

# Annual Report

(40<sup>th</sup> Fiscal year)

For the year ended December 31, 2009

To: Financial Services Commission of Korea  
KRX KOSPI Market

March 31, 2010

Company Name : Lotte Shopping Co., Ltd.  
CEO : Lee, Cheolwoo  
Head Office : 1, Sogong-dong, Jung-gu, Seoul  
(Tel) 82-2-771-2500  
(Homepage) <http://www.lotteshopping.com>  
Prepared by : (Position) Head of Strategic Planning (Name) Kim, Sewan  
(Tel) 82-2-2118-2018

THIS IS A TRANSLATION OF THE ANNUAL REPORT ORIGINALLY PREPARED IN KOREAN AND IS IN SUCH FORM AS REQUIRED BY THE KOREAN FINANCIAL SERVICES COMMISSION. IN THE TRANSLATION PROCESS, SOME PARTS OF THE REPORT WERE REFORMATTED, REARRANGED OR SUMMARIZED FOR THE CONVENIENCE OF READERS.

UNLESS EXPRESSLY STATED OTHERWISE, ALL INFORMATION CONTAINED HEREIN IS PRESENTED ON A NON-CONSOLIDATED BASIS IN ACCORDANCE WITH ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN KOREA, OR KOREAN GAAP, WHICH DIFFER IN CERTAIN RESPECTS FROM GENERALLY ACCEPTED ACCOUNTING PRINCIPLES IN CERTAIN OTHER COUNTRIES. WE HAVE MADE NO ATTEMPT TO IDENTIFY OR QUANTIFY THE IMPACT OF THESE DIFFERENCES.

# I. Overall Condition of Lotte Shopping

## 1. Business Objective

A. Legal / commercial name of company: Lotte Shopping Co., Ltd. (the “Company” or “we”)

B. Date of establishment

The Company was incorporated in July 1970 as a corporation engaged in the general distribution business, including department store, discount mart and supermarket businesses.

Year.Month	Changes
1970.07	Founded as Hyeobwoo Industry Co., Ltd.
1979.11	Changed company name from Hueobwoo Industry Co., Ltd. to Lotteshopping Co.,Ltd.

C. Address, Telephone and homepage

Address: 1 Sogong-dong, Jung-gu, Seoul

Tel: 82-2-771-2500

Homepage: <http://www.lotteshopping.com>

D. Legislation or regulations related to the distribution industry

Legislation or regulations related to the distribution industry are as follows.

(a) Retail Industry Promotion Act

To open and operate large stores such as department stores and discount stores, there must be compliance with the Retail Industry Promotion Act.

(b) Fair Trade Act

① Regulation on Fair Trading

Regulations against companies from limiting competition, misusing market dominating positions and participating in unfair collusion and other unfair business activities.

② Regulation on Consumer Protection

Regulations against contracts unfair to the consumers, false or exaggerated presentation or advertising, unfair installment payment conditions, etc.

③ Regulation on Transactions with Suppliers

Regulation concerning payment for supplied products, return of delivered product, and various unfair activities against tenant shops and suppliers by stores through misuse of position as a large purchaser.

④ Restraining Concentration of Economic Power

Prohibition of cross investment and guarantee of obligations between affiliates of large business groups, restraining unfair internal transactions, restrictions on total investment, etc.

(c) Product Liability Act

The law was enacted to protect consumers and help improve safety of consumers and sound development of national economy by stipulating the liability of the manufacturers for the damage

incurred by defective products. With respect to defective products, its manufacturer, processor and/or importer bear primary responsibility and the supplier has secondary responsibility.

(d) Special Act for Development of Traditional Markets

The “Special Act for Development of Traditional Markets” was enacted with a view to conserving traditional markets. Although some expect the law may restrict opening of new large stores, the recent lower court ruling (Administrative Section 1, Incheon District Court, decision by Hon. Judge Y.H. Kim, July 22, 2005) stated that there is no provision in the law justifying the rejection of the application for building large retail stores near the traditional market areas.

(e) Food Sanitation Act

The Food Sanitation Act stipulates the regulation of the food processing industry, food transportation industry and food serving industry, as they are closely related to the routine lives of Korean citizens.

(f) Urban infrastructure taxes

Building owners are required to pay for a certain portion of the costs needed to build additional infrastructure such as roads, schools, parks or other public facilities, when a building is newly constructed or expanded, or when an urban area is reorganized.

E. Main Business

The Company has continued to open new stores in 2009, including one department store, one outlet store, six discount stores in Korea and three discount stores in overseas markets, and is actively promoting new domestic businesses such as outlets, shopping malls (shopping complexes located in suburban or redeveloped areas, which combine leisure and shopping facilities), new format businesses such as “category killers” and fashion businesses (including the development and importation of global brands). With respect to overseas business activities, we opened our second overseas department store in Beijing, China in August 2008, following the opening of our first overseas department store in Moscow, Russia in September 2007. In the discount store business, we have opened eleven stores in China, one store in Vietnam and 19 stores in Indonesia as of September 30, 2009. In addition, we have acquired the TIMES supermarket chain (57 large marts, 11 supermarkets) in order to establish a firm presence in China, and are seeking to actively pursue business opportunities in overseas retail distribution markets through continued business expansion and opening of new stores. See “II. Business Description (Wholesale and Retail)”.

F. Affiliated Companies

(As of December 31, 2009)

Listed Companies	8	Lotte Confectionery, Lotte Chilsung Beverage, Lotte Samkang, Honam Petrochemical Corporation, Lotte Midopa, KP Chemical, Lotte Shopping, Lotte Insurance
Private Companies	48	Daehong Communication, Lotte.com, Lotteria, Lotte Boulangerie, Lotte Asahi Liquor, Lotte Giants, Lotte Ham, Lotte Hotel Busan, Cinema Trading, Seetec, Wellga, KP Chemtech, Korea Seven, Hotel Lotte, Lotte Engineering and Construction, Lotte Logistics, Lotte Moolsan, Lotte Trading, Lotte Aluminum, Lotte Station Building, Lotte Data Communication, Lotte Pharmacy, Lotte Fresh Delica, FRL Korea, Cheongna Energy, Canon Korea Business Solutions Inc., Korea FUJIFILM, Lotte Card, Lotte Capital, Daesan MMA, Woori Home Shopping, Lotte JTB, Lotte Asset Development, D-Cinema of Korea, Sanjung Beverage, Hayo Technology, Lotte City Hotel, Changdae Trading, KI Bank, Lotte Jeju Resort, Lotte Buyeo Resort, Liquor BG, CH Beverage, Lotte Wine Sales, Busan Hanarocard, Mybi, Sambark, SambarkLFT
Total	56	

※ In total, the Company owns 35 companies accounted in equity method (24 domestic and 11 overseas branches).

G. Credit Rating

Date	Securities subject to rating	Securities subject	Rating agency	Type
	Securities	Credit rating	(Range)	
Nov.24, 2009	Corporate bonds	AA+	Nice Investors Service	Primary rating
Nov.24, 2009	Corporate bonds	AA+	Korea Investors Service	Primary rating
Sep.22, 2009	Corporate bonds	AA+	Korea Investors Service	Primary rating
Sep.22, 2009	Corporate bonds	AA+	Korea Ratings	Primary rating
Jun. 25, 2009	Commercial paper	A1	Korea Investors Service	Primary rating
Jun. 15, 2009	Commercial paper	A1	Korea Ratings	Primary rating
Jun. 15, 2009	Corporate bonds	AA+	NICE	Primary rating
Jun. 15, 2009	Corporate bonds	AA+	Korea Ratings	Primary rating
Feb. 06, 2009	Corporate bonds	A- (stable)	Fitch (England)	Primary rating
Feb. 04, 2009	Corporate bonds	A3 (stable)	Moody's (America)	Primary rating
Sep. 29, 2008	Corporate bonds	AA+	Korea Ratings	Primary rating
Sep. 29, 2008	Corporate bonds	AA+	Korea Investors Service	Primary rating
Jun. 27, 2008	Commercial paper	A1	Korea Investors Service	Primary rating
May 20, 2008	Corporate bonds	AA+	Korea Investors Service	Primary rating
May 20, 2008	Corporate bonds	AA+	Korea Ratings	Primary rating
Apr. 21, 2008	Commercial paper	A1	Korea Ratings	Primary rating
Jan. 02, 2008	Commercial paper	A1	Korea Investors Service	Regular rating
Dec. 27, 2007	Commercial paper	A1	Korea Ratings	Regular rating
Jun. 28, 2007	Commercial paper	A1	Korea Investors Service	Primary rating
Jun. 28, 2007	Corporate bonds	AA+	Korea Investors Service	Regular rating
Jun. 26, 2007	Commercial paper	A1	Korea Ratings	Primary rating
May 09, 2007	Corporate bonds	AA+	Korea Ratings	Regular rating
Jan. 10, 2007	Commercial paper	A1	Korea Ratings	Regular rating
Dec. 29, 2006	Commercial paper	A1	Korea Investors Service	Regular rating
Jun. 28, 2006	Commercial paper	A1	Korea Investors Service	Regular rating
Jun. 27, 2006	Commercial paper	A1	Korea Ratings	Regular rating
Dec. 10, 2006	Corporate bonds	AA+	Korea Ratings	Irregular rating
Jan. 18, 2006	Commercial paper	A1	Korea Ratings	Regular rating
Jan. 06, 2006	Commercial paper	A1	Korea Investors Service	Regular rating

## 2. Company background

### A. Company background

(1) Significant changes since establishment

(a) Company's establishment, etc

Year.Month	Changes
------------	---------

Year.Month	Changes
1970.07	Establishment of Hyupwoo Silup
1979.01	Relocation of headquarters to 1 Sogongdong, Junggu, Seoul
1982.08	Registered on the Securities Supervisory Service
1984.07	Revaluation of assets
1995.03	Capital reduction without consideration to Won 5.6 billion
1995.12	Capital increase to Won 24 billion
1998.07	Asset revaluation
1998.01	Capital increase to Won 26.5 billion
1998.12	Capital increase to Won 100 billion
2004.03	Acquisition of Hanwha Stores Chain Business Division (25 supermarkets, 1 distribution center)
2006.02	Capital increase to Won 142.9 billion
2006.02	Listed on the securities market
2006.03	Capital increase to Won 145.2 billion
2006.08	Acquisition of Woori Home Shopping (53.03%)
2007.05	Acquisition of Big Mart (14 supermarkets, 1 store location)
2007.09	Department store opening in Russia
2007.10	Acquisition of Nice Mart (5 supermarkets)
2008.05	Acquisition of Makro in China (8 discount stores)
2008.08	Department store opening in China
2008.11	Acquisition of Makro in Indonesia (19 discount stores)
2009.12	Acquisition of Times in China (57 discount stores, 11 supermarkets)

(b) Changes in location of headquarters

- January 1979: Relocation of headquarters to 1 Sogong-dong, Jung-gu, Seoul

(c) Changes in management

Rank	Name	Service period	Remarks
CEO	Shin, Gyukho	2009.03.20~present	-
CEO	Shin, Dongbin	2010.03.26~present	-
CEO	In-Won Lee	2010.03.26~present	-
CEO	Lee, Chulwoo	2010.03.26~present	-
Full-time director	Shin, Youngja	2010.03.26~present	-
Outside director	Jwa, Seunghee	2010.03.26~present	-
Outside director	Kim, Seho	2010.03.26~present	-
Outside director	Lim, Jongjin	2009.03.20~present	-

Rank	Name	Service period	Remarks
Outside director	Park, Kyungbeom	2010.03.26~present	Audit committee
Outside director	Kim, Sehun	2010.03.26~present	Audit committee
Outside director	Lee, Hongroh	2010.03.26~present	Audit committee

※ The board of directors' appointment summary at the 40th shareholders' meeting held on March 26, 2010:

- Re-appointment of directors (4): Shin, Dongbin; Lee, Inwon; Lee, Cheolwoo Lee; Shin, Youngja
- Re-appointment of outside directors (2): Jwa, Seunghee; Kim, Seho
- Appointment of new outside directors (3): Park, Kyungbeom; Kim, Sehun; Lee, Hongroh

※ As of March 26, 2010, three outside directors—Kang, Jeonwoong; Son, Seonggyu; Yoon, Saeri—have retired upon completion of term of office.

