tax effects of temporary differences that result in significant portions of the deferred tax assets and liabilities as of December 31, 2008 and 2007 are presented below:

	2008	2007	2008
		In KRW millions, In I	JSD thousands (note 3)
Deferred tax assets			
Allowance for doubtful accounts	₩ 1,122	₩ 877	\$ 893
Impairment losses on available-for-sale securities	16	20	13
Accrual for bonus points reward program	7,455	8,075	5,929
Accrued expenses (bonus)	3,404	3,207	2,707
Available-for-sale securities	19	24	15
Negative other comprehensive income			
due to equity method of accounting	3,001	13	2,386
Loss on foreign currency translation	39,361	-	31,301
Others	2,609	2,368	2,075
Total deferred tax assets	₩ 56,987	₩ 14,584	\$ 45,319
Deferred tax liabilities			
Depreciation	₩ 3,293	₩ 4,120	\$ 2,618
Accrued interest income	1,115	3,499	887
Disallowed financing costs capitalized	13,593	17,512	10,810
Land	888	1,111	707
Equity method investment securities	105,943	136,389	84,249
Unrealized gain on valuation of available-for-sale securities	2,531	14,595	2,013
Capital surplus due to use of equity method	-	34	-
Capital adjustment due to use of equity method	28	-	22
Other comprehensive income due to equity method of accounting	16,379	13,869	13,025
Unrealized gain on valuation of derivative instruments	34,918	-	27,768
Total deferred tax liabilities	₩ 178,688	₩ 191,129	\$ 142,099
NET DEFERRED TAX LIABILITY	₩ (121,701)	₩ (176,545)	\$ (96,780)

(f) The Company did not recognize deferred tax assets in the amount of ₩1,132 million and ₩32,439 million arising from the taxable temporary differences associated with the impairment losses on available-for-sale securities and equity method securities as of December 31, 2008, respectively, as the temporary differences are not expected to reverse in the foreseeable future. Also, the Company did not recognize deferred tax liabilities in the amount of ₩160,369 million arising from the taxable temporary differences associated with revaluation of land as of December 31, 2008, since it is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

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NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

(g) As of December 31, 2008, details of aggregate deferred tax assets (liabilities) are as follows:

		Deferred Tax Assets (Liabilities)
	Temporary differences at December 31, 2008	Current	Non-current In KRW millions
Assets			
Allowance for doubtful accounts	₩ 4,638	₩ 1,122	₩ -
Impairment losses on available-for-sale securities	5,220	-	16
Accrual for bonus points reward program	30,808	7,455	_
Accrued expenses (bonuses)	14,065	3,404	_
Available-for-sale securities	87	-	19
Negative other comprehensive income			
due to equity method of accounting	19,498	-	3,001
Loss on foreign currency translation	178,913	-	39,361
Others	11,173	1,669	940
	₩ 264,402	₩ 13,650	₩ 43,337
Liabilities			
Depreciation	₩ 14,967	₩ -	₩ 3,293
Accrued interest income	4,608	1,115	-
Disallowed financing costs capitalized	61,788	-	13,593
Land	4,038	-	888
Equity method investment securities	725,995	-	105,943
Land (reserve for advance depreciation)	728,951	-	-
Unrealized gain on valuation of available			
-for-sale securities	11,505		2,531
Capital adjustment due to use of equity method	(16,243)	-	28
Other comprehensive income due to			
equity method of accounting	90,037		16,379
Unrealized gain on valuation of derivative instrumer	nts 158,717	-	34,918
	₩ 1,784,363	₩ 1,115	₩ 177,573
NET DEFERRED INCOME TAX ASSET (LIABILITY)	₩ (1,519,961)	₩ 12,535	₩ (134,236)

(h) The deferred tax assets (liabilities) that were directly charged (credited) to other comprehensive income for the year ended December 31, 2008 are as follows:

