

LOTTE SHOPPING CO., LTD.

Non-Consolidated Financial Statements

December 31, 2008 and 2007

(With Independent Auditors' Report Thereon)

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Independent Auditors' Report

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.
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.

LOTTE SHOPPING CO., LTD.

Non-Consolidated Balance Sheets

As of December 31, 2008 and 2007

<u>Assets</u>	<u>Korean Won (millions)</u>		<u>U.S. dollars</u> <u>(thousands)</u> <u>(note 2)</u>
	<u>2008</u>	<u>2007</u>	<u>2008</u>
Current assets:			
Cash and cash equivalents (note 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 ₩2,683 million in 2008 and ₩2,838 million in 2007 (note 9)	234,714	247,543	186,651
Other accounts receivable, net of allowance for doubtful accounts of ₩2,813 million in 2008 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 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

See accompanying notes to non-consolidated financial statements.

LOTTE SHOPPING CO., LTD.

Non-Consolidated Balance Sheets, Continued

As of December 31, 2008 and 2007

<u>Liabilities and Stockholders' Equity</u>	<u>Korean Won (millions)</u>		<u>U.S. dollars</u> <u>(thousands)</u> <u>(note 2)</u>
	<u>2008</u>	<u>2007</u>	<u>2008</u>
Current 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 ₩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
Total current liabilities	3,147,473	3,292,611	2,502,961
Long-term liabilities:			
Debentures, net of discount of ₩8,227 million in 2008 (notes 14, 16 and 20)	899,001	-	714,911
Leasehold deposits (note 17)	244,808	246,011	194,679
Accrual for retirement and severance benefits, net (note 18)	47,503	43,265	37,775
Deferred income tax liabilities (note 28)	134,236	186,393	106,748
Total long-term liabilities	1,325,548	475,669	1,054,113
Total liabilities	4,473,021	3,768,280	3,557,074
Stockholders' equity:			
Common stock of ₩5,000 par value (note 21)			
Authorized - 60,000,000 shares			
Issued and outstanding - 29,043,374 shares	145,217	145,217	115,481
Capital surplus (note 21)	4,650,895	4,652,123	3,698,525
Capital adjustments (note 22)	(16,271)	-	(12,939)
Accumulated other comprehensive income (note 23)	45,943	78,377	36,535
Retained earnings (note 24)	4,004,878	3,298,358	3,184,794
Total stockholders' equity	8,830,662	8,174,075	7,022,396
Commitments and contingencies (note 31)			
Total liabilities and stockholders' equity	₩ 13,303,683	11,942,355	\$ 10,579,470

See accompanying notes to non-consolidated financial statements.

LOTTE SHOPPING CO., LTD.

Non-Consolidated Statements of Income

For the years ended December 31, 2008 and 2007

	Korean Won (millions, except for earnings per share)		U.S. dollars (thousands, except for earnings per share)
	2008	2007	2008
Sales (notes 9, 25, 26 and 35)	₩ 10,553,792	9,768,132	\$ 8,392,678
Cost of sales (notes 9, 25 and 26)	<u>7,332,320</u>	<u>6,844,893</u>	<u>5,830,871</u>
Gross profit	3,221,472	2,923,239	2,561,807
Selling and administrative expenses (notes 9 and 27)	<u>2,452,483</u>	<u>2,166,568</u>	<u>1,950,284</u>
Operating income (note 35)	<u>768,989</u>	<u>756,671</u>	<u>611,523</u>
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 (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	<u>13,528</u>	<u>22,301</u>	<u>10,758</u>
	<u>522,908</u>	<u>307,866</u>	<u>415,831</u>
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)	111,684	38,746	88,814
Loss on disposition of property, plant and equipment	13,610	642	10,823
Others	<u>25,583</u>	<u>30,399</u>	<u>20,345</u>
	<u>364,922</u>	<u>106,667</u>	<u>290,197</u>
Income before income taxes	926,975	957,870	737,157
Income taxes (note 28)	<u>184,151</u>	<u>265,736</u>	<u>146,442</u>
Net income	₩ <u>742,824</u>	<u>692,134</u>	\$ <u>590,715</u>
Basic earnings per share in Won and U.S. dollars (note 29)	₩ <u>25,576</u>	<u>23,831</u>	\$ <u>20.34</u>

See accompanying notes to non-consolidated financial statements.

LOTTE SHOPPING CO., LTD.