(d) Other important matters related to business activities

- There have been no major changes in the main operations of the Company. However, in order to increase the capacity of the distribution business, the Company transferred the operation of the Food Business Headquarters—a non-distribution branch—to Lotte Samkang on September 30, 2009. Also, the Company established a separate new company from the Krispy Kreme Donut Business Division on December 30, 2009 following the decision made in the extraordinary shareholders' meeting held on November 20, 2009.

## 2. Changes in Capital Stock

### A. Changes in Capital Stock

(Unit: Won, shares)

Date of New Stock Issued	Type of issue	Details of the Newly Issued Stock				
		Type	Quantity	Par Value per Share	Issued Value	Remarks
February 8, 2006	Paid-in capital increase (public subscription)	Common stock	6,857,143	5,000	400,000	LSE listed (GDS)
February 9, 2006	Paid-in capital increase (public subscription)	Common stock	1,714,286	5,000	400,000	KRX listed
March 16, 2006	Paid-in capital increase (public subscription)	Common stock	471,945	5,000	400,000	LSE listed (GDS)

※ The Company's Global Depository Shares ("GDSs") were issued at US\$20.67 per GDS, at the ratio of one share of common stock to 20 shares of GDSs. (Applying an exchange rate of Won 967.8 per US\$1.00).

## 3. Total Number of Shares, etc.

### A. Total Number of Shares

As of December 31, 2009, the total number of authorized shares was 60,000,000, the total number of issued shares 29,788,844 and the total number of outstanding shares 29,043,374. All shares were classified as common shares.

## 4. Voting Rights

(As of December 31, 2009)

(Unit: shares)

Type	Number of Shares	Remarks
Total Issued Shares (A)	Common Stock	29,043,374
	Preferred Stock	-
Shares without Voting Rights (B)	Common Stock	-
	Preferred Stock	-

Shares with Restricted Voting Rights under the Stock Exchange Act and Other Laws (C)	Common Stock	-	-
	Preferred Stock		
Shares with Reestablished Voting Rights (D)	Common Stock	-	
	Preferred Stock		
Shares with Exercisable Voting Rights (E = A – B – C + D)	Common Stock	29,043,374	-
	Preferred Stock	-	

## 5. Dividends, Etc.

### A. Dividends

#### (1) Dividends

The annual dividend on shares of common stock must be proposed by the Board of Directors and approved at the shareholders' meeting. The Company decides the dividend amount within the constraints of various factors, such as profitability and financial condition and in compliance with legal requirements applicable to the issuance of dividends.

#### (2) Payment Basis of Dividend

The dividend can be paid either in cash or stock, and the stock dividend cannot exceed total profits available before the dividend. In the event the dividend is paid in stock and there are at least two classes of stocks, a different class of stock could be issued for dividend payment pursuant to a resolution at the shareholders' meeting. The dividend is payable to the registered shareholders or rights holders at the end of each fiscal period.

#### (3) Expiration of Rights to Claim a Dividend

The right expires if not exercised within five years. After such expiration, the dividends shall belong to the Company.

### B. Dividends for the Past Three Years

Subject		40 <sup>th</sup> fiscal year	39 <sup>th</sup> fiscal year	38 <sup>th</sup> fiscal year
Par Value per Share (Won)		5,000	5,000	5,000
Net Profit (in millions of Won)		716,422	742,825	692,134
Earnings per Share (Won)		24,667	25,576	23,831
Total Cash Dividend (in millions of Won)		36,304	36,304	36,304
Total Stock Dividend (in millions of Won)		-	-	-
Cash Dividend Payout Ratio (%)		5.07	4.89	5.25
Cash Dividend Yield (%)	Common Stock	0.36	0.63	0.31
	Preferred Stock	-	-	-
Stock Dividend Yield (%)	Common Stock	-	-	-
	Preferred Stock	-	-	-
Cash Dividend per Share (Won)	Common Stock	1,250	1,250	1,250
	Preferred Stock	-	-	-
Stock Dividend per Share	Common Stock	-	-	-
	Preferred Stock	-	-	-

## II. Business Description (Wholesale and Retail)

### 1. Business Overview

#### A. Market Status

##### (1) Department Store

##### (A) Characteristics of Industry

According to the definition stipulated in the Retail Industry Promotion Act enacted in 1997, a department store is a directly operated shop with a floor span of approximately 3,000m<sup>2</sup> with modern sales facilities and consumer facilities that aid consumers in purchasing various products. Unlike other retail enterprises, a department store features a rich variety of products such as clothing, general merchandise, home appliance, furniture, jewelry, and food, offering a variety of services at one location. In addition, a department store also provides restaurants, cinemas, entertainment and various lectures and cultural events, making it an important part of customers' urban life.

##### ① Process Industry

An opening of a new department store is traditionally preceded by processes of commercial power analyses, location search, designing, construction and opening of shop floors. In general, building a large department store requires approximately Won 250 billion, and a regional department store requires approximately Won 180 billion. It requires significant funding to secure the underlying real estate and to complete construction. Such heavy initial investment requirements act as the market driving force for the early participants while lowering the investment efficiency for latecomers. Furthermore, it can also be a considerable entry barrier for new entrants.

##### ② Economy of Scale

As the department store industry depends heavily on location, it is beneficial to open multiple premises to reduce operational risk in response to variables such as economy of scale and new store openings of competitors. Once a certain number of stores is in operation, buying power is strengthened to stabilize costs, and various expenses such as those for labor, advertising and general administration, can be reduced through integrated management and marketing.

##### ③ Location-Oriented Industry

Since a department store is a shop floor-based retail industry in which customers visit the premise to carry out purchasing activities, the location of a store is of the greatest importance. Therefore, before a new store is opened, the local population, population composition, income level, consumption inclination and transportation conditions are reviewed to evaluate the attractiveness of the commercial power.

Such characteristics of the retail industry mean that the location of the competitor, size of the shop floor, concept, merchandise composition, Visual Merchandising (VMD), interior, marketing, services, capital, sales know-how, convenient facilities and sales strategies have great impact on the operations of a department store. A new store opening by a competitor may increase sales as it heightens customer concentration, but it may also have an adverse effect as it may cause customers to move to other competing stores. That is because the competing stores often occupy better locations and offer better facilities, as their main goal is to absorb the customers of the existing stores rather than creating new ones.

##### ④ Cash Industry

Most customers use both cash and credit cards for their purchases. While card-based sales are usually settled within two to three days from the date of the purchase, the payment to the tenant shops are made within 30 to 45 days from the date of the transaction, making it attractive in terms of cash flow.

##### ⑤ Domestic Business Industry

As the retail industry is centered on the end consumers, it is closely related to changes in domestic income and expenditure. Therefore, retail revenue tends to continue to increase so long as domestic income and consumption increase. A department store reacts sensitively to economic conditions since its merchandise is



centered on fashion products or high-price domestic consumption products. However, the Company is strengthening its marketing activities through a high pricing strategy targeting customers with mid to high income levels, who we believe are less sensitive to economic changes. We expect such marketing activities will provide a buffer for such economic changes

#### ⑥ Mature Industry

Due to the emergence of new business models and the polarization of consumption patterns, there have been considerable changes in the concept and the merchandizing patterns of department stores. The industry is moving towards the establishment of multiple shops mainly in the newly developing cities and regional urban areas and is expected to rearrange its sales structure to decrease middle to low end products while increasing high quality fashion goods, thereby achieving product specialization and differentiation from competitors. Currently, there is an oligopoly among the market leaders with national sales networks, and the leading stores are increasing their market shares.

#### (B) Growth of Industry

The department store business in Korea has stabilized as a result of the diversification of distribution channels and the rapid growth of new businesses. Due to weak consumer confidence and decreased demand for luxury goods, total aggregate revenue of department stores decreased from Won 17.8 trillion in 2002 to Won 16.5 trillion in 2004. However, as consumer spending began to recover after the fourth quarter of 2004, total aggregate revenue of department stores increased to Won 16.5 trillion and Won 18.1 trillion in 2005 and 2006, respectively, reflecting a year on year revenue growth rate of 4% and 5%, respectively. The total aggregate revenue of department stores was Won 18.7 trillion as of 2007, up 3.3% from the prior year, and was Won 19.5 trillion in 2008, up 4.0% from the prior year, and was Won 21.6 trillion in 2009, up 9.0% from the previous year.

#### [Department Store Market Size Trend]

(Unit: trillion Won)

	2005	2006	2007	2008	2009
Market Size	17.2	18.1	18.7	19.5	21.6
Growth Rate	4.2%	5.2%	3.3%	4.0%	9.0%

※ Source: National Statistics Office

#### [Number of Department Stores Trend]

(Unit: stores)

	2005	2006	2007	2008	2009
Number of Department Stores	80	77	79	78	81
Increase (Decrease)	(7)	(3)	2	(1)	3

※ Source: Retail Magazine (January 2010)

Through the economic slump after the financial crisis, the gap between major stores with nationwide networks and regionally based stores has been widened. The market shares of the "Big 3" companies (Lotte, Hyundai and Shinsegae) have increased, and many regional department stores were merged into the larger stores.

In the future, we expect that a limited number of new competitors will arise in the department store industry, particularly as new business opportunities develop in newly developing cities around Seoul and in provincial cities. In addition, less-competitive companies will continue to be acquired by other companies. While the department store industry is expected to show continued growth, we do not expect the growth rate of the overall market to be high. Furthermore, discount stores, home shopping, internet shopping malls and department stores are expected to maintain current levels of market share and retain their own customer base. In terms of profitability, department stores will continue to be among the strongest performing within the retail sector.

#### (C) Characteristics of Changes in Business Conditions

Since retail distribution industries such as department stores and discount stores target end consumers, they are affected by changes in domestic income and expenditure patterns. As such, retail revenue tends to increase so long as domestic income and consumption increase. A department store reacts sensitively to economic conditions since its merchandise is centered on fashion products or high-price domestic

consumption products. However, the Company is strengthening its marketing activities through a high pricing strategy, targeting customers with mid to high income levels, who we believe are less sensitive to economic changes. We expect such marketing activities will provide a buffer for such economic changes.

In terms of seasonality, fourth quarter sales comprise a large percentage of sales for department stores due to sales of winter fashion merchandise, which have relatively higher prices, discount sales in October through November and promotional events.

#### (D) Factors of Competition

The competitiveness of a department store depends on its location, size, merchandizing structure, brand awareness, buying power and attainment of good quality commercial power. Lotte, Hyundai and Shinsegae all have secured quality commercial power through early market entry and built nationwide networks to retain their respective competitive edge aided by economies of scale with reduced operation costs and strengthened buying power. These factors have made market barriers to entry even higher. Store expansions are being carried out mostly by these "Big 3" companies, solidifying the oligopolistic structure of the market.

While competition within the department store market is dominated by the "Big 3" companies, competition from new retail formats is intensifying as both discount stores and home shopping businesses show growth. Such competition particularly affects regional department stores, which have failed to differentiate themselves through the aforementioned high pricing policy, as the new opening of discount stores and large department stores are being expanded into provincial areas. The regional department stores are trying to overcome their weakening position by cooperating with the major stores.

Department stores have experienced decreased sales in food and household goods, categories which overlap with those offered by fast growing discount stores, home shopping and outlets. As a result, department stores are accelerating the implementation of their high pricing strategy by attracting luxury fashion brands, upgrading shops, expanding the portion of high margin products and introducing premium food items. Meanwhile, customer relations management (CRM) has been strengthened by targeting mid to upper income customers to overcome stagnant consumption. Also, another noteworthy recent phenomenon is the increase in the number of large multiple stores that have features such as merchandizing differentiation, specialized stores, cross-sales, and entertainment venues to take advantage of the five-day work week.

Some of the smaller stores which cannot afford to pursue such a high pricing policy are specializing in fashion products or differentiating themselves by transforming into outlet stores.

## (2) Discount Stores

### (A) Characteristics of Industry

#### ① Location-Based Industry

Like other retail industries, the location of a discount store is critical to its performance. Business status and future store opening plans of current and expected competitors in the same commercial area is one of the criteria for consideration.