	Temporary differences	Deferred tax assets (liabilities)	Temporary differences	Deferred tax assets (liabilities)
Unrealized loss on valuation of available -for-sale securities	₩ (41.569)	₩ 12.064	In KRW millions, In US	SD thousands (note 3) \$ 9.594
Capital surplus on equity method	(1,262)	34	(1,003)	27
Capital adjustments under the equity method	(16,243)	(28)	(12,917)	(22)
Unrealized gain on investments under equity method, net	16,784	479	13,347	380
Unrealized loss on valuation of derivative instruments	(25,887)	5,695	(20,586)	4,529
	₩ (68,177)	₩ 18,244	\$ (54,216)	\$ 14,508

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NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

29. Earnings Per Share

Earnings per share for the years ended December 31, 2008 and 2007 are as follows:

	2008	2007	2008
ln	KRW millions (except per share amount)	, In USD thousands (except pe	r share amount)(note 3)
Net income	₩ 742,824	₩ 692,134	\$ 590,715
Weighted-average number of common shares outstanding	29,043,374	29,043,374	29,043,374
EARNINGS PER SHARE IN WON AND U.S. DOLLARS	₩ 25,576	₩ 23,831	\$ 20.34

30. Dividends

the years ended December 31, 2008 and 2007 are as follows: 2008 and 2007 are as follows:

(a) Dividends as a percentage of net income and par value for (b) Dividend yield ratio for the years ended December 31,

	2008	2007	2008		2008	2007	2008
	In KRW milli	ons, In USD thou	sands (note 3)		In KRW million	ns, In USD thousa	inds (note 3)
Dividend amount				Dividend per share	₩1,250	₩1,250	\$1
(Cash dividends)	₩ 36,304	₩ 36,304	\$ 28,870	Market price as of year end	210,000	413,000	167
Net income	₩ 742,824	₩ 692,134	\$ 590,715	Dividend yield ratio	0.60%	0.30%	0.60%
Dividends as a							
percentage of net income	4.89%	5.25%	4.89%				
Par value per share	₩ 5,000	₩ 5,000	\$4				
Dividends as a			-				
percentage of par value	25.0%	25.0%	25.0%				

31. Commitments and Contingencies

(a) As of December 31, 2008, the Company has various forms of credit facility commitments with financial institutions as follows:

Credit line	under credit facility
	In KRW millions, In USD thousands
₩ 65,000	₩ 1
₩ 100,000	₩ -
₩ 816,000	₩ 188,107
US\$ 18,000	US\$ 7,386
US\$ 2,000	US\$ -
₩ 981,000	₩ 188,108
US\$ 20,000	US\$ 7,386
	₩ 100,000 ₩ 816,000 US\$ 18,000 US\$ 2,000 ₩ 981,000

(b) As of December 31, 2008, the Company has provided the note of \$10,000 million as collateral for short-term borrowings from Korea Agro-Fisheries Trade Corporation.

LOTTE SHOPPING ANNUAL REPORT

6F **ZONE 93** NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

(c) The Company entered into operating lease contracts with Lotte Midopa Co., Ltd. and Lotte Station Building Co., Ltd.. Details of the lease as of December 31, 2008 are as follows:

Lessor	Location	Beiginning date	Expiration date	Guarantee deposit amount	Monthly rent
					In KRW millions
Lotte Midopa Co., Ltd.	Namdaemun-ro,				
	Jung-gu, Seoul	Nov. 18, 2003	Nov. 17, 2023	₩ 36,500	355
Lotte Station Building Co., Ltd.	Nammoon-ro,				
	Sangdang-gu, Cheongju	Feb. 23, 2007	Feb. 22, 2027	5,000	251
				₩ 41,500	606

(d) The Company entered into 8 contracts with J&Jisan Co., Ltd. and others for the future lease of its buildings and recorded long-term advance payments of $\pm 52,030$ million as of December 31, 2008. Long-term advance payment will transfer to guarantee deposits when the terms of lease begin.