Non-Consolidated Statements of Appropriation of Retained Earnings

For the years ended December 31, 2008 and 2007

	Korean Won (millions)		U.S. dollars (thousands) (note 2)
	2008	2007	2008
Unappropriated retained earnings:			
Balance at beginning of year	₩ 22,669	20,464	\$ 18,027
Net income	<u>742,824</u>	<u>692,134</u>	<u>590,715</u>
Balance at end of year before appropriation (note 24)	765,493	712,598	608,742
Transfer from voluntary reserves:			
Reserve for finance structure improvement	<u>-</u>	<u>5</u>	<u>-</u>
Unappropriated retained earnings available for appropriation	<u>765,493</u>	<u>712,603</u>	<u>608,742</u>
Appropriation of retained earnings:			
Legal reserve	3,630	3,630	2,887
Voluntary reserve	710,000	650,000	564,612
Cash dividends (note 30) – 25.00% on par value at ₩1,250 per share	<u>36,304</u>	<u>36,304</u>	<u>28,870</u>
	<u>749,934</u>	<u>689,934</u>	<u>596,369</u>
Unappropriated retained earnings to be carried over to subsequent year	₩ <u>15,559</u>	<u>22,669</u>	\$ <u>12,373</u>

See accompanying notes to non-consolidated financial statements.

LOTTE SHOPPING CO., LTD.

Non-Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2008 and 2007

		Korean Won (millions)					U.S. dollars (thousands) (note 2)	
		Capital stock	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Total equity	Total equity
Balance at January 1, 2007	₩	145,217	4,650,895	-	84,349	2,635,392	7,515,853	\$ 5,976,821
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	₩	<u>145,217</u>	<u>4,652,123</u>	<u>-</u>	<u>78,377</u>	<u>3,298,358</u>	<u>8,174,075</u>	<u>\$ 6,500,258</u>
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 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)	(36,304)	(28,870)
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	₩	<u>145,217</u>	<u>4,650,895</u>	<u>(16,271)</u>	<u>45,943</u>	<u>4,004,878</u>	<u>8,830,662</u>	<u>\$ 7,022,396</u>

See accompanying notes to non-consolidated financial statements.

LOTTE SHOPPING CO., LTD.

Non-Consolidated Statements of Cash Flows

For the years ended December 31, 2008 and 2007

	Korean Won (millions)		U.S. dollars (thousands)
	2008	2007	(note 2) 2008
Cash flows from operating activities:			
Net income	₩ 742,824	692,134	\$ 590,715
Adjustments to reconcile net income to net cash provided 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
Changes 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
Payment of retirement and severance benefits	(50,188)	(26,355)	(39,911)
Deposit for severance benefit insurance	(4,596)	(16,912)	(3,656)
Others	(36,605)	61,791	(29,109)
Net cash provided by operating activities	₩ 1,018,185	917,002	\$ 809,687

See accompanying notes to non-consolidated financial statements.

LOTTE SHOPPING CO., LTD.

Non-Consolidated Statements of Cash Flows, Continued

For the years ended December 31, 2008 and 2007

	Korean Won (millions)		U.S. dollars (thousands) (note 2)
	2008	2007	2008
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
	<u>930,762</u>	<u>2,584,093</u>	<u>740,168</u>
Cash outflows for 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)
	<u>(2,453,839)</u>	<u>(2,989,891)</u>	<u>(1,951,362)</u>
Net cash used in investing activities	<u>(1,523,077)</u>	<u>(405,799)</u>	<u>(1,211,194)</u>
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
	<u>1,223,744</u>	<u>19,073</u>	<u>973,158</u>
Cash outflows for 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)
	<u>(876,182)</u>	<u>(810,837)</u>	<u>(696,765)</u>
Net cash provided by (used in) financing activities	<u>347,562</u>	<u>(791,764)</u>	<u>276,393</u>
Net decrease in cash and cash equivalents	(157,330)	(280,560)	(125,114)
Cash and cash equivalents at beginning of year	<u>467,026</u>	<u>747,586</u>	<u>371,393</u>
Cash and cash equivalents at end of year	₩ <u>309,696</u>	<u>467,026</u>	\$ <u>246,279</u>

See accompanying notes to non-consolidated financial statements.

LOTTE SHOPPING CO., LTD.

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 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 generally accepted in the Republic of Korea (Korean GAAP). Certain accounting principles applied by the Company that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles in other countries. Accordingly, these non-consolidated financial statements are intended solely for use by only those who are informed about Korean accounting principles and practices. The accompanying non-consolidated financial statements have been condensed, restructured and translated into English from the Korean language non-consolidated 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.

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2008 and 2007

(2) Summary of Significant Accounting Policies and Basis of Presenting Financial Statements, Continued

(a) Basis of Presenting Financial Statements, Continued

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 accounted for under the equity method of accounting (note 6).

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 merchandise that may be returned to vendors at any time.

(c) Allowance for Doubtful Accounts

Allowance for doubtful accounts is estimated based on an analysis of individual accounts and past experience of collection. However, when the principal of trade accounts and notes receivable, interest rate or repayment period are changed unfavorably for the Company by a court, such as on commencement of reorganization, or by mutual agreement and the difference between nominal value and present value is material, the difference is recognized as bad debt expense.

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2008 and 2007

(2) Summary of Significant Accounting Policies and Basis of Presenting 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 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-for-sale 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-to-maturity. 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 securities are classified as available-for-sale securities.