#### ② Growing Industry

Discount stores, which were first introduced in 1993 as a new retail concept, have been continuously growing, and such high growth is attributable to rational purchasing patterns of consumers and the increasing number of stores. New discount stores are being opened nationwide in small and medium-sized cities, in addition to the Seoul metropolitan area and large cities.

#### ③ Economies of Scale

Cost of goods make up a larger part of the cost structure for discount stores as compared to department stores or supermarkets. In order to improve such high proportion of cost of goods, profitability is achieved through economies of scale in negotiating the cost of such goods in bulk and high sales volume of less

profitable goods.

④ Market Dominance by Large Companies with Sufficient Financing

Because of heavy early investment and market dominance through multiple stores, the market structure is centered on large companies which can bear the financing requirements. Therefore, only those who can build larger stores can remain competitive while smaller stores are left behind.

Discount stores have been growing rapidly since early 2000 due to active market entry by multinational discount stores after the retail market were liberalized in 1996 and the emergence of rationalized consumption patterns after the Asian economic crisis of the late '90s. Between 2000 and 2002, there were more than 30 new discount stores opened every year.

Nevertheless, as the trends of pursuing low priced products and rational purchasing have become the norm, discount stores are maintaining a relatively higher growth rate despite the stagnant domestic economy, as additional stores are opened.

According to the types of products offered, discount stores can be classified into discount stores, super centers, hypermarkets, membership wholesale clubs or outlet stores. However, as there are no discount stores in Korea similar to types of such stores found in the United States, a detailed classification of the stores in Korea can be difficult.

General discount store	Full line discount store	Primarily sells daily necessities (non-food); Most representative form of US discount stores, focusing on discounted price
	Supercenter	Discount stores with stronger food selection
	Hypermarket	Very large discount store combining a general supermarket with strong non-food merchandise selection
Limited discount store	Membership Whole-sale Club	Warehouse used as store based on membership, with a relatively limited selection of goods
	Outlet	Very low priced sales of overstock items from manufacturer or distributors
Specialized discount store (Category Killer)		Specialized discount store selling specific merchandise.
Corporate supermarket (Super Supermarket)		Retail stores that are smaller than a discount store, and larger than a supermarket

(B) Growth of Industry

[Discount Store Market Size Trend]

(Unit: trillion Won)

	2005	2006	2007	2008	2009
Market Size	23.7	25.6	28.3	30.0	31.2
Growth Rate	9.3%	8.3%	10.2%	6.0%	2.3%

※ Source: National Statistics Office

[Number of Discount Stores Trend]

(Unit: stores)

	2005	2006	2007	2008	2009
--	------	------	------	------	------

Number of Discount Stores	307	332	358	385	409
Increase (Decrease)	31	25	26	27	24

※ Source: Retail Magazine (January 2010)

#### (C) Characteristics of Changes in Business Conditions

Discount stores tend to be less sensitive to market fluctuations because their product line consists mainly of everyday commodities. The Company is continuing to reduce its exposure to economic fluctuations by focusing on lower-priced goods and following customers' increasingly rationalized consumption patterns.

For discount stores, third quarter sales usually comprise a relatively large percentage of annual sales due to summer vacations and the Chuseok holiday.

#### (D) Factors of Competition

For discount stores, achieving economies of scale through bulk purchasing of goods, sourcing of high quality merchandise from overseas suppliers and developing private brand (PB) goods are important factors in securing cost competitiveness and creating value for customers.

### B. Company Status

#### (1) Business Summary and Classification

##### (A) Business Summary

Since its founding in 1970, the Company has been specializing on modern, large-scale retail stores, beginning with department stores followed by discount and convenience stores, supermarkets and outlets and has become Korea's largest retail operator. As of December 31, 2009, the Company operates 26 department stores (including three consigned stores), 69 discount stores, 190 supermarkets, 54 movie theatres and three outlet stores.

[Number of Stores for Each Lotte Shopping Division

(Unit: stores)

	2006	2007	2008	2009
Department Store	20 (23)	21(24)	22(25)	23(26)
Discount Store	50	56	63	69
Supermarket	52	79	110	190
Cinema	17 (36)	21(41)	26(46)	27(54)

Note: Numbers in parentheses represent the total number of stores including consigned department stores and consigned cinemas, as applicable.

[Current Status of Lotte Shopping Divisions]

(As of December 31, 2009)

	Division Status	First Year in Business	Key Revenue Sources
Department Store	Operation of 26 Lotte Department Stores	December 1979	Product, sales margin and shop floor rental.
Discount Store	Operation of 69 Lotte Mart Stores	April 1998	Product, sales margin and shop floor rental.
Supermarket	Operation of 190 Lotte Super Stores	May 2001	Product, sales margin.
Cinema	Operation of 54 Lotte Cinema Movie Theatres	September 1999	Cinema ticket sales, Film production & investment/distribution sales.

The first department store (main store) in Sogong-dong, Seoul opened in December 1979 and was expanded in January 1988.

Since then, the Company has been continuously adding new stores and expanding existing ones, including the Jamsil Lotte Department store and shopping mall in Jamsil-dong, Songpa-gu in Seoul in November of

1988, the Yeongdeungpo branch (opened by a separate corporation, Lotte Station Building) in 1991, the Cheongryangri branch (opened by Songgok Industry which was acquired in December 1997) in 1994, the Busan branch in 1995, the Gwanak branch in 1997, the Gwangju branch in 1998, the Bundang, Bupyeong and Ilsan branches in 1999, the Daejeon, Gangnam and Pohang branches in 2000, the Ulsan and Dongnae branches in 2001, the Changwon, Anyang and Incheon branches and the acquisition of Midopa in 2002, the Daegu branch (which is currently consigned to a separate company for management and Young Plaza, an annex of the main store) in 2003, the Sangin and Jeonju branches in 2004, Avenuel (the luxury goods annex of the main store) in 2005, Mia branch in 2006 and Centerm City, Cheongju and Daegu Young Plaza branches in 2007, as well as the industry's first overseas store in Moscow, Russia in 2007, the Star city branch and Beijing branch as well as outlet stores such as the Gwangju Worldcup branch and premium outlet branch in Kimhae in 2008. In 2009, the Company opened two additional stores—a branch in Gwangbok and an outlet branch in Gwangju Suwan. We are seeking to strengthen our position in the domestic market through such expansions and implementation of domestic market penetration strategies. We are also seeking to advance further into overseas markets through global market penetration strategies.

#### [Department Store]

Lotte Department Store currently operates total 26 branches comprised of 23 branches operated directly by Lotte Shopping and three operated indirectly through management contracts.

The Company has entered into management contracts with Lotte Midopa and Lotte Station Building to operate its branches. The Company receives 10% of the operating profits (before deducting depreciation costs) as its management fee and includes such fee as other operating income of the total sales amount.

In October 2002, we acquired Midopa Co., Ltd. and changed its name to Lotte Midopa Co., Ltd. Currently, the Company owns 79.01% of Lotte Midopa's shares. Lotte Midopa has a branch in Nowon and has leased Young Plaza, located at Namdaemun-ro 2-ga in Seoul, to Lotte Shopping.

Lotte Station Building was founded on September 15, 1986 by Lotte Shopping and the National Railroad Administration with the goal to construct and manage a private capital station complex pursuant to the applicable law on the utilization of government owned rail property. It was the first development project for a private capital station complex in Korea and currently owns the Yeongdeungpo branch of the Lotte department store and another branch at Daegu station. The National Railroad Administration owns 25% of its shares, and Lotte Shopping, along with its related parties, owns 68%.

In 2005, we opened Avenuel, a luxury specialty store, at our main branch in Sogong-dong. Avenuel targets highest tier customers by introducing international luxury brand goods with the most prestigious reputations. Avenuel, Young Plaza and the main branch of the Lotte department store are centrally located in downtown Seoul, collectively forming an integrated shopping complex "Lotte Town", together with Lotte Cinema, Lotte Hotel and world class restaurants.

Also, our Jamsil branch, located in Seoul, has a shopping mall, a discount store, a hotel, Lotte World (the largest indoor theme park in Korea) and an ice-skating rink. And our Busan and Ulsan branches, in Youngnam area, is an integrated leisure complex with hotels.

Department stores sales are generated mainly from product sales and from other sales income. Other sales income is primarily comprised of income from leasing operations, mainly received from rent type A and rent type B of department store business types.

#### [Discount Stores]

Beginning with the opening of our first discount store branch in Gangbyeon in April 1998, under the name of Magnet (since changed to Lotte Mart), we have been expanding the number of our discount stores. Such expansion includes the opening of the Lotte World branch in August of 1998, followed by the opening of four additional stores, including the Seohyeon branch in 1999, eight stores including the Jooyeob branch in 2000, eight stores including the Hwamyong branch in 2001, eight stores including the Seosan branch in 2002, three stores including the Tongyeong branch in 2003, four stores including the Seoul Station branch in 2004, seven stores including the Guro branch in 2005, eight stores including the Jangam and Uijeongbu branches in 2006, six stores including the Gwangju World cup Mall branch in 2007, seven stores including the Dongnae branch in 2008 and six stores including the Pyeongtack branch in 2009. Such expansion was

undertaken in order to address changing consumption patterns and to solidify our position in the discount store sector.

#### (B) Business Classification for Reporting Purposes

The Company operates six business divisions including department stores, discount stores, supermarkets and cinemas. The Food Business Division was transferred to Lotte Samkang on September 30, 2009, and the KKD Business Division was physically split into a separate company. Among the six divisions, only the department store and discount store divisions are shown separately for reporting purposes because the combined total revenue, operating profits and assets of the other divisions are less than 10% of the Company's total revenue, operating profit and assets. Accordingly, these other divisions are classified as "other" for reporting purposes.

#### (2) Market Share

(Unit: 100 million Won)

	2006	2007	2008	2009
Department Store Market Size	181,179	187,102	194,588	215,865
Lotte Department Store	76,671	78,093	83,071	91,978
(Market Share)	42.3%	41.7%	42.7%	42.6%
Discount Store Market Size	256,445	282,511	299,435	310,550
Lotte Mart	33,857	38,876	41,686	48,370
(Market Share)	13.2%	13.8%	13.9%	15.6%

※ Source: National Statistics Office

※ The revenue of the department stores and discount stores include those of leased shops.

※ The market share of Lotte Department Stores includes the 23 stores owned by the Company, Lotte Midopa and Lotte Station Building, which are affiliates of the Company, as well as three stores operated by the Company under contract.

#### (3) Market Characteristics

The Company operates retail shops targeted at end consumers. Although stores are located nationwide for sales to all Korean residents, the characteristics of the targeted consumers tend to be concentrated by geography and age.

#### (4) Status and Forecast of New Businesses

##### (A) Outlet

The Company decided to commence its outlet business in 2007, and opened the first Lotte outlet store at the World Cup Branch in Gwangju, in October 2008, the second Lotte outlet store at 'Premium Outlet' in Gimhae, in November 2008 and the third outlet store at the 'Outlet Gwangju Suwan', in September 2009. The Company plans to open additional outlet stores in major markets in Korea in the future.

##### (B) Overseas Business

The Company plans to expand further into overseas markets. As for department stores, we opened our second overseas department store in Beijing, China in August 2008, following the opening of our first overseas department store in Russia in September 2007, and are planning to open additional stores in markets such as Russia, China and Vietnam in the future.

In the discount store business, beginning with the eight stores in China we acquired from Makro in 2008, we are currently operating 31 overseas discount stores in three countries. These also include 19 stores in Indonesia that we acquired from Makro Indonesia in November 2008, the first discount store we opened in Vietnam in December 2008 and three discount stores we opened in China in March 2009. In order to establish a firm presence in China, we have acquired TIMES, a large distribution store chain which consists of 57 large marts and 11 supermarkets. We expect that such expansion into overseas markets will fuel further growth of the Company in the future.