(e) As of December 31, 2008, the Company is the plaintiff in various lawsuits claiming damages of ₩23,441 million and the Company is the defendant in various lawsuits with damage claims totaling ₩8,762 million. Management believes that the ultimate resolution of these legal actions will not have a material adverse effect on the financial position or operations of the Company; accordingly, the Company has not accrued any liability for possible losses in the accompanying nonconsolidated financial statements.

32. Comprehensive Income

Comprehensive income for the years ended December 31, 2008 and 2007 was as follows:

	2008	2007	2008
		In KRW millions, In l	JSD thousands (note 3)
Net income	₩ 742,824	₩ 692,134	\$ 590,715
Change in unrealized gain on valuation of			
available-for-sale securities, net of tax effect of			
₩12,064 million in 2008 and ₩(6,254) million in 2007	(29,505)	11,746	(23,463)
Change in unrealized gain on valuation of			
equity method investments, net of tax effect of			
₩479 million in 2008 and ₩(74) million in 2007	17,263	3,074	13,727
Change in unrealized loss on valuation of			
derivative, net of tax effect of			
₩5,695 million in 2008 and ₩92 million in 2007	(20,192)	(243)	(16,057)
COMPREHENSIVE INCOME	₩ 710,390	₩ 706,711	\$ 564,922

6F ZONE 94 NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

33. Non-cash Investing and Financing Activities

Significant non-cash investing and financing activities for the year ended December 31, 2008 and 2007 are summarized as follows:

	2008	2007	2008
		In KRW millions, In	USD thousands (note 3)
Construction-in-progress transferred to property,			
plant and equipment and intangible assets	₩ 694,766	₩ 744,595	\$ 552,498
Acquisition of equity method investment			
securities through in-kind exchange	37,418	-	29,756
Other investment assets transferred to			
equity method investment securities	5,702	123,644	4,534

34. Cumulative Effect of Change in Accounting

The Company changed its accounting policy on equity method accounted investments in conformity with SKAS No. 15, Investment In Associates, revised February 22, 2008 which requires the difference between the acquisition cost of minority interest of subsidiaries and book value of net assets transferred to be recorded in capital surplus or capital adjustment, as appropriate, resulting in net assets of non-consolidated financial statements to equal those of consolidated financial statements.

This change in accounting policy resulted in an increase in gain on valuation of equity method investment securities by \$3,118 million for the year ended December 31, 2008. In addition, this resulted in increases in capital surplus by \$1,228 million and unappropriated retained earnings by \$12,482 million, and decrease in equity method investment securities by \$12,182 million and unrealized holding gain on equity method investments, net by \$20,515 million as of December 31, 2008, respectively. The Company restated prior period's non-consolidated financial statements in accordance with the transitional guidance required for changes in accounting policy.

The cumulative effects due to the retrospective adjustment for the prior three years are summarized as follows:

	200	07	200)6	20	05
Account	Before	As Adjusted	Before	As Adjusted	Before	As Adjusted In KRW millions
Equity in income of affiliates	₩ 209,129	₩ 212,247	₩ 234,609	₩ 237,727	₩ 159,811	₩ 162,929
Income before income taxes	954,753	957,870	985,943	989,060	728,779	731,896
Income taxes	265,292	265,736	246,099	246,543	182,562	183,006
Net income	689,461	692,134	739,844	742,517	546,217	548,890
Basic earnings per share in Won	23,739	23,831	26,399	26,494	27,311	27,445
Equity method investment securities	2,112,201	2,096,901	1,433,835	1,415,417	1,135,699	1,114,164
Deferred income tax liabilities	192,214	186,393	131,942	125,677	82,132	75,422
Other capital surplus	1,043,985	1,045,213	1,043,985	1,045,247	1,043,985	1,045,247
Unrealized gain on investments						
under equity method, net	60,413	39,898	57,373	36,824	50,600	30,051
RETAINED EARNINGS	₩ 702,789	₩ 712,598	₩ 753,263	₩ 760,398	₩ 556,298	₩ 560,760

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6F ZONE 95 NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

35. Segment Information

(a) The Company's major business segments consist of department stores (retail), marts (retail) and others (construction, foods manufacturing, movie theaters and supermarkets).