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2008 and 2007

(2) Summary of Significant Accounting Policies and Basis of Presenting Financial Statements, Continued

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

(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-consolidated income statement using the effective interest method.

(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.

(v) Presentation

Trading securities are presented as current assets. Available-for-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 current assets. Held-to-maturity securities, which mature within 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.

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2008 and 2007

(2) Summary of Significant Accounting Policies and Basis of Presenting Financial Statements, Continued

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

(vi) Impairment, Continued

An impairment loss is reversed if the reversal is objectively related to an event occurring after the impairment loss was recognized and a reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized in the asset in prior years. For held-to-maturity securities measured at amortized cost and available-for-sale securities that are debt securities, the reversal is recognized in profit or loss. For available-for-sale securities that are equity securities, the reversal is recognized directly in equity.

(f) Investments in Associates and Subsidiaries

Associates are entities where the Company has the ability to significantly influence its financial and operating policies. It is presumed to have significant influence if the Company holds directly or indirectly 20 percent or more of the voting power unless it can be clearly demonstrated that this is not the case. Subsidiaries are entities controlled by the Company.

Investments in associates and subsidiaries are accounted for using the equity method of accounting and are initially recognized at cost.

The Company's investments in associates and subsidiaries include goodwill identified on the acquisition date (net of any accumulated impairment loss). Goodwill is calculated as the excess of the acquisition cost of an investment in an associate or subsidiary over the Company's share of the fair value of the identifiable net assets acquired. Goodwill is amortized using the straight-line method over 10 years. Amortization of goodwill is recorded together with equity in earnings (losses).

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 non-consolidated statement of income.

The Company's share of its post-acquisition profits or losses in investments in associates and subsidiaries is recognized in the non-consolidated income statement, and its share of post-acquisition movements in equity is recognized in equity. The cumulative post-acquisition movements are adjusted against the carrying 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 declares the dividend. When the Company's share of losses in an associate or subsidiary equals or exceeds its interest in the associate or subsidiary, including preferred stock or other long term loans and receivables issued by the associate or subsidiary, the Company does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate or subsidiary. 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.

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2008 and 2007

(2) Summary of Significant Accounting Policies and Basis of Presenting Financial Statements, Continued

(f) Investments in Associates and Subsidiaries, Continued

If the investee is a subsidiary, net income and net assets of the parent company's separate financial statements should agree with the parent company's share in the net income and net assets 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

(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 non-consolidated financial statements, its share of the assets it jointly controls, the liabilities jointly incurred and net income (loss), plus the liabilities and expenses it has solely incurred, if any. In addition, the Company accounts for its interest in a jointly controlled entity using the equity method of accounting.

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2008 and 2007

(2) Summary of Significant Accounting Policies and Basis of Presenting Financial Statements, Continued

(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 are capitalized. However, normal maintenance and repairs are charged to expense as incurred.

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 business segment, depreciation is computed by the straight-line method, whereas machinery used in all other segments is computed by the declining-balance method. Estimated useful lives are as follows:

	<u>Useful lives (years)</u>
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.

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2008 and 2007

(2) Summary of Significant Accounting Policies and Basis of Presenting Financial Statements, Continued

(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:

	<u>Useful lives (years)</u>
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	5

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.

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2008 and 2007

(2) Summary of Significant Accounting Policies and Basis of Presenting Financial Statements, Continued

(j) Leases

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

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.

(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.

(l) 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 with the insurance company in trust. The deposit for severance 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.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2008 and 2007

(2) Summary of Significant Accounting Policies and Basis of Presenting Financial Statements, Continued

(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 stated at historical cost, are translated into Korean Won at the 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 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 foreign currency and interest rate risk exposures.

Derivatives are initially recognized at fair value on the date on 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 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.

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2008 and 2007

(2) Summary of Significant Accounting Policies and Basis of Presenting Financial Statements, Continued

(n) Derivatives and Hedge Accounting, Continued

(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 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 meets the criteria for hedge accounting, any cumulative gain or 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 immediately in current operations.

(o) Provisions and Contingent Liabilities

Provisions are recognized when all of the following are met: (1) an entity has a present obligation as a result of a past event, (2) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and (3) a reliable estimate can be made of the amount of the obligation. Where the effect of the time value of money is material, a provision is recorded at the present value of the expenditures expected to be required to settle the obligation.

Where the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognized as a separate asset only when it is virtually certain that the Company will receive reimbursement upon settlement of the obligation. The expense relating to a provision is presented net of the reimbursement.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2008 and 2007

(2) Summary of Significant Accounting Policies and Basis of Presenting Financial Statements, Continued

(p) Liability for Gift Certificates

Gift certificates are recognized as liabilities when they are sold and subsequently recognized as sales when redeemed. When the exercise period (5 years after sale) of gift certificates expires, the Company recognizes the income as other non-operating income.

(q) Income Taxes

Income tax on the income or loss for the period comprises of current and deferred tax. Income tax is recognized in the non-consolidated statement of income except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using enacted tax rates.