##### (C) Category Killers

On December 6, 2006, the Company entered into a licensing agreement with Toys R Us, a U.S. toy retailer, to introduce Toys R Us stores into Korea. In December 2007, the Company opened its first Toys R Us shop within its Guro Branch Lotte Mart, followed by shops at the Guri Branch Lotte Mart in January 2008, the Samsan Branch Lotte Mart in April 2008, World Branch Lotte Mart in November 2008 and Suwan branch Lotte Mart in September 2009.

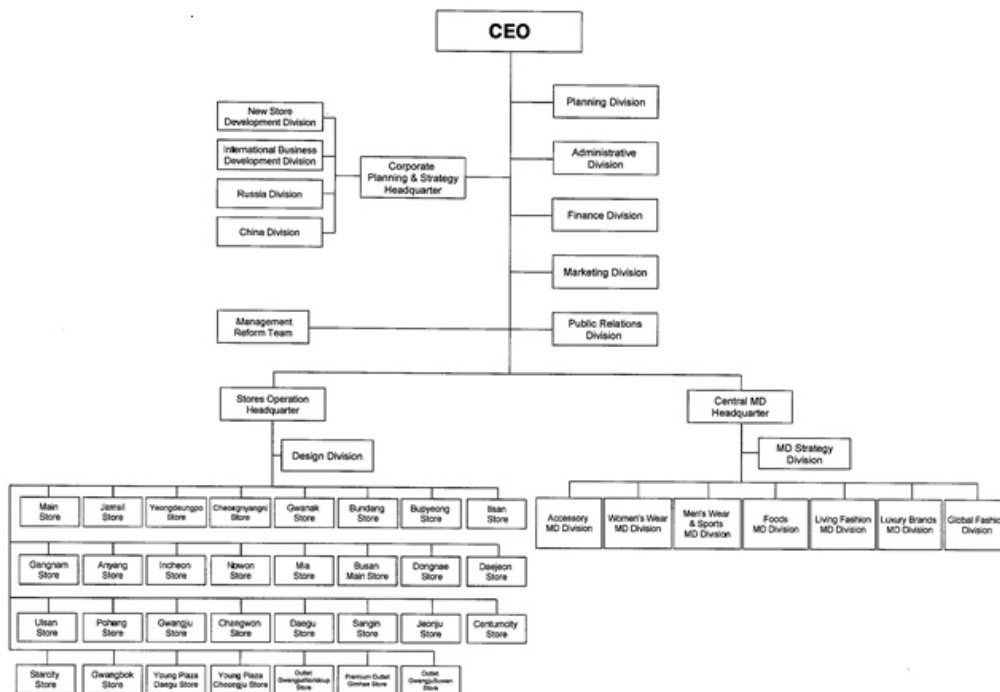
The term “category killer” refers to retailers that sell a specific product category in customized stores unlike department stores or supermarkets.

(D) Gas station business

The Company opened a “Happy Dream Gas Station” at its Lotte Mart Gumi branch in May 2009, which has achieved profits and created value for customers through large sales volumes at low prices since its opening. The company’s gas station business has not only generated direct profits, but has also achieved a synergy effect with the sales of the Lotte Mart Gumi. Following the opening of the first gas station in Gumi, the Company opened the Suji gas station on March 8, 2010, and it is planning to open additional gas stations at other suitable Lotte Mart locations.

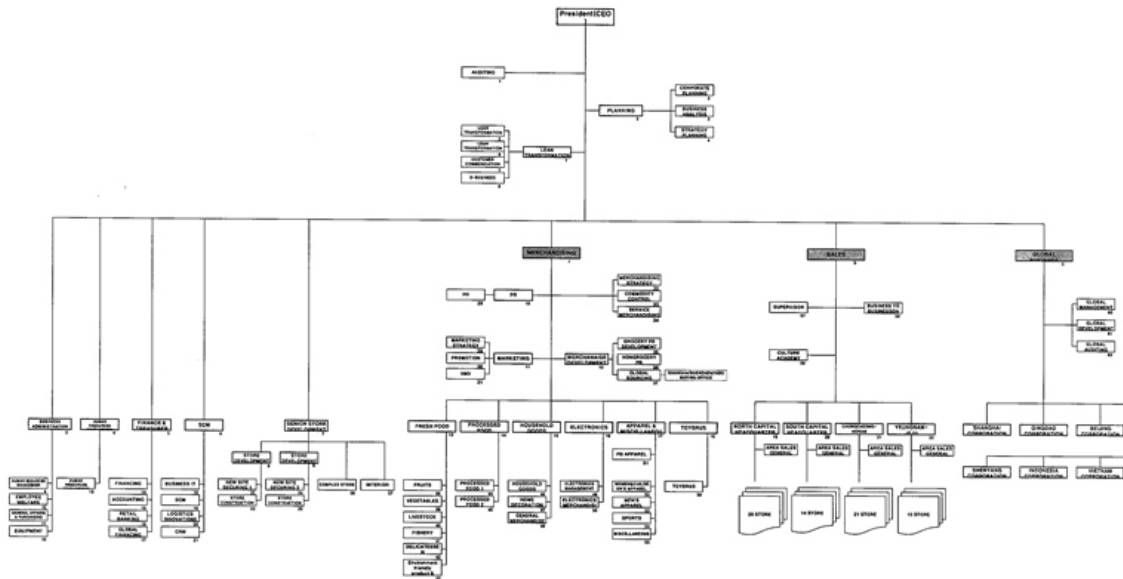
(5) Organizational Chart

● LOTTE Department Organization Chart ●



● LOTTE Mart Organization Chart ●

● Organization Chart



**2. Matters regarding Production and Facilities**

**A. Operating Facilities**

(1) Domestic

Since its founding in 1970, the Company has been specializing in modern, large-scale retail stores, beginning with department stores, followed by discount stores, supermarkets, convenience stores and outlets, and has become Korea's largest retail operator. As of December 31, 2009, the Company is operating three outlet stores, 54 cinemas, 190 supermarkets, 69 discount stores, 26 department stores (including three consigned stores) and three Young Plaza stores.

(2) Overseas

(As of December 31, 2009)

(Unit: m<sup>2</sup>, persons)

Division	Location	Land	Building	Number of employees	Remark
Beijing	Beijing, China	-	99	5	Leased
Shanghai	Shanghai, China	-	85	2	Leased
Shenzhen	Shenzhen, China	-	36	2	Leased
India	New Delhi, India	-	91	3	Leased
Vietnam	Ho Chi Minh City, Vietnam	-	28	3	Leased
Milan	Milan, Italy	-	103	2	Leased

(3) Plans for the Establishment of New Stores

Division	Store	Location	Expected date	Remarks
Department Stores	Cheongryangri Station Building	Jeonong-dong, Dongdaemun-gu, Seoul	August 2010	Owned
Discount Stores	Chooncheon	Onui-dong, Chooncheon	February 2010	Owned
	Dong Incheon	Inhyeon-dong, Jung-gu, Incheon	June 2010	Owned
	Hongseong	Hongseong Town, Hongsung County, Choongnam Province	June 2010	Owned



Daegu	Yulha Housing Development District, Daegu	August 2010	Owned
Wonju	Dangeh-dong, Wonju-shi, Gangwon	September 2010	Owned
Cheongryangri	Jeonnong-dong, Dongdaemun-gu, Seoul	October 2010	Owned
Busanjin	Buam-dong, Busanjin-gu, Busan	October 2010	Owned
Busan Gaegum	Gaegum-dong, Jin-gu, Busan	November 2010	Owned
Samyang	Mia-dong, Gangbook-gu, Seoul	November 2010	Owned

※ The existing Cheongryangri branch will be closed in August after the opening of the new Cheongryangri Station Building.

#### B. Other Facilities

(Unit: m<sup>2</sup>)

Business area	Center	Ownership type	Area
Lotte Department	Bundang Logistics Center	Owned	7,091
Lotte Mart	Yangji Logistics Center	Leased	14,231
	Yangsan Logistics Center	Owned	5,598
	Iljuk Logistics Center	Leased	6,069
	Osan Logistics Center	Owned	85,546
	Gimhae Logistics Center	Owned	54,934
Lotte Super	Singal Logistics Center	Owned	9,518

#### C. Plans for New Establishment and Purchase of Facilities

##### (1) Investment under Progress

(As of December 31, 2009)

(Unit: 100 million Won)

Business area	Division	Investment period	Investment asset	Investment effect	Total investment	Prior investment	Future investment	Remarks
Department store	New	~2014	Tangible asset	Increase of sale	41,491	12,491	29,000	New Investment
Discount store	New	~2014	Tangible asset	Increase of sale	45,180	15,805	29,375	
Others	New	~2014	Tangible asset	Increase of sale	10,661	1,460	9,201	
Total					97,332	29,756	67,576	

##### (2) Future investment plans

(As of December 31, 2009)

(Unit: 100 million Won)

Business area	Project name	Expected investment		Expected yearly investment			Effects
		Asset type	Amount	(2010)	(2011)	(2012)	
Department store	New openings and ordinary investments	Tangible asset	41,128	19,562	10,370	11,196	Sales increase
Discount store	New openings and ordinary investments	Tangible asset	24,215	14,969	5,349	3,897	Sales increase
Others	New openings and ordinary investments	Tangible asset	5,951	1,362	1,818	2,771	Sales increase
Total			71,295	35,893	17,538	17,864	

※ The above plans are subject to change based on future business conditions.

### 3. Matters regarding Sales

#### A. Sales

(Unit: million Won)

Division	Type	Product		40 <sup>th</sup> fiscal year	39 <sup>th</sup> fiscal year	39 <sup>th</sup> fiscal year
Department Store	Products	Clothes, etc.	Export			
			Domestic	5,530,576	5,126,194	4,890,272
			Total	5,530,576	5,126,194	4,890,272
	Goods		Export			
			Domestic			
			Total			
	Others	Rental fee, etc.	Export			
			Domestic	373,892	330,451	316,181
			Total	373,892	330,451	316,181
	Total				5,904,468	5,456,646
Mart	Products	Food, etc.	Export			
			Domestic	4,158,294	3,912,412	3,676,162
			Total	4,158,294	3,912,412	3,676,162
	Goods		Export			
			Domestic			
			Total			
	Others	Rental fee, etc.	Export			
			Domestic	169,498	147,629	129,157
			Total	169,498	147,629	129,157
	Total				4,327,792	4,060,041
Others	Products	Food, etc.	Export	115	194	204
			Domestic	984,559	719,868	490,699
			Total	984,674	720,062	490,903
	Goods	Food, etc.	Export			
			Domestic	53,192	55,770	44,548
			Total	53,192	55,770	44,548
	Others	Rental fee, etc.	Export			
			Domestic	265,155	216,732	177,613
			Total	265,155	216,732	177,613
	Total				1,303,021	992,564
Total	Products	Clothes, Food, etc.	Export	115	194	204
			Domestic	10,673,429	9,758,474	9,057,133
			Total	10,673,544	9,758,668	9,057,337
	Goods	Clothes, Food, etc.	Export			
			Domestic	53,192	55,770	44,548
			Total	53,192	55,770	44,548
	Others	Rental fee, etc.	Export			
			Domestic	808,545	694,812	622,951
			Total	808,545	694,812	622,951
	Total				11,535,281	10,509,251

※ As of September 30, 2009, the Food Business Division, which was transferred Lotte Samkang, was classified as profits from discontinued operations. Therefore, the sales of the Food Business Division is excluded from the "Others" category in the above-stated material.

## B. Sales Path, Method and Condition

### (1) Sales Path

Manufacturer → Lotte Shopping → Consumer

### (2) Sales Method and Condition

Customers make payments using their credit cards, cash or a gift certificates. In the case of a credit card payment, final payment is made to the Company's account 2 or 3 business days after a request has been filed with the credit card company.

### (3) Sales Strategy

As the largest retail company in Korea, Lotte Shopping has prepared the following strategy in order to

maximize the profitability and shareholder value with the goal of becoming a premier global company.

(A) Strengthening and Expanding the Key Businesses

[Department store]

The Company believes that a department store business offers the best profitability and stability and is the retailer most preferred by middle-to-high income customers with strong purchasing power. Although the industry is in a maturity phase, Lotte Department Stores already have a firmly established presence in Korea's major regions and the Company plans to expand by opening more new stores in the future. The Company also plans to expand into foreign markets, starting with its Moscow and Beijing store.