(b) Financial information by business segment for the years ended December 31, 2008 and 2007 is summarized as follows:

	2008				2007			
	Department stores	Marts	Other	Total	Department stores	Marts	Other	Total In KRW millions
Sales	₩ 5,456,646	₩ 4,060,041	₩ 1,037,105 +	₩ 10,553,792	₩ 5,206,453	₩ 3,805,319	₩ 756,360	₩ 9,768,132
Operating								
income	639,056	110,567	19,366	768,989	645,727	104,721	6,223	756,671
Depreciation a	ind							
amortization	151,990	141,850	72,860	366,700	141,970	131,154	59,254	332,378

	2008				2007			
	Department stores	Marts	Other	Total	Department stores	Marts	Other	Total
							In USD	thousands (note 3)
Sales	\$ 4,339,281	\$ 3,228,661	\$ 824,736	\$ 9,768,132	\$ 4,140,321	\$ 3,026,099	\$ 601,478	\$ 7,767,898
Operating								
income	508,195	87,926	15,402	756,671	513,501	83,277	4,948	601,726
Depreciation a	nd							
amortization	120,867	112,803	57,940	332,378	112,899	104,297	47,120	264,316

(c) Property, plant and equipment and intangible asset net information for the major segments as of December 31, 2008 and 2007 is summarized as follows:

	2008				2007			
	Department stores	Marts	Other	Total	Department stores		Other	Total
Property, plant								III KIKW IIIILIOIIS
and equipment	₩ 3,689,429	₩ 3,024,807	₩ 346,745	₩ 7,060,981	₩ 3,498,658	₩ 2,913,052	₩ 329,166	₩ 6,740,876
Intangible asset	s 30,762	59,395	41,373	131,530	11,108	61,721	39,695	112,524
TOTAL	₩ 3,720,191	₩ 3,084,202	₩ 388,118	₩ 7,192,511	₩ 3,509,766	₩ 2,974,773	₩ 368,861	₩ 6,853,400

	2008				2007			
	Department stores		Other	Total	Department stores	Marts	Other	Total
							In USE) thousands (note 3)
Property, plant								
and equipment	\$ 2,933,939	\$ 2,405,413	\$ 275,742	\$ 5,615,094	\$ 2,782,233	\$ 2,316,543	\$ 261,762	\$ 5,360,538
Intangible asset	s 24,463	47,233	32,900	104,596	8,833	49,082	31,567	89,482
TOTAL	\$ 2,958,402	\$ 2,452,646	\$ 308,642	\$ 5,719,690	\$ 2,791,066	\$ 2,365,625	\$ 293,329	\$ 5,450,020

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INDEPENDENT ACCOUNTANTS' REVIEW REPORT ON INTERNAL ACCOUNTING CONTROL SYSTEM

ENGLISH TRANSLATION OF A REPORT ORIGINALLY ISSUED IN KOREAN

TO THE PRESIDENT OF LOTTE SHOPPING CO., LTD.;

We have reviewed the accompanying Report on the Operations of Internal Accounting Control System ("IACS") of Lotte Shopping Co., Ltd. (the "Company") as of December 31, 2008. The Company's management is responsible for designing and maintaining effective IACS and for its assessment of the effectiveness of IACS. Our responsibility is to review management's assessment and issue a report based on our review. In the accompanying report of management's assessment of IACS, the Company's management stated: "Based on the assessment on the operations of the IACS, the Company's IACS has been effectively designed and is operating as of December 31, 2008, in all material respects, in accordance with the IACS Framework issued by the Internal Accounting Control System Operation Committee."