Deferred tax is provided using the asset and liability method, providing 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.

Deferred tax assets and liabilities are classified as current or non-current based on the classification of the related asset or liability for financial reporting or the expected reversal date of the temporary difference for those with no related asset or liability such as loss carryforwards and tax credit carryforwards. The deferred tax amounts are presented as a net current asset or liability and a net non-current asset or liability.

(r) Earnings Per Share

Earnings per common share are calculated by dividing net income by the weighted-average number of shares of common stock outstanding during each period.

(s) Use of Estimates

The preparation of non-consolidated financial statements in accordance with Korean GAAP requires management to make estimates and assumptions that affect the amounts reported in the non-consolidated financial statements and related notes to non-consolidated financial statements. Actual results could differ from those estimates.

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2008 and 2007

(3) Basis of Translating the Non-Consolidated Financial Statements

The non-consolidated financial statements are expressed in 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, 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 any other rate.

(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	Depository	Korean Won (millions)		U.S. dollars (thousands) (note 3)
		2008	2007	2008
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	-	9,940
Guarantee deposits for checking accounts	Shinhan Bank and others	31	31	25
Total		₩ 24,739	2,016	\$ 19,673

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2008 and 2007

(5) Inventories

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

Description	Korean Won (millions)		U.S. dollars (thousands) (note 3)
	2008	2007	2008
Merchandise, net of allowance for 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 ₩10,373 million and ₩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

(i) Equity securities

Description	Owned shares	Korean Won (millions)			U.S. dollars (thousands) (note 3)	
		Cost	2008 Fair value	2007 Book value	2008 Book value	
Marketable securities (*1):						
Busan Bank (*2)	3,892,318	₩ 18,041	22,653	22,653	61,109	\$ 18,015
Shinhan Financial Group	271,662	1,584	8,068	8,068	14,534	6,416
Eyesvision Corporation	20,256	491	27	27	73	21
Korea Investment Corporation	10,869	100	21	21	16	16
Korea Express Co., Ltd. (*3)	584,795	49,910	52,047	52,047	-	41,389
Subtotal		70,126	82,816	82,816	75,732	\$ 65,857

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2008 and 2007

(6) Investment in Securities, Continued

(a) Available-for-sale securities, Continued

(i) Equity securities, Continued

Description	Owned shares	Korean Won (millions)		U.S. dollars (thousands) (note 3)	
		2008		2007	
		Cost	Book value	Book value	Book value
Non-marketable securities (*4):					
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 Incheon 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	-	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
Total		₩ 117,768	130,383	82,446 \$	103,684

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2008 and 2007

(6) Investment in Securities, Continued

(a) Available-for-sale securities, Continued

- (*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.
- (*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.
- (*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

	Korean Won (millions)		U.S. dollars (thousands) (note 3)
	2008	2007	2008
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

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2008 and 2007

(6) Investment in Securities, Continued

(a) Available-for-sale securities, Continued

(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:

	Korean Won (millions)		U.S. dollars (thousands) (note 3)
	2008	2007	2008
Balance at beginning of period	₩ 38,479	26,733	\$ 30,599
Unrealized gains (losses) on valuation of securities, net of tax	<u>(29,505)</u>	<u>11,746</u>	<u>(23,463)</u>
Balance at end of period (note 23)	₩ <u>8,974</u>	<u>38,479</u>	\$ <u>7,136</u>

(b) Held-to-maturity Securities

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

	Korean Won (millions)		U.S. dollars (thousands) (note 3)
	2008	2007	2008
Current assets:			
Corporate debt securities	₩ 159,445	-	\$ 126,795
Non-current assets:			
Corporate debt securities (note 12)	<u>1,000</u>	<u>-</u>	<u>795</u>
Total	₩ <u>160,445</u>	<u>-</u>	\$ <u>127,590</u>

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2008 and 2007

(6) Investment in Securities, Continued

(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:

Affiliate	Owned shares	Percentage of ownership	2008		
			Korean Won (millions)		Balance at December 31, 2008
			Cost	Net asset value	
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

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2008 and 2007

(6) Investment in Securities, Continued

(c) Equity method accounted investments, Continued

Affiliate	Owned shares	Percentage of ownership	2007		
			Korean Won (millions)		
			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 ₩326,872 million and ₩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.