[Discount stores]

The discount store is a prevailing type of retail business. It usually targets the middle class and allows mass volume purchases for rational consumption and rationalizes the distribution route between suppliers and consumers. Lotte Mart plans to secure its growth through continuous opening of new stores in Korea as well as overseas in China, Vietnam, Indonesia and others.

(B) Developing New Retail and Profit Models

The Company is developing new retail business models with high growth potential in response to the changing retail environment. As part of this strategy, the Company currently operates its first Young Plaza in Myeongdong, which exclusively targets young consumers who have long term purchasing power. The second and third Young Plaza stores are located in Cheongju and Daegu, respectively. In March 2005, the Company opened the first branch of Avenuel, a prestige luxury brand store which targets customers with the highest level of income. In 2008, the Company opened 'Gwangju Worldcup Outlet branch' and a Premium Outlet store in Gimhae and in 2009, the company opened 'Gwangju Suwan Outlet'. The Company has also won a bid to develop the Sky Park project in Gimpo, in which it will develop a shopping complex with Category Killer shops, department stores, discount stores, cinema and hotels. We believe that the development of such new retail business models will differentiate the Company from competitors and maximize the potential synergies through convergence among department stores, discount stores, supermarkets, convenience stores and Internet shopping malls.

(C) Strengthening of Brand Power and Merchandise Differentiation ("MD")

The Company holds a superior position in terms of buying power through its operation of large-scale stores and realization of economies of scale through integrated purchasing. This enables the Company to attract superior brands and secure outstanding products in advance. It allows the Company to launch new and popular products ahead of the competition. Private brands ("PB") only found in the Company's branches, as well as exclusive brands such as Furla, Mezzo Piano and Gerard Darel maximize their range of products and competitiveness. The Company intends to continue differentiating its MD structure by taking full advantage of such economies of scale.

Division		Brand Name	Year of Introduction
Department Store	PB Brand	Herbon	2002
		Tasse Tasse	2006
	Private Brand	Mezzo Piano	2002
		Gerard Darel	2005
		J.Press	2008
Mart	PB Brand	WITHONE	2001
		Wiselect	2003
		Happy Buy	2006
		Basic icon	2006
		UL Ur contiel	2007

Division	Brand Name	Year of Introduction
	Lotterang	2008

(D) Maximizing Operational Efficiency

The Company continued to invest in IT businesses and has improved its BPR process and introduced ERP (SAP-R3) to upgrade its information systems and to reduce operating costs and improve operational efficiency. The low cost, high efficiency operation will be strengthened for marketing and store operations as well as through integrated product purchases, utilizing the advantages of the economies of scale. The Company also utilizes a KPI-based BSC system in establishing its management strategy and evaluating its performance.

Diversification of global sourcing is in progress as direct purchasing offices have been opened in Milan in Italy.

(E) Improving Customer Management and Satisfaction

To improve customer management and service, the key asset for any retail operation, the Company promotes the use of credit cards issued by Lotte Card, which is 92.54% owned by the Company. In addition to the typical credit card functions, Lotte Card offers benefits such as discounts in department and discount stores, gifts and mileage programs that are favorable compared to other types of cards. Furthermore, Lotte Card allows the Company to provide customized services to a segment of customers and to plan various complimentary events. The Company offers Lotte Member Cards to credit card users and cash customers. The loyalty program launched in November 2005 offers redeemable points for all products and services purchased at any affiliate stores of Lotte Group. For the Company, it will provide the opportunity to understand its customers' purchasing habits for department stores, discount stores, supermarkets, and cinemas as well as for Group affiliates such as Korea Seven, Lotte Hotel and Lotte World. It can also be used for collaborative promotion strategies and group target marketing along with customer relations management. The Company is implementing a differentiated and refined service strategy so that customers will enjoy visiting its stores. As part of such strategy, the cultural center of each store offers a variety of music, art, health and performance events and provides individualized shopping spaces and an exclusive MVG (Most Value Guest) lounge. In addition, various customer facilities such as restaurants, spa and yoga centers are also in operation. The information service provides guide service and other useful information for the shoppers.

[Lotte Card Member Trend]

(Unit: million persons)

	2006	2007	2008	2009
Number of Card Members	5.8	6.1	6.8	7.8

#### 4. Market Risk and Risk Management

Due to the matured department store industry and markets, overall growth of industry and market is not very high, and due to the emergence of new business types, the competition between companies is expected to be even fiercer. However, the scheme of existing department stores that have taken the size and location is expected to continue with the factors in strengthened competitiveness for companies survived through restructuring process.

Price competitiveness of discount stores is based on the scale of economy and cost efficiency following multiple store system, and with the continuance of the multiple store system for discount stores, the competition has been deepened with the emergence of same type of stores within the same commercial zones that contributes to the deepening of price competitiveness. Therefore, the company makes efforts to secure the price competitiveness through mass purchase through scale of economy, outstanding overseas product sourcing and development of PB products while creating the customer value.

Our risk management objective is to promote our value and maintain a sound financial structure by

minimizing the impact of exchange rate fluctuations on our assets and liabilities and to maintain a steady flow of funds when required by minimizing the impact of exchange rate fluctuations on our profit and losses.

We hedge risks with respect to foreign currency-denominated assets and liabilities when they arise in light of the amount and market conditions. We do not enter into foreign currency-related trades for speculative purposes.

We manage foreign exchange-related risk primarily through the relevant departments of the Company, and enter into hedging transactions with financial institutions using derivatives to more efficiently manage our foreign exchange-related risks in terms of time and costs.

The contracted derivative products for foreign exchange risk management concerning the Company's foreign currency borrowings are as follows:

(Unit: thousand Won)

Contract Location	Effective Date (YY.MM.DD)	Conclusion Date (YY.MM.DD)	Forward Forward Swap (Sales)	Contract Exchange Rate	Forward Forward Swap (Purchases)	Evaluation Amount
BNP PARIBAS	08.04.29	11.04.29	48,800,000	976	US\$50,000,000	9,094,934
DBS	08.04.29	11.04.29	48,800,000	976	US\$50,000,000	9,080,814
UFJ	08.05.29	11.05.29	100,180,935	10.02	¥10,000,000,000	24,994,782
MIZUHO	08.05.29	11.05.29	30,000,000	10.00	¥3,000,000,000	7,381,424
SMBC	08.05.29	11.05.29	50,000,000	10.00	¥5,000,000,000	13,800,744
MIZUHO	08.09.29	11.09.29	111,672,000	10.15	¥11,000,000,000	24,555,868
BNP	08.10.17	11.10.17	55,650,000	1,113	US\$50,000,000	1,114,313
DBS	08.10.17	11.10.17	55,650,000	1,113	US\$50,000,000	1,208,053
ING	08.10.17	11.10.17	55,650,000	1,113	US\$50,000,000	1,139,504
CALYON	08.10.17	11.10.17	55,650,000	1,113	US\$50,000,000	1,253,432
BNS	08.10.17	11.10.17	56,400,000	1,128	US\$50,000,000	-756,526
BOA	08.10.17	11.10.17	55,650,000	1,113	US\$50,000,000	1,392,431
MIZUHO	09.06.26	12.06.26	131,000,000	13.10	¥10,000,000,000	-3,094,933
SC JAEIL BANK	09.09.30	10.09.30	131,500,000	13.15	¥10,000,000,000	-6,314,623
TOTAL						84,850,217

Currently no separate hedge transactions are being implemented to evade the risk of foreign exchange for the 30 billion Yen that the Company has borrowed from Lotte Japan. However, we judge that it is amply possible to evade exchange risks without derivatives as the loan may be either amortized early or extended under an agreement with Lotte Japan. Under such conditions, the Company may opt for early amortization if there is a steep fall in the exchange rate after one year, or extend the loan if the exchange rate rises after three years.

Our system for the management of foreign exchange-related risk seeks to contribute to the Company's sound financial structure and stable business operations, and we are continuing to work to improve our risk management system and risk management expertise among relevant personnel.

## 5. Status of Derivatives Trade

### A. Status of Derivatives Contracts

#### (1) Currency Swap Contracts

(Unit: million Won, except per share amounts or as otherwise indicated)

Date of contract	Date of expiration	Purchased	Purchased	Swap price	Sold	Sold amount	Gain/Loss from cash flow risk aversion	Contracting
------------------	--------------------	-----------	-----------	------------	------	-------------	--	-------------

(YY/MM/DD)	(YY/MM/DD)	currency	amount		currency	(in millions)	Prior period (08)	Increase (decrease)	Total	bank
08/4/29	11/4/29	KRW	48,800	976	USD	50	▲614	129	▲485	BNP Paribas Bank
08/4/29	11/4/29	KRW	48,800	976	USD	50	▲583	84	▲499	DBS Bank
Sub-total			97,600	-	-	100	▲1,197	213	▲984	
08/5/29	11/5/29	KRW	100,181	10	JPY	10,000	▲3,560	2,454	▲1,106	Bank of Tokyo-Mitsubishi UFJ
08/5/29	11/5/29	KRW	30,000	10	JPY	3,000	▲1,403	900	▲503	Mizuho Bank
08/5/29	11/5/29	KRW	50,000	10	JPY	5,000	▲105	765	660	Sumitomo Mitsui Bank
Sub-total			180,181	-	-	18,000	▲5,068	4,119	▲949	
08/9/29	11/9/29	KRW	111,672	10	JPY	11,000	▲6,226	3,544	▲2,682	Mizuho Bank
Sub-total			111,672	-	-	11,000	▲6,226	3,544	▲2,682	
08/10/17	11/10/17	KRW	55,650	1,113	USD	50	▲2,551	935	▲1,616	BNP Paribas Bank
08/10/17	11/10/17	KRW	55,650	1,113	USD	50	▲2,137	615	▲1,522	DBS Bank
08/10/17	11/10/17	KRW	55,650	1,113	USD	50	▲2,253	662	▲1,591	ING Bank
08/10/17	11/10/17	KRW	55,650	1,113	USD	50	▲1,989	512	▲1,477	Calyon Bank
08/10/17	11/10/17	KRW	56,400	1,128	USD	50	▲2,124	▲613	▲2,737	Bank of Nova Scotia
08/10/17	11/10/17	KRW	55,650	1,113	USD	50	▲2,343	1,006	▲1,337	Bank of America
Sub-total			334,650	-	-	300	▲13,396	3,117	▲10,279	
09/6/26	12/6/26	KRW	131,000	13	JPY	10,000	0	1,623	1,623	Mizuho Bank
Sub-total			131,000	-	-	10,000	0	1,623	1,623	
09/9/30	10/9/30	KRW	131,500	13	JPY	10,000	0	▲1,097	▲1,097	SC Cheil Bank
Sub-total			131,500	-	-	10,000	0	▲1,097	▲1,097	

## (2) Put Option Contracts

(Unit: million Won, except per share amounts or as otherwise indicated)

Date of contract (YY/MM/DD)	Subject stock	Valuation currency	Valuation at acquisition	Valuation as of December 31, 2008	Valuation as of December 31, 2009	Valuation gain (loss) on derivatives	Exercise Period	Exercise Price
08/03/14	Korea Express Co., Ltd. common stock 332,046 shares	KRW	50,090	51,628	31,817	▲19,811	(1) From the three year anniversary from the date immediately following the payment date (2) One-year extension by mutual agreement of the parties	Exercise price = (1) + (2) (1) Purchase price under the Consortium Agreement for the subject stock (2) Interest, at an interest rate of 6.5% per annum, accrued from the date of acquisition of the subject stock to the date of completion of the sale of the subject stock

※ Under the agreement between the Company and Kumho Rent A Car, we hold an option to put the shares of Korea Express Co., Ltd. held by us to Kumho Rent A Car after the three-year anniversary of our acquisition of such shares, for a price equal to our acquisition price plus interest accrued at a 6.5% interest rate. Due to capital reduction, the number of Korea Express Co., Ltd shares held by us has decreased to 332,046 shares from 584,795 shares. As of December 31, 2009, the fair value of the above derivative instruments was Won 31.8 billion, and loss on valuation of Won 19.8 billion was accounted for as non-

operating income.