We conducted our review in accordance with IACS Review Standards, issued by the Korean Institute of Certified Public Accountants. Those Standards require that we plan and perform the review to obtain assurance of a level less than that of an audit as to whether Report on the Operations of Internal Accounting Control System is free of material misstatement. Our review consists principally of obtaining an understanding of the Company's IACS, inquiries of company personnel about the details of the report, and tracing to related documents we considered necessary in the circumstances. We have not performed an audit and, accordingly, we do not express an audit opinion.

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6F ZONE 97 INDEPENDENT ACCOUNTANTS' REVIEW REPORT ON INTERNAL ACCOUNTING CONTROL SYSTEM

A company's IACS is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, however, IACS may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on our review, nothing has come to our attention that the Report on the Operations of Internal Accounting Control System as of December 31, 2008 is not prepared in all material respects, in accordance with IACS Framework issued by the Internal Accounting Control System Operation Committee.

This report applies to the Company's IACS in existence as of December 31, 2008. We did not review the Company's IACS subsequent to December 31, 2008. This report has been prepared for Korean regulatory purposes, pursuant to the External Audit Law, and may not be appropriate for other purposes or for other users.

KPMG Samjong Accounting Corp.

February 12, 2009

This report is annexed in relation to the audit of the non-consolidated financial statements as of December 31, 2008 and the review of internal accounting control system pursuant to Article 2-3 of the Act on External Audit for Stock Companies of the Republic of Korea.

6F ZONE 98 REPORT ON THE OPERATIONS OF INTERNAL ACCOUNTING CONTROL SYSTEM JANUARY 22, 2009

TO THE BOARD OF DIRECTORS AND INTERNAL AUDITOR (AUDIT COMMITTEE) OF LOTTE SHOPPING CO., LTD.;

I, as the Internal Accounting Control Officer ("IACO") of Lotte Shopping Co., Ltd. (the "Company"), have assessed the status of the design and operations of the Company's internal accounting control system ("IACS") for the year ended December 31, 2008.

The Company's management including IACO is responsible for the design and operations of its IACS. I, as the IACO, have assessed whether the IACS has been effectively designed and is operating to prevent and detect any error or fraud which may cause any misstatement of the financial statements, for the purpose of establishing the reliability of financial reporting and the preparation of financial statements for external purposes. I, as the IACO, applied the IACS Framework for the assessment of design and operations of the IACS.

Based on the assessment of the operations of the IACS, the Company's IACS has been effectively designed and is operating as of December 31, 2008, in all material respects, in accordance with the IACS Framework issued by the Internal Accounting Control System Operation Committee.

Hyun Soo, Kim

Internal Accounting Control Officer

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Chul Woo, Lee

Chief Executive Officer or President

January 22, 2009

2008 LOTTE SHOPPING ANNUAL REPORT

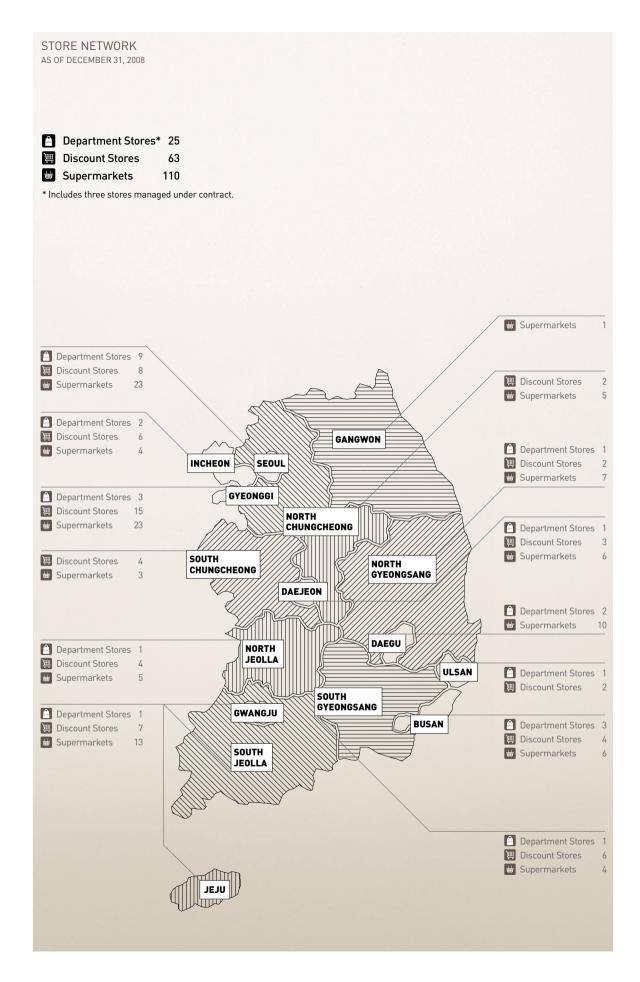
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CONSOLIDATED INCOME STATEMENTS