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2008 and 2007

(6) Investment in Securities, Continued

(c) Equity method accounted investments, Continued

(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:

Affiliate	2008				Balance at December 31, 2008
	Korean Won (millions)				
	Beginning balance	Increase (Decrease)	Amortization		
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

Affiliate	2007				Balance at December 31, 2007
	Korean Won (millions)				
	Beginning balance	Increase (Decrease)	Amortization		
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

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2008 and 2007

(6) Investment in Securities, Continued

(c) Equity method accounted investments, Continued

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

Affiliate	2008		
	Korean Won (millions)		
	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	-	(1,590)
Lotte Card Co., Ltd.	603	-	-
Woori Home Shopping & Television Co., Ltd.	9	-	-
Lotte Europe Holdings B.V.	-	(2,781)	-
Total	₩ 712	(2,781)	(1,590)

Affiliate	2007		
	Korean Won (millions)		
	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	-	(1,558)
Lotte Card Co., Ltd.	603	-	-
Woori Home Shopping & Television Co., Ltd.	9	-	-
Total	₩ 712	-	(1,558)

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2008 and 2007

(6) Investment in Securities, Continued

(c) Equity method accounted investments, Continued

(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:

Affiliate	Percentage of ownership	2008					Balance at December 31, 2008
		Korean Won (millions)					
		Beginning balance	Net income (loss)	Adjustment to		Other	
				comprehensive income(loss)	Other (*1)		
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., Ltd.	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	

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2008 and 2007

(6) Investment in Securities, Continued

(c) Equity method accounted investments, 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 ₩9,292 million.

Affiliate	Percentage of ownership	2007					Balance at December 31, 2007
		Korean Won (millions)					
		Beginning balance	Adjustment to			Other	
Net income (loss)	Other comprehensive income(loss)						
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., Ltd.	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	

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2008 and 2007

(6) Investment in Securities, Continued

(c) Equity method accounted investments, Continued

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

Affiliate	Korean Won (millions)			
	Total assets	Total liabilities	Sales	Net income (loss)
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.

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2008 and 2007

(7) Other Current Assets

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

	Korean Won (millions)		U.S. dollars (thousands) (note 3)
	2008	2007	2008
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:

<u>Joint venture investment</u>	<u>Ownership</u>	<u>Equity holder</u>	<u>Principal business</u>
Intime Lotte Department 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

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2008 and 2007

(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
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.

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2008 and 2007

(9) Transactions and Balances with Related Companies, Continued

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

Related company	2008			
	Korean Won (millions)			
	Revenue Sales and non-operating income	Expense and purchase		
		Purchase of goods	Fees and commissions	Other
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

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2008 and 2007

(9) Transactions and Balances with Related Companies, Continued

Related company	2007			
	Korean Won (millions)			
	Revenue Sales and non-operating income	Expense and purchase		
		Purchases of goods	Fees and commissions	Other
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	₩ <u>129,429</u>	<u>353,401</u>	<u>327,792</u>	<u>455,121</u>

(*) 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.

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2008 and 2007

(9) Transactions and Balances with Related Companies, Continued

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

Related company	2008						
	Korean Won (millions)						
	Receivables			Payables			
	Trade accounts receivable	Other accounts receivable	Other	Trade accounts payable	Other accounts payable	Other	
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	₩	<u>87,327</u>	<u>12,184</u>	<u>74,104</u>	<u>26,656</u>	<u>133,184</u>	<u>42,537</u>

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2008 and 2007

(9) Transactions and Balances with Related Companies, Continued

<u>Related company</u>	2007					
	Korean Won (millions)					
	Receivables			Payables		
	Trade accounts receivable	Other accounts receivable	Other	Trade accounts payable	Other accounts payable	Other
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	₩ <u>98,725</u>	<u>15,589</u>	<u>56,133</u>	<u>27,197</u>	<u>171,245</u>	<u>48,156</u>

(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.

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2008 and 2007

(9) Transactions and Balances with Related Companies, Continued

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

Related company	Guarantee recipient	2008	
		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 interest thereon

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 December 31, 2008
		Korean Won (millions)					
		Book value as of January 1, 2008	Acquisitions	Disposals	Depreciation	Transfers	
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	₩	<u>6,740,876</u>	<u>888,866</u>	<u>(193,023)</u>	<u>(337,856)</u>	<u>(37,882)</u>	<u>7,060,981</u>

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2008 and 2007

(10) Property, Plant and Equipment, Continued

		2007					
		Korean Won (millions)					
		Book value as of January 1, 2007	Acquisitions	Disposals	Depreciation	Transfers	Book value as of December 31, 2007
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	₩	<u>6,111,108</u>	<u>1,002,121</u>	<u>(21,326)</u>	<u>(305,028)</u>	<u>(45,999)</u>	<u>6,740,876</u>

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

		Korean Won (millions)	
		2008	
		Book value	Declared value
Land	₩	<u>3,025,720</u>	<u>4,666,724</u>

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 ₩67,244 million, received from Woori Bank, Shinhan Bank and other.