## B. Risk Management

- (1) The Company's risk management objective is to increase our corporate value by minimizing the impact of exchange rate fluctuations on our profit and losses.
- (2) We hedge risks with respect to foreign currency-denominated assets and liabilities when they arise in light of the amount and market conditions.
- (3) We hedge risks with respect to interest rate fluctuations when they arise in light of the amount and market conditions.
- (4) We do not enter into foreign currency-related trades for speculative purposes.

## 6. Other matters for investment decision-making

### A. Social contribution activity

Lotte Shopping utilizes its nation-wide establishments and stores by developing an effective social contribution activity which meets each location's specialty. Each store freely organizes a volunteering group which directly visits for genuine assistance and extends voluntary work to regional company's under-privileged neighbors such as lower-class children and young boys/girls, solitary elderly persons, handicapped, etc.

Lotte Department Store, of which a total of 6,400 employees have extended volunteer work over 500 or more times, for a total of approximately 3,000 hours of volunteer work on a yearly basis, was appointed by the government as a 'social volunteer work certified center' in 2005, and in connection with Green Value Management, the company solely acquired international environment management system authentication ISO 14001 in 2006.

Also, the company published a continuous potential report about its social volunteer work in 2004 as the first in the industry, and registered with the UN global compact in January 2007 as a first in the domestic industry. In February 2009, the company was the first in the domestic distribution industry to register on the Dow Jones Sustainability Index (DJSI) Asia/Pacific. DJSI A/P - registered companies are those accomplishing superior sustainable management amongst companies with excellent market capitalization in Asia Pacific.

Accordingly, Lotte Shopping closely cooperates with the government and local self-governed bodies, as well as major NGO, for operation of a diverse environment program. To support the national energy saving movements, Cool Biz and Warm Biz, the company holds a business casual fashion show and coordination clinic each year, and to increase customers' and the local community's environmental awareness and attract environmental movement participation, the company consistently operates programs such as an ecoshop for extinction crisis protection, college students environmental marketing, public exhibition, etc.

### III. Matters Regarding Financial Affairs

#### 1. Summary Consolidated Financial Information

(Unit: million Won)

Division	40 <sup>th</sup> fiscal year	39 <sup>th</sup> fiscal year	38 <sup>th</sup> fiscal year	37 <sup>th</sup> fiscal year	36 <sup>th</sup> fiscal year	35 <sup>th</sup> fiscal year
Current Assets	3,463,180	2,844,913	2,597,274	3,566,039	1,549,446	1,510,995
Quick Assets	2,211,832	1,714,579	1,540,265	2,579,804	728,545	569,003
Inventories	1,251,348	1,130,334	1,057,009	986,235	820,901	941,992
Card Assets	3,570,305	3,004,654	3,007,540	2,670,783	2,344,027	1,415,674
Non-current Assets	17,389,893	11,058,677	9,400,887	8,042,936	6,769,917	6,185,399
Investment Assets	2,245,337	1,270,297	802,482	646,280	379,447	296,081
Tangible Assets	12,896,552	7,848,064	7,282,022	6,638,003	5,819,962	5,327,814
Intangible Assets	856,147	1,009,314	559,739	146,533	163,993	176,362
Other Non-current Assets	1,391,857	931,002	756,644	612,120	406,515	385,142
Total Assets	24,423,378	16,908,244	15,005,701	14,279,758	10,663,390	9,112,068
Current Liabilities	6,618,238	5,370,387	5,130,776	4,912,854	4,933,797	3,735,176
Non-current Liabilities	4,639,873	2,381,227	1,441,058	1,715,754	2,404,004	2,617,944
Total Liabilities	11,258,111	7,751,614	6,571,834	6,628,608	7,337,801	6,353,120
Capital Stock	145,217	145,217	145,217	145,217	100,000	100,000
Consolidated Capital Surplus	4,652,244	4,652,244	4,668,374	4,668,356	1,164,190	1,164,190
Consolidated Capital Adjustment	△124,533	-	-	-	-	-
Consolidated Accumulated Other Comprehensive Income	2,973,632	28,400	61,434	48,682	36,787	24,856
Consolidated Retained Earnings	4,684,994	4,005,563	3,299,591	2,644,902	1,912,085	1,374,023
Minority Stockholders' Interests	833,713	325,206	259,251	143,993	112,527	95,879
Total Capital Stock	13,165,267	9,156,630	8,433,867	7,651,150	3,325,589	2,758,948
Sales	16,010,344	12,794,775	11,019,934	9,966,689	9,305,133	8,265,554
Operating Profit	1,148,317	1,011,140	869,728	969,137	819,885	608,540



Ordinary Profit Before Taxes	1,192,563	1,076,716	1,112,463	1,022,554	743,768	425,890
Consolidated Total Net Income	765,850	786,177	753,833	775,172	564,709	314,105
Controlling Company's Net Income	715,692	743,457	692,187	744,276	548,061	305,602
Companies Subject to Consolidation	26	10	5	4	4	4

At the general meeting of the board of directors held on September 18, 2009, it was decided that the Company's Food Business Division be transferred to Lotte Samkang. The transfer was complete by September 30, 2009. Accordingly, we have categorized the Food Business Division under discontinued businesses.

## 2. Notes to Presentation of Consolidated Financial Information

### A. Applicable accounting standards

The Company prepares the financial statements in accordance with generally accepted accounting principles in the Republic of Korea. Except for the items related to the adoption of changes to Statements of Korean Accounting Standards ("SKAS") No.5, *Property, Plant and Equipment*, the Company applied the same accounting policies that were adopted in the previous year's non-consolidated financial statements.

Certain accounts of the prior period's consolidated financial statements have been reclassified to conform to the current period's presentation. These reclassifications have not resulted in any change to reported net income or stockholders' equity.

The following are the major accounting policies that the Company has applied:

## 3. Summary Non-Consolidated Financial Information

(Unit: million Won except per share data)

Division	40 <sup>th</sup> fiscal year	39 <sup>th</sup> fiscal year	38 <sup>th</sup> fiscal year	37 <sup>th</sup> fiscal year	36 <sup>th</sup> fiscal year
Current Assets	2,032,998	1,940,403	2,153,288	3,465,106	1,389,790
Quick Assets	931,689	902,518	1,135,408	2,518,969	601,251
Inventories	1,101,309	1,037,885	1,017,880	946,137	788,539
Non-current Assets	16,625,359	11,363,280	9,789,066	8,388,790	6,980,027
Investment Assets	4,342,193	3,263,979	2,216,467	1,659,892	1,199,568
Tangible Assets	11,129,377	7,060,981	6,740,876	6,111,108	5,342,582
Intangible Assets	134,503	131,530	112,524	35,592	36,847
Other Non-current Assets	1,019,286	906,790	719,198	582,198	401,030
Total Assets	18,658,356	13,303,683	11,942,354	11,853,896	8,369,817
Current Liabilities	3,287,833	3,147,474	3,292,610	3,377,972	3,528,199
Non-current Liabilities	3,038,968	1,325,547	475,670	972,223	1,620,589
Total Liabilities	6,326,801	4,473,021	3,768,280	4,350,195	5,148,788

Capital Stock	145,217	145,217	145,217	145,217	100,000
Capital Surplus	4,650,895	4,650,895	4,652,123	4,652,157	1,147,940
Capital Adjustment	△16,271	△16,271			
Accumulated Other Comprehensive Income	2,866,718	45,943	78,377	63,799	61,620
Retained Earnings	4,684,996	4,004,878	3,298,358	2,642,528	1,911,469
Total Capital Stock	12,331,556	8,830,662	8,174,074	7,503,701	3,221,029
Sales	11,535,281	10,509,251	9,724,837	9,016,586	8,564,093
Operating Profit	876,475	768,107	755,157	748,068	685,989
Ordinary Profit Before Taxes	939,770	925,046	955,537	986,961	728,394
Total Net Income	716,422	742,825	692,134	742,517	548,890
Net Income per Share	24,667	25,576	23,831	26,494	27,445

#### 4. Notes to Presentation of Financial Information

##### A. Applicable accounting standards

The Company prepares the financial statements in accordance with generally accepted accounting principles in the Republic of Korea. Except for the items related to the adoption of changes to Statements of Korean Accounting Standards ("SKAS") No.5, *Property, Plant and Equipment*, the Company applied the same accounting policies that were adopted in the previous year's non-consolidated financial statements.

Certain accounts of the prior period's non-consolidated financial statements have been reclassified to conform to the current period's presentation. These reclassifications have not resulted in any change to reported net income or stockholders' equity.

In addition, as explained in note 38, the prior period income statement, presented comparatively, is reclassified to show the discontinued operation separately from continuing operations.

The following are the major accounting policies that the Company has applied:

##### (1) Recognition of earnings

The Company recognizes earnings from the sale of merchandise or goods when the merchandise or goods are delivered. For the sale of construction lots, which is a form of reserved sale, the Company recognizes earnings from the sales by construction progress. For others, the Company recognizes earnings when the earning process is completed and such earnings can be reliably measured and it is highly likely that economic benefits are realized.

However, the Company specifies in agreements that a product can be returned within the season if that the payment shall be made for a seasonal product before the season ends. For a non-seasonal product, it can be returned within 90 days of purchase. The Company recognizes earnings as a gross amount for the sale of products that have inventory risks and recognizes the corresponding inventory and trade payables on its balance sheet separately.

If the Company is an acting agent to a supplier and not a contracting party, the Company recognizes the amounts requested to customer less the amounts which should be paid to actual supplier of service or goods as a fee income.

## (2) Allowance for bad debts

The Company sets aside the estimated bad debts as allowances on the basis of individual analysis and historical bad debt rates. When the principle of trade receivables are unfavorably adjusted due to the commencement of liquidation, court receivership or mutual agreements between the parties, the Company sets the difference between the present value of future cash flow and book value as bad debt allowances.

## (3) 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 (Department and Supermarket Division)	Retail business segment (Mart Division)	Other business segment (Clothing retail and Construction)
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.

## (4) Investments in securities

At the time of acquisition, securities are classified as securities held-to-maturity, trading securities, and available-for-sale securities, except equity in investees, investee's management and joint-ventures. The appropriateness of such classification is reviewed at the date of the balance sheet.

Debt securities whose maturity is fixed or whose redemption amount is fixed or fixable shall be grouped into securities held to maturity if the Company has an intention and ability to hold them to maturity. Securities that are purchased to gain profits from price fluctuations in a relatively short period of time shall be classified as trading securities. The rest shall be classified as available-for-sale securities.

The acquisition cost of securities shall be the value obtained by applying the periodic average method to the market value plus the acquisition expenses.

For both available-for-sale securities and trading securities, the fair market value shall be used to evaluate them. But, when the fair market value is hard to measure for some available-for-sale securities which have no marketability, the acquisition cost shall be used to evaluate them.

For marketable securities, the market price shall be the fair market value and the closing price on the balance sheet date. For debt securities with no marketability, the future cash flow shall be reasonably measured and discounted with a reasonable rate reflecting its credit rating by a recognized credit rating agency. For beneficiary certificates having no marketability, the trading base price provided by the fund management company shall be the fair price.

The unrealized loss or gains on trading securities shall be reflected in net income or loss while the unrealized loss or income of available-for-sale securities shall be reflected in capital adjustment. Accumulated amount in capital shall be reflected in net income when disposing of the securities or recognizing the impairment loss.

The Company looks for objective evidence of loss on each day of the balance sheet and in case the receivable is less than the acquisition cost of debt securities after repayment or acquisition cost of equity securities, the Company recognizes the loss and reflects it to the loss or gain for this term.

The Company classifies short-term trading securities and available-for-sale securities which are sure to be disposed (by expiration within 1 year from the date of balance sheet or by sale) as current assets, as well as securities held-to-maturity will expire within 1 year from the date of balance sheet.

#### (5) Investment securities under the equity method of accounting

Investment securities which have significant influence shall be evaluated with the value obtained using the equity method. Any change in stake at the time of applying the equity method shall be reflected in investment securities using the equity method and it shall be treated as a loss using the equity method (net income or loss), change in retained earnings or capital change with the equity method (capital adjustment) depending on the cause of changes. When the value of investment securities becomes null due to the accumulated deficits of the investment company, the equity method shall not be applied any more and the investment securities with the equity method shall be null. However when the company holds investment assets of the invested company, such as preferred stocks or long-term bonds, the losses of the invested company shall be continuously reflected till the book value of those assets become null.