YEARS ENDED DECEMBER 31,2008 AND 2006

	2008	2007	2006
	In KRW millions	In KRW millions	In KRW millions
Net sales	₩ 12,839,317	₩ 11,063,229	₩ 10,005,983
Gross profit	₩ 4,057,260	₩ 3,481,740	₩ 3,074,190
SG&A expenses	₩ 3,045,238	₩ 2,610,498	₩ 2,103,749
Operating profit	₩ 1,012,022	₩ 871,241	₩ 970,441
Non-operating profit	₩ 407,935	₩ 337,318	₩ 249,425
Interest income	66,021	78.481	112.419
Dividend income	3,107	1,941	1,795
Gain on valuation using the equity method	71,532	39,934	86,436
Gain on foreign currency transactions	826	4,910	3,283
Gain on foreign currency translation	5,907	1	8,363
Gain on disposal of property, plant and equipment	48,888	397	4,336
Reversal of allowance for doubtful accounts	27	14	54
Gain on prior period error correction	-	_	-
Others	211,627	211,640	32,739
Non-operating expenses	₩ 341,312	₩ 93,763	₩ 195,213
Interest expense	35,701	38,121	90,433
Loss on valuation using the equity method	69,837	20,643	2,184
Loss on foreign currency transactions	850	162	16,298
Loss on foreign currency translation	190,382	5	25,781
Loss on disposal of trade accounts receivable	-	-	-
Loss on disposal of property, plant and equipment	13,912	646	19,520
Donations	8,284	15,611	4,130
Loss on prior period error correction	-	-	-
Additional income tax for prior periods	-	_	11,339
Others	22,346	18,575	25,528
Ordinary income	₩ 1,078,646	₩ 1,114,796	₩ 1,024,653
Net profit	₩ 786,177	₩ 753,833	₩ 775,172

6F ZONE 100



2008 LOTTE SHOPPING ANNUAL REPORT

6F ZONE 101

MILESTONES

1979~2008

LEADING KOREAN RETAIL INTO A GLOBAL FUTURE

At Lotte Shopping, we've been winning the hearts of Korean shoppers with top global brands, unique shopping experiences, and unrivaled service since 1979. Over the past three decades, we've expanded our operations from department stores into virtually every segment of retail with discount, supermarket, specialty, and home shopping channels. As we continue to expand these channels across Korea, we are now accelerating our advance into the global marketplace as we begin the next phase in our strategy to become one of the world's favorite retailers.

November 1979
Lotte Shopping Co., Ltd. is founded
December 1979
Opened first Lotte department store
June 1996
Launched LotteShopping.com
April 1998
Opened first Lotte Mart
January 2000
Spun off LotteShopping.com
to create Lotte.com
₩ May 2001
Opened first Lotte Super
Spenied met zette edpe.
October 2002
Acquired Nowon department store
from Midopa
MA November 2002
November 2003
Opened Lotte Young Plaza
December 2003
Spun off credit card business to
subsidiary Lotte Card
₩ March 2004
Acquired 25 supermarkets from Hanhwa Super
Hom Hamiwa Super