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2008 and 2007

(10) Property, Plant and Equipment, Continued

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

Type of insurance	Covered assets	Korean Won (millions)		U.S. dollars (thousands) (note 3)
		Amount covered		Amount covered
		2008	2007	2008
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 insurance	-	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

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2008 and 2007

(11) Intangible Assets

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

		2008				
		Korean Won (millions)				
		Book value as of January 1, 2008	Acquisition	Amortization	Others	Book value as of December 31, 2008
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	-	(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	₩	<u>112,524</u>	<u>18,273</u>	<u>(28,844)</u>	<u>29,577</u>	<u>131,530</u>
		2007				
		Korean Won (millions)				
		Book value as of January 1, 2007	Acquisition	Amortization	Others	Book value as of December 31, 2007
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	₩	<u>35,592</u>	<u>47,246</u>	<u>(27,350)</u>	<u>57,036</u>	<u>112,524</u>

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2008 and 2007

(12) Other Investment Assets

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

		Korean Won (millions)		U.S. dollars (thousands) (note 3)
		2008	2007	2008
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	₩	<u>42,413</u>	<u>16,602</u>	\$ <u>33,728</u>

(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	Korean Won (millions)	U.S. dollars (thousands) (note 3)	Guarantee for
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))	<u>15,478</u>	<u>12,308</u>	Guarantee deposits for performance of contracts
Total	₩ <u>40,217</u>	\$ <u>31,981</u>	

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

Guarantor	Korean Won (millions)	U.S. dollars (thousands) (note 3)	Guarantee for
Seoul Guarantee Insurance Company	₩ <u>135,073</u>	\$ <u>107,414</u>	Completion of construction

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2008 and 2007

(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		2007	
		Foreign currency (thousands)	Won equivalent (millions)	Foreign currency (thousands)	Won 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\$	<u>26,853</u>	₩ <u>33,774</u>	<u>7</u>	<u>7</u>
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	<u>29,000,000</u>	<u>404,228</u>	<u>6,556</u>	<u>55</u>

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2008 and 2007

(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 (%)	Korean Won (millions)		U.S. dollars (thousands) (note 3)
			2008	2007	2008
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

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2008 and 2007

(16) Debentures

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

Description	Maturity	Interest rate (%)	Korean Won (millions)		U.S. dollars (thousands) (note 3)
			2008	2007	2008
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 -
Denominated in foreign 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 debentures issued				(8,227)	(442) (6,543)
Total book value				899,001	549,558 714,911
Less:					
Current portion of debentures, net of discount				-	(549,558) -
			₩	899,001	- \$ 714,911

(b) Aggregate maturities of debentures as of December 31, 2008 are as follows:

Period	Korean Won (millions)	U.S. dollars (thousands) (note 3)
2009.01.01~2009.12.31	₩ -	\$ -
2010.01.01~2010.12.31	-	-
2011.01.01~2011.12.31	907,228	721,454
	₩ 907,228	\$ 721,454

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2008 and 2007

(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 ₩631,761 million.

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

<u>Period</u>	<u>Korean Won (millions)</u>	<u>U.S. dollars (thousands) (note 3)</u>
2009.1.1~2009.12.31	₩ 88,353	\$ 70,261
2010.1.1~2013.12.31	322,657	256,586
2014 and thereafter	<u>530,356</u>	<u>421,754</u>
Total	₩ <u>941,366</u>	\$ <u>748,601</u>

(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:

	<u>Korean Won (millions)</u>		<u>U.S. dollars (thousands) (note 3)</u>
	<u>2008</u>	<u>2007</u>	<u>2008</u>
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	<u>3,375</u>	<u>3,059</u>	<u>2,684</u>
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	<u>(90,128)</u>	<u>(85,532)</u>	<u>(71,673)</u>
Net balance at end of period	₩ <u>47,503</u>	<u>43,265</u>	\$ <u>37,775</u>

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2008 and 2007

(18) Retirement and Severance Benefits, Continued

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.

(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:

	Korean Won (millions)		U.S. dollars (thousands) (note 3)
	2008	2007	2008
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	₩ <u>30,808</u>	<u>29,362</u>	\$ <u>24,499</u>

(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	

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2008 and 2007

(20) Derivative Instruments and Hedge Accounting, Continued

(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:

<u>Contract amount (thousands)</u>	<u>Foreign exchange rate</u>	<u>Variable interest rate</u>	<u>Fixed interest rate</u>	<u>Maturity date</u>	<u>Bank</u>
US\$100,000	₩976.0 / US\$1	6M Libor+1.00%	3.98%	2011.4.29	BNP Paribas Bank and others
JPY18,000,000	₩10.0 / JPY1	6M Euro Yen Tibor+1.20%	5.13%	2011.5.29	The Bank of Tokyo-Mitsubishi UFJ and others
JPY11,000,000	₩10.2 / JPY1	3M Euro Yen Libor+1.60%	6.05%	2011.9.29	Mizuho Bank
US\$300,000	₩1,113.0 / US\$1	3M USD Libor+1.75%	5.52%	2011.10.17	BNP Paribas Bank and others

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

<u>Type of derivatives</u>	<u>Description</u>	<u>Related accounts</u>	<u>Korean Won (millions)</u>	<u>U.S. dollars (thousands) (note 3)</u>
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)

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2008 and 2007

(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 ₩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.