On the day when significant influence becomes exercisable or when the investment value in the invested company surpasses the amount out of net assets of the investee, which is equivalent to the company's stake in the investee, the excess shall be depreciated for ten years from the occurrence with the straight-line method. When the investment value in the investee is short of the amount of net assets of the investee, which is equivalent to the company's stake in the investee, the shortage shall be reversed with the straight-line method for the weighted average of useful years if it is an amount of the asset that can be written off out of non-monetary assets. The shortage shall be reversed at the time of disposal if it is not an amount that cannot be written off. When the difference between the company's investment value and the net assets of the investee is equal to the company's stake in the investee and accrues by evaluating the specific assets or liabilities of the investee with fair value, the difference shall be treated in the same method that the investee treats the assets and liabilities concerned.

When the balance sheet of the investee located overseas subject to the equity method expressed in foreign currency is translated, the foreign exchange rate on the base date of balance sheet shall be applied for its assets and liabilities and the capital shall be converted with the exchange rate at a time of acquisition.

The Company treats as a capital adjustment with the equity method, the difference amounting to the company's stake, calculated by deducting the liabilities converted with the exchange rate on the base date of the balance sheet from the capital converted with the exchange rate at a time of acquisition plus the asset value converted with the exchange rate on the base date of balance sheet.

The reflected amount in the book value of the assets held by the Company as of the balance sheet date, out of the value obtained by multiplying the loss or gain accruing from a transaction between the Company and the investee, subject to the equity method with the Company's stake, shall be deemed unrealized gain or loss. In such cases, an unrealized gain shall be deducted from investment securities subject to the equity method while an unrealized loss shall be added to the investment securities subject to the equity method.

#### (6) Joint venture

In respect of 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 from such joint operations. For its interest in jointly controlled asset, the Company recognizes, in the non-consolidated financial statements, its share of the assets it jointly controls, the liabilities jointly incurred and net income, 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.

## (7) 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 and revaluation for land in accordance with the revised SKAS No.5, *Property, Plant and Equipment* (the "Standard") as of January 1, 2009.

Under the newly adopted Standard, SKAS No.5, the book value of land is accounted at fair value as of the date of the revaluation less accumulated impairment loss. If an asset's book value increases as a result of the revaluation, the amount of the increase is recognized in other comprehensive income which includes the gain we previously calculated as a reevaluation decrease amount under gain or loss in assets. On the other hand, if an asset's book value decreases as a result of the revaluation, that decrease is recognized as a loss for the current period, and the portion of the amount of decrease included in the credit balance in the revaluation surplus recorded in other comprehensive income is deducted from other comprehensive income. According to the transitional provision to this Standard, the accounting change will be applied prospectively and the prior period's non-consolidated financial statements presented for comparative purposes have not been restated.

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:

	Useful lives (years)
Buildings	10 – 30
Structures	10 – 30
Machinery	4 – 30
Vehicles	4
Display fixtures	4
Other furniture and fixtures	4

The Company recognizes interest costs and other financial charges on borrowings associated with the production, acquisition and 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.

## (8) Lease

When the risks and benefits from ownership of a leased asset are transferred to the Company, the leased asset is classified as a financial lease and otherwise, as an operational lease.

The Company accounts the lesser of the fair value and the value of the minimum lease amount discounted with the intrinsic interest rate provided by the lease provider as leased assets or liabilities. The payment of minimum lease is divided into principle and interest. The interest expense is equally distributed with the effective interest rate method so that the rate of interest to the balance of lease liabilities is equal for every term.

For operational leases, the equally divided amount over the whole lease period is reflected.

(9) Goodwill

Goodwill is the amount exceeding the company's stake to the fair value of the identifiable net asset acquired from the purchase. The company depreciates it over ten years with the straight-line method. However when the redeemable value of the goodwill is short of its book value and the shortage is significant, this is treated as impairment loss and reflected in expenses during the term.

(10) Intangible Assets

The acquisition cost of an intangible asset is the purchase price or manufacturing cost plus auxiliary expenses. The asset is written off over the following years with the straight-line method with the remaining value set at zero from the time when the asset becomes usable. The asset is evaluated with the balance by deducting the depreciation from the acquisition cost.

Description	Estimated useful years (years)
Industrial property right	5 year
Right to use water supply facility	10 year
Right to use electric facility	10 year
Right to use gas facility	10 year
Facility usage right	20 year
License	5 to 10 years
Film distribution right	Period when the gain is realized
Others	5 year

Film distribution rights are included in the cost of sales until the gains are realized. When gains are not sure to be realized, they are treated as impairment losses.

When the redeemable value is significantly short of its book value due to the outdatedness of an asset or a sharp drop in market value, its book value is adjusted with the redeemable value and the difference is treated as impairment loss.

(11) New stock issue cost and bond issue cost

The Company deducts new stock issue cost from paid-in capital in excess of par value after adjusting stock issue amount and reflects bond issue cost in discount or premium on bonds payable.

(12) Discount on bonds payable

The Company writes off (recovers) discount or premium on bonds payable by applying the effective interest rate method over the period from the issue to the redemption and reflects the return in the interest expenses.

(13) Severance indemnities

The Company sets aside its estimated severance payments (larger of the amount in accordance with the labor standards act and the amount pursuant to the company's regulations) as severance indemnities, which may be required when all the employees working over one year as of the balance sheet date, retire at the same time. The Company expresses the retirement insurance deposits deducted from severance indemnities. When an employee retires, the Company pays part of the severance indemnities to be paid to the National Pension Service in accordance with the provisions of the National Pension Act. The same amount is deducted from severance indemnities and accounted in the transfer to the National Pension Service.

(14) Translation of foreign currency denominated assets or liabilities

The Company translates non-monetary foreign currency-denominated assets or liabilities at the exchange rate at a time of taking over such assets or liabilities. The Company translates monetary assets or liabilities at the base exchanges rate provided by Seoul Monetary Brokerage Service. Loss or gain on translation is

reflected in net income or loss.

#### (15) Disposition of derivatives

For derivative contracts, the Company assesses the rights and obligations stemming from the derivatives contracts in connection with the fair value and reflects such assessment as assets or liabilities. The unrealized gain or loss is recognized in net income at the time when it is realized. However, when cash flow risk avoiding accounting rules are applied to reduce risks from the future cash flow of an expected transaction, the part of unrealized gain or loss on the derivative which is not effective to avoid risks is accounted in net income or loss and the portion which is effective to avoid risks is accounted in capital adjustment. Subsequently, the net effect is reflected in the net income or loss for the year when the expected transition affects net income or is deducted from or added to the book value of the asset when the expected transaction occurs.

#### (16) Estimated liabilities

The Company treats estimated liabilities or provisions that it is not certain of when or how much to pay, of which the obligation still exists, on which the Company is likely to spend resources and of which the amount required to fulfill the obligation is reasonably estimated as liabilities. When the difference between the nominal value and present value of an estimated liability is significant, it is assessed with the present value of the expected expenditure to carry out the obligation.

So long as a third party is sure to repay the debts, the Company treats the repayment as a separate asset. In such case, the amount earned from the repayment is offset with the expenses to be accounted in the income statement as a result of recognizing estimated liabilities or provisions.

#### (17) Gift certificate

The sales from gift certificates are recognized at the time when the gift certificate is retrieved or the proper products are delivered or sold. At the time of selling gift certificates, it is treated as liabilities in the gift certificate account.

#### (18) Income tax expense

The income tax expense is calculated by adding or deducting deferred income tax to the sum of the tax amount obtained by applying the expected annual tax rate as of the balance sheet date and other taxes attached to income tax. The difference between the amount calculated as of the end of the current term and pursuant to tax laws, and the income tax expense is reflected in deferred income tax assets (liabilities) and is offset with the income tax assets or liabilities accounted in the prior fiscal year. The deferred income tax assets (liabilities) are estimated with the income tax rate that is applied to the fiscal year when the difference is realized and the change in deferred income tax assets (liabilities) is added to or deducted from income tax expenses for the fiscal year when the relevant regulations are revised.

#### (19) Profit and loss on discontinued business

For accounting periods where the initial notification of a discontinued business occurred, the operating income and losses, non-operating income and losses arising from the discontinued business is reclassified as the category of the income and losses from a "discontinued business". Financial statements of previous years that are compared are restated to show the income and losses of the discontinued business.

#### (20) Use of estimation

To prepare the financial statements in accordance with Korean GAAP, the management of the Company uses many reasonable estimates and assumptions in relation with assets, liabilities, public disclosure on estimated liabilities, and calculation of earnings and expenses. The estimates include book values of tangible assets, trade receivables, inventory, deferred income tax assets (liabilities), and valuation of derivatives. The valuation may be different from actual values.

### B. Violation of generally accepted accounting principles

(1) Violations requiring the adjustment of financial statements  
- note applicable

(2) Violations not requiring the adjustment of financial statements  
- note applicable  
  
- note applicable

C. Other considerations  
- Not applicable



#### 4. Planning and Adoption of K-IFRS (International Financing Reporting Standards)

(a) The Financial Supervisory Commission announced the roadmap for the adoption of K-IFRS in March 2007, and the Company subsequently plans to issue financial statements prepared in accordance with K-IFRS from 2011. Financial effect on financial statements according to the change in accounting standards has been analyzed by the Company, and employees related to financial reporting have been trained. Also, plans and status are reported periodically to the management. Specific time schedule and related status are summarized as follows:

Major activities	Plans	Status
Running team of analyzing the financial effect of K-IFRS	Preparation of acceptance of K-IFRS until December 2009 Analysis on conversion information of converted F/S as of January 1, 2010 and thereafter	Built T/F team of K-IFRS in September 2008 and established K-IFRS accounting policies and procedures, along with their own detailed methodology of financial information. Additionally, performed a system analysis on the financial effects of convergence from K-GAAP into K-IFRS.
Training employees	Acquisition of professional knowledge and skills for acceptance of K-IFRS	Trained employees.
Implementation of accounting system	Implementation of accounting systems for acceptance of K-IFRS	Resulting from change in accounting policies in accordance with K-IFRS, improvement upon related system and process design is now ongoing.

(b) Differences between Accounting under K-IFRS and under K-GAAP Expected to Have a Material Effect on the Company

Below is a list of notable differences between the financial statements as of and for the year ended December 31, 2009 as presented and as they would have been prepared under K-IFRS. The below list is not exhaustive, as in the future other unforeseen differences may appear as a result of future changes. In addition, practical effect of some of the significant differences listed below may not be obtainable:

Area	K-IFRS	Current K-GAAP
Employee benefits	Under the Projected Unit Credit Method, the Company recognizes a defined benefit obligation calculated using an actuarial technique and a discount rate based on the present value of the projected benefit obligation	The Company establishes an allowance for severance liability equal to the amount which would be payable if all employees left at the end of the reporting period.
Business combinations	Only the purchase method may be used, and the acquired assets and liabilities are all recorded at fair value under K-IFRS	Either the pooling of interests method or the purchase method may be used
Investment property	The Company recognizes property held (land or a building - or part of a building- or both) for earning rentals as Investment property.	The Company recognizes property held for earning rentals as tangible assets (property, plant and equipment).
Borrowing costs	Borrowing costs directly related to acquire, construct or manufacture qualifying assets should be included in the acquisition cost of the assets in current year.	Financial costs incurred to manufacture, purchase, construct, and develop assets should be expensed but capitalization of financial cost is allowed under the certain condition.

## IV. Auditor's Opinion

### 1. Audit (Review) Opinion on Consolidated Financial Statements

40 <sup>th</sup> fiscal year	39 <sup>th</sup> fiscal year	39 <sup>th</sup> fiscal year	38 <sup>th</sup> fiscal year
Samjong KPMG	Samjong KPMG	Samjong KPMG	Samjong KPMG

#### A. Audit (Review) Opinion Summary for the Current Business Year

The auditor reviewed the consolidated income statement, the consolidated statement of equity changes, and the consolidated cash flow statement which ended on December 31, 2008 and 2009 concurrently with the consolidated balance sheet of Lotte Shopping and its subsidiary companies.