March 2005

Opened Avenuel

February 2006

Listed on London and Korean stock exchanges

August 2006

Acquired majority stake in Woori Home Shopping

September 2007

Opened first overseas department store in Moscow

December 2007

Entered Chinese discount store market with acquisition of Makro

August 2008

Opened second overseas department store in Beijing

October 2008

Entered Indonesian discount store market with acquisition of Makro

Opened first Lotte Outlets in Gwangju

December 2008

Opened first Lotte Premium Outlets in Gimhae

Opened first discount store in Vietnam

Operated 25 department stores, 63 discount stores, and 110 supermarkets in Korea

LOTTE GROUP
AS OF DECEMBER 2008

6F ZONE 102

BRINGING CONSUMERS THE BEST OF THE BEST

The Lotte Group was born back in 1967 when a businessman named Shin Kyukho returned to his native land and founded Lotte Confectionery. From this humble beginning as a chewing-gum maker, Lotte has expanded and diversified over the past four decades to become a domestic leader in the retail, heavy chemical, food and beverage, tourism and leisure, and construction sectors. Today, Lotte is one of Korea's top-five business groups and a vertically integrated powerhouse in the retail, food and beverage, and tourism and leisure sectors.

LOTTE GROUP

RETAIL

CINEMA TRADING
FRL KOREA
KOREA SEVEN
LOTTE ASAHI LIQUOR
LOTTE.COM
LOTTE LOGISTICS
LOTTE MIDOPA
LOTTE SHOPPING
LOTTE STATION BUILDING
LOTTE TRADING
WOORI HOME SHOPPING

TOURISM & LEISURE

BUSAN LOTTE HOTEL HOTEL LOTTE LOTTE JTB LOTTE MOOLSAN

HEAVY CHEMICALS

HONAM PETROCHEMICAL
KOREA FUJI FILM
KP CHEMICAL
KP CHEMTECH
LOTTE DAESAN PETROCHEMICAL
SEETEC

FOOD & BEVERAGE

DAESUN DISTILLING
FOOD STAR
LOTTERIA
LOTTE BOULANGERIE
LOTTE CHILSUNG BEVERAGE
LOTTE CONFECTIONERY
LOTTE FRESH DELICA
LOTTE PHARMACEUTICAL
LOTTE SAMKANG
WELLGA

OTHER SECTORS

CHEONGNA ENERGY

DAEHONG COMMUNICATIONS
DAESAN MMA
LOTTE ALUMINIUM
LOTTE ASSET DEVELOPMENT COMPANY
LOTTE CAPITAL
LOTTE CARD
LOTTE DATA COMMUNICATION
LOTTE ENGINEERING & CONSTRUCTION
LOTTE ENGINEERING & MACHINERY MFG.
LOTTE GIANTS
LOTTE INSURANCE

CANON KOREA BUSINESS SOLUTIONS

7F

WE HAVE A VISION FOR RETAIL

At Lotte Shopping, we aspire to be one of the world's favorite retailers. It's an ambitious vision that's taking us to new places around the globe, engaging consumers in creative new ways, and fostering new win-win green partnerships with our vendors as we lead retail into a more profitable and sustainable future.

7F ZONE 104



NEW

Whether it's Korea, Russia, China, Vietnam, or Indonesia, our goal is one and the same—superior customer satisfaction. And we plan to deliver even

more of it to consumers in these and other emerging retail markets in the years ahead.











As traditional retail formats mature and

markets approach saturation, creative thinking and savvy investment become critical for growth.

Our new outlet mall formats are just one of the ways we're creating engaging, profitable new shopping experiences that keep customers coming back for more.

7F ZONE 106





Sustainable growth is one of the biggest challenges businesses face today. But companies are only as sustainable as their weakest vendors.

That's why we've renewed our commitment to our vendors with win-win green partnerships that will help us create a more profitable, sustainable future together.



WHAT'S IN STORE NEXT?

We hope you enjoyed your tour. Please drop by our investor relations website regularly to keep up with the latest Lotte Shopping news and find out what we have in store next for the world of retail.

ir.lotteshopping.com