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

	<u>Korean Won (millions)</u>		U.S. dollars (thousands) (note 3)
	<u>2008</u>	<u>2007</u>	<u>2008</u>
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	<u>1,043,985</u>	<u>1,045,213</u>	<u>830,207</u>
	<u>₩ 4,650,895</u>	<u>4,652,123</u>	<u>\$ 3,698,525</u>

(i) Gain on capital reduction

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

(ii) Gain on merger

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

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2008 and 2007

(21) Capital Stock and Capital Surplus, Continued

(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:

<u>Date of revaluation</u>	<u>Total revaluation surplus</u>	<u>Revaluation tax</u>	<u>Transfer to capital</u>	<u>Others</u>	<u>Net revaluation surplus</u>
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 ₩1,188 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.

(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.

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2008 and 2007

(23) Accumulated Other Comprehensive Income

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

Account	Korean Won (millions)		U.S. dollars (thousands) (note 3)
	2008	2007	2008
Unrealized gain on valuation of available-for-sale securities, 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)
	₩ <u>45,943</u>	<u>78,377</u>	\$ <u>36,535</u>

(24) Retained Earnings

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

Account	Korean Won (millions)		U.S. dollars (thousands) (note 3)
	2008	2007	2008
Appropriated:			
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
	₩ <u>4,004,878</u>	<u>3,298,358</u>	\$ <u>3,184,794</u>

(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.

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2008 and 2007

(24) Retained Earnings, Continued

(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:

	Korean Won (millions)		U.S. dollars (thousands) (note 3)	
	2008	2007	2008	
Beginning of year	₩ 80,778	107,080	\$	64,237
Increase	2,141	725		1,702
Revenue recognized in current year	<u>(47,750)</u>	<u>(27,027)</u>		<u>(37,972)</u>
End of year	₩ <u>35,169</u>	<u>80,778</u>	\$	<u>27,967</u>

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

Project	Korean Won (millions)		U.S. dollars (thousands) (note 3)	
	Cumulative revenue	Cumulative cost	Cumulative revenue	Cumulative cost
Beome-dong project	₩ <u>83,484</u>	<u>66,976</u>	\$	<u>66,389</u>
				<u>53,261</u>

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2008 and 2007

(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:

	Korean Won (millions)		U.S. dollars (thousands) (note 3)
	2008	2007	2008
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)
	<u>10,553,792</u>	<u>9,768,132</u>	<u>8,392,678</u>
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)
	<u>7,193,257</u>	<u>6,723,894</u>	<u>5,720,285</u>
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)
	<u>39,294</u>	<u>38,254</u>	<u>31,248</u>
Cost of sales - apartments	38,308	21,683	30,463
Ancillary property operating cost	61,461	61,062	48,875
	<u>99,769</u>	<u>82,745</u>	<u>79,338</u>
	<u>7,332,320</u>	<u>6,844,893</u>	<u>5,830,871</u>
Gross profit	₩ <u>3,221,472</u>	<u>2,923,239</u>	\$ <u>2,561,807</u>

(*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.

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2008 and 2007

(27) Selling and Administrative Expenses

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

	Korean Won (millions)		U.S. dollars (thousands) (note 3)
	2008	2007	2008
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
	₩ <u>2,452,483</u>	<u>2,166,568</u>	\$ <u>1,950,284</u>

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2008 and 2007

(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 ₩100 million to ₩200 million beginning in 2008. Effective January 1, 2008, the income tax rate for those having their taxable income less than ₩200 million was reduced from 14.3 % to 12.1%.

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

	Korean Won (millions)		U.S. dollars (thousands) (note 3)
	2008	2007	2008
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	₩ <u>184,151</u>	<u>265,736</u>	\$ <u>146,442</u>

- (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 ₩29,289 was recognized in current income tax expense.

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2008 and 2007

(28) Income Taxes, Continued

(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:

	<u>Korean Won (millions)</u>		<u>U.S. dollars</u> <u>(thousands)</u> <u>(note 3)</u>
	<u>2008</u>	<u>2007</u>	<u>2008</u>
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	<u>(37,030)</u>	<u>7,741</u>	<u>(29,447)</u>
Income tax expense	₩ <u>184,151</u>	<u>265,736</u>	\$ <u>146,442</u>
Effective tax rate	% <u>19.9</u>	<u>27.7</u>	% <u>19.9</u>

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2008 and 2007

(28) Income Taxes, Continued

(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:

	Korean Won (millions)		U.S. dollars (thousands) (note 3)
	2008	2007	2008
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	<u>56,987</u>	<u>14,584</u>	<u>45,319</u>
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	<u>178,688</u>	<u>191,129</u>	<u>142,099</u>
Net deferred tax liability	₩ <u>(121,701)</u>	<u>(176,545)</u>	\$ <u>(96,780)</u>

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2008 and 2007

(28) Income Taxes, Continued

(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.

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

	Temporary differences at December 31, 2008	Korean Won (millions)	
		Deferred tax assets (liabilities)	
		Current	Non-current
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
	<u>264,402</u>	<u>13,650</u>	<u>43,337</u>
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 instruments	158,717	-	34,918
	<u>1,784,363</u>	<u>1,115</u>	<u>177,573</u>
Net deferred income tax asset (liability)	₩ <u>(1,519,961)</u>	<u>12,535</u>	<u>(134,236)</u>

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2008 and 2007

(28) Income Taxes, Continued

(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:

	Korean Won (millions)		U.S. dollars (thousands) (note 3)	
	Temporary difference	Deferred tax assets (liabilities)	Temporary difference	Deferred tax assets (liabilities)
Unrealized loss on valuation of available-for-sale securities	₩ (41,569)	12,064	\$ (33,057)	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
	₩ <u>(68,177)</u>	<u>18,244</u>	\$ <u>(54,216)</u>	<u>14,508</u>

(29) Earnings Per Share

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

	Korean Won (millions, except per share amount)		U.S. dollars (thousands, except per share amount) (note 3)
	2008	2007	2008
Net income	₩ 742,824	692,134	\$ 590,715
Weighted-average number of common shares outstanding	<u>29,043,374</u>	<u>29,043,374</u>	<u>29,043,374</u>
Earnings per share in Won and U.S. dollars	₩ <u>25,576</u>	<u>23,831</u>	\$ <u>20.34</u>

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2008 and 2007

(30) Dividends

(a) Dividends as a percentage of net income and par value for the years ended December 31, 2008 and 2007 are as follows:

		Korean Won (millions)		U.S. dollars (thousands) (note3)
		2008	2007	2008
Dividend amount (Cash dividends)	₩	36,304	36,304	\$ 28,870
Net income	₩	742,824	692,134	\$ 590,715
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%

(b) Dividend yield ratio for the years ended December 31, 2008 and 2007 are as follows:

		Korean Won		U.S. dollars (note3)
		2008	2007	2008
Dividend per share	₩	1,250	1,250	\$ 1
Market price as of year end		210,000	413,000	167
Dividend yield ratio		0.60%	0.30%	0.60%

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2008 and 2007

(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		Amount used
		Korean Won (millions), U.S. dollars (thousands)		under credit facility Korean Won (millions), U.S. dollars (thousands)
Overdraft	₩	65,000	₩	1
General loan	₩	100,000	₩	-
Buyer's credit	₩	816,000	₩	188,107
Letter of credit	US\$	18,000	US\$	7,386
Letter of guarantee	US\$	2,000	US\$	-
	₩	981,000	₩	188,108
	US\$	20,000	US\$	7,386

- (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.
- (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	Korean Won (millions)		Guarantee deposit amount	Monthly rent
		Beginning date	Expiration date		
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 ₩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 non-consolidated financial statements.

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2008 and 2007

(32) Comprehensive Income

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

	Korean Won (millions)		U.S. dollars (thousands)
	2008	2007	(note3) 2008
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	₩ <u>710,390</u>	<u>706,711</u>	\$ <u>564,922</u>

(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:

	Korean Won (millions)		U.S. dollars (thousands)
	2008	2007	(note3) 2008
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

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2008 and 2007

(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:

Account	Korean Won (millions)					
	2007		2006		2005	
	Before	As Adjusted	Before	As Adjusted	Before	As Adjusted
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

LOTTE SHOPPING CO., LTD.

Notes to Non-Consolidated Financial Statements, Continued

December 31, 2008 and 2007

(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:

		Korean Won (millions)							
		2008				2007			
		Department stores	Marts	Other	Total	Department stores	Marts	Other	Total
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 and amortization		151,990	141,850	72,860	366,700	141,970	131,154	59,254	332,378

		U.S. dollars (thousands) (note 3)							
		2008				2007			
		Department stores	Marts	Other	Total	Department stores	Marts	Other	Total
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 and 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:

		Korean Won (millions)							
		2008				2007			
		Department stores	Marts	Other	Total	Department stores	Marts	Other	Total
Property, plant 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 assets		30,762	59,395	41,373	131,530	11,108	61,721	39,695	112,524
Total		<u>3,720,191</u>	<u>3,084,202</u>	<u>388,118</u>	<u>7,192,511</u>	<u>3,509,766</u>	<u>2,974,773</u>	<u>368,861</u>	<u>6,853,400</u>

		U.S. dollars (thousands) (note 3)							
		2008				2007			
		Department stores	Marts	Other	Total	Department stores	Marts	Other	Total
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 assets		24,463	47,233	32,900	104,596	8,833	49,082	31,567	89,482
Total		<u>2,958,402</u>	<u>2,452,646</u>	<u>308,642</u>	<u>5,719,690</u>	<u>2,791,066</u>	<u>2,365,625</u>	<u>293,329</u>	<u>5,450,020</u>

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.

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.

February 12, 2009

Notice to Readers

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.

Report on the Operations of Internal Accounting Control System

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

Chul Woo, Lee, Chief Executive Officer or President

January 22, 2009