The audit was performed according to Korea's auditing standards, which require the auditor to plan and implement the audit to rationally confirm that the consolidated financial statements have not been distorted. The audit includes verifying the audit evidence that support the recorded amounts and other reported contents of the consolidated financial statements through an audit method. In addition to evaluating the general contents of the consolidated financial statements, the audit also evaluates the accounting principles and significant accounting estimates used by the business managers in preparing the consolidated financial statement.

The audit results showed that the above mentioned consolidated financial statements satisfactorily recorded the management performance of Lotte Shopping and its subsidiary companies concluding concurrently with their financial status as of December 31, 2008 and 2009, and the changes in equity and cash flow according to the priority perspective of the accounting management standards generally approved in Korea.

#### B. Audit (Review) Opinion

Business year	Opinion (or review)	Summary
40 <sup>th</sup> fiscal year	Adequate	No issue indicated
39 <sup>th</sup> fiscal year	Adequate	No issue indicated
38 <sup>th</sup> fiscal year	Adequate	No issue indicated

#### C. Summary of Remarks

Fiscal year	Remarks
40 <sup>th</sup> fiscal year	<p>(1) Profit and loss on suspended business The board of directors of this Company has resolved to transfer the Food Business Division to Lotte Samkang Co., Ltd. on September 18, 2009. Accordingly, the Company entered into the transfer agreement on September 18, 2009 and transferred its assets and liabilities of the Food Business Division to Lotte Samkang Co., Ltd. on September 30, 2009. As of September 30, 2009, the book value of our transferred assets is Won 25 trillion and the book value of our transferred liabilities is Won 4 trillion.</p> <p>2) Reevaluation of Tangible Assets The Company conducted a reevaluation of its lands through the reevaluation model provided in the Statement of Korea Accounting Standard No. 5 (Tangible Assets). The Company's land, deferred income tax credits, and net asset value increased to Won 3.7 trillion, Won 811 billion, and Won 2.9 trillion respectively in comparison to the cost method evaluation results. Net profit was reduced by Won 6.4 billion. The previous year's financial statements were not recomposed for comparison purposes.</p>

39 <sup>th</sup> fiscal year	1) Changes in accounting policy Due to an amendment to SKAS No. 15 "Equity Method of Accounting" in this period, the Company changed its accounting policy to conform to the revised equity method of accounting. As a result of such change, the equity method income for this period and the income surplus at the end of this period increased by Won 3.1 billion and Won 12.5 billion, respectively, and equity method investments, capital surplus, equity method capital change and equity method negative capital change of the Company showed a decrease of Won 12.2 billion, an increase of Won 1.2 billion, a decrease of Won 20.4 billion and an increase of Won 81 million, respectively, during this period.
38 <sup>th</sup> fiscal year	1) Acquisition of 14 Big Marts The Company bought the operating assets and liabilities of Big Mart Co., Ltd. comprising 14 supermarkets at the appraised fair value as of May 9, 2007 in order to add to the efficiency and competitiveness of the supermarket business division of the Company.

## 2. Audit (Review) Opinion on Non-Consolidated Financial Statements

### A. Name of Auditor / Accountants

40 <sup>th</sup> fiscal year	39 <sup>th</sup> fiscal year	39 <sup>th</sup> fiscal year	38 <sup>th</sup> fiscal year
Samjong KPMG	Samjong KPMG	Samjong KPMG	Samjong KPMG

### B. Audit (Review) Opinion

#### (1) Audit (Review) Opinion Summary for the Current Business Year

The auditor reviewed the non-consolidated income statement, statement of equity changes, and the cash flow statement which ended on December 31, 2008 and 2009 concurrently with the balance sheet of Lotte Shopping and its subsidiary companies.

The audit was performed according to Korea's auditing standards, which require the auditor to plan and implement the audit to rationally confirm that the financial statement have not been distorted. The audit includes verifying the audit evidence that support the recorded amounts and other reported contents of the financial statements through an audit method. In addition to evaluating the general contents of the financial statements, the audit also evaluates the accounting principles and significant accounting estimates used by the business manager in preparing the financial statements.

The audit results showed that the above-mentioned financial statements satisfactorily recorded the management performance of Lotte Shopping and its subsidiary companies concluding concurrently with their financial status as of December 31, 2008 and 2009, and the changes in equity and cash flow according to the priority perspective of the accounting management standards generally approved in Korea.

#### (2) Audit (Review) Opinion

Business year	Opinion (or review)	Summary
40 <sup>th</sup> fiscal year	Adequate	No issue indicated
39 <sup>th</sup> fiscal year	Adequate	No issue indicated
38 <sup>th</sup> fiscal year	Adequate	No issue indicated

#### (3) Summary of Remarks

Fiscal year	Remarks
40 <sup>th</sup> fiscal year	(1) Profit and loss on suspended business The board of directors of this Company has resolved to transfer the Food Business Division to Lotte Samkang Co., Ltd. on September 18, 2009. Accordingly, the Company entered into the transfer agreement on September 18, 2009 and transferred its assets and liabilities of the Food Business Division to Lotte Samkang Co., Ltd. on September 30, 2009. As of September 30, 2009, the book value of our transferred assets is Won 25 trillion and the book value of our transferred liabilities is Won 4

	<p>trillion.</p> <p>2) Physical Division In the general shareholders' meeting held on November 20, 2009, the Company decided to physically split the KKD Business Division, and the split was implemented on Dec. 31 2009. As a newly established company, Lotte KKD's main business includes the manufacture and sale of donuts, coffee, and other processed foods for franchise sales. Lotte KKD's capital stock at end year was recorded at Won 2 billion, and the Company currently owns all of its issued shares.</p> <p>3) Reevaluation of Tangible Assets The Company conducted a reevaluation of its lands through the reevaluation model provided in the Statement of Korea Accounting Standard No. 5 (Tangible Assets). The Company's land, deferred income tax credits, and net asset value increased to Won 3.6 trillion, Won 786 billion, and Won 2.8 trillion respectively in comparison to the cost method evaluation results. Net profit was reduced by Won 5.7 billion. The previous year's financial statements were not recomposed for comparison purposes.</p>
39 <sup>th</sup> fiscal year	<p>1) Changes in accounting policy Due to an amendment to SKAS No. 15 "Equity Method of Accounting" in this period, the Company changed its accounting policy to conform to the revised equity method of accounting. As a result of such change, the equity method income for this period and the income surplus at the end of this period increased by Won 3.1 billion and Won 12.5 billion, respectively, and equity method investments, capital surplus, equity method capital change and equity method negative capital change of the Company showed a decrease of Won 12.2 billion, an increase of Won 1.2 billion, a decrease of Won 20.4 billion and an increase of Won 81 million, respectively, during this period.</p>
38 <sup>th</sup> fiscal year	<p>1) Acquisition of 14 Big Marts The Company bought the operating assets and liabilities of Big Mart Co., Ltd. comprising 14 supermarkets at the appraised fair value as of May 9, 2007 in order to add to the efficiency and competitiveness of the supermarket business division of the Company.</p>

#### C. Audit Contracts

(Unit: million Won, hours)

Term	Auditor	Division	Fee	Total hours
40 <sup>th</sup> fiscal year	Samjong KPMG	Review of quarterly and semi-annual financial statements Audit of non-consolidated and consolidated financial statements	500	6,620
39 <sup>th</sup> fiscal year	Samjong KPMG	Review of quarterly and semi-annual financial statements Audit of non-consolidated and consolidated financial statements	500	5,900
38 <sup>th</sup> fiscal year	Samjong KPMG	Review of quarterly and semi-annual financial statements Audit of non-consolidated and consolidated financial statements	490	6,696

#### D. Contracts regarding Non-Audit Services with Outside Auditor

(Unit: million Won)

Term	Date of conclusion	Division	Service period	Fee	Remarks
40 <sup>th</sup> fiscal year		N/A			

39 <sup>th</sup> fiscal year	July 31, 2008	Accounting and tax due diligence services in connection with the acquisition of PT Makro Indonesia	July 31, 2008 to February 25	190	
38 <sup>th</sup> fiscal year		N/A			

### 3. Matters regarding internal control

#### A. Audit Summary

##### (1) Audit Committee Composition and Term of Office

- Jeon-Woon Kang(non-permanent), Sai-Ree Yun (non-permanent), Seong-Kyu Sohn (non-permanent)

##### (2) Dates of Audit

- Implemented on a continuous basis throughout the year

##### (3) Main Audit Procedure

###### ① Audit on Accounting

We inspected the accounting books and relevant documents, and minutely investigated the financial statements and attached transcripts. We examined by applying the contrast method, actual inspection, attendance, inquiry, and other proper audit procedures.

###### ② Inspection on the Business

We received reports on the business from directors, attended the general meetings of the Board of Directors and other major meetings for business inspection, and also scrutinized important business-related documents.

#### B. Audit Opinion

##### (1) Matters on Presentation of Balance Sheet and Income Statement

- The assets and profit and loss statement of the Company are stated exactly according to the law and the articles on balance sheets and income statements.

##### (2) Matters on Business Report

- The general conditions of the Company is indicated in the business report pursuant to the relevant law and articles.

##### (3) Matters on the Statement of Appropriations of Retained Earnings

-The statement of appropriations of retained earnings is appropriately made pursuant to the law and articles and considering the financial and other conditions of the Company.

#### C. Other Matters

- None

## V. Management's Discussion and Analysis

### 1. Cautions on Predictory Information

The activities, events or phenomena predicted by the Company in this business report reflect the Company's stance on the events and financial performance that occurred at the time of preparing the reported documents.

Such predictory information are based upon the various assumptions related to future business environment, and such assumptions may be proven as inaccurate. Moreover, such assumptions contain the risk of resulting in major discrepancies between the predicted values and the actual result, uncertainty and other such factors. Factors that could result in such major differences include, but are not limited to, factors related to the Company's internal business operation and external environment. The Company does not hold the responsibility of making reports to correct the predictions to reflect the risks or uncertainties that arise after the preparation of the prediction.

In conclusion, it is not possible to fully confirm that the results or matters predicted by the Company on this business report will be realized, or that the effects predicted at the time of the report will arise. Please note that the predictions recorded on the report were prepared in relation to the report's preparation date, and that the Company has no plans in updating such risk factors or predictions.

### 2. Introduction

A flagship company of Lotte Group, Lotte Shopping is Korea's leading corporation in comprehensive retail with No. 1 rank in department store industry, No. 3 rank in discount store industry, and No. 1 rank in supermarket store industry. The Company is establishing a firm market position through stable profit creation in each business area, and is strengthening through aggressive opening of new stores and expansion of investment.

Our company has gained a firm market status through steady profits from the blue chip stores in each sales area, based on which, we have further consolidated our position through aggressive opening of new stores both at home and abroad, as well as increased investments. Despite the spending of investment capital following the mid to long-term business expansion plan, our company continues to maintain smooth flow of capital and sound financial stability.

Records for the 40<sup>th</sup> fiscal year showed an increase of Won 108.4 billion in the Company's operating profit to Won 876.5 billion, and a decrease of Won 26.4 billion in net profit to Won 716.4 billion since 2008.

### 3. Financial status and sales performance

#### A. Financial status

The company's total assets reached Won 18.7 trillion, an increase of 40.2% year-on-year; liabilities reached Won 6.3 trillion with an increase of 41.4%; and the total capital reached Won 12.3 trillion with an increase of 39.6%. Such increases as compared to the previous year is mainly attributable to the land reevaluation conducted in late 2009. As a result the carrying value of land increased by Won 3.6 trillion, non-current deferred income tax credits by Won 785.9 billion, and other comprehensive income by Won 2.8 trillion. In addition, penetration into overseas market, such as the subsidiary company in Hong Kong taking over Times LTD., and domestic business expansion have translated into an increase in investment assets and tangible assets. Also, the number of corporate bonds issued and borrowings increased as a means to procure capital required for making such new investments.

(Unit: million Won)

Division	40 <sup>th</sup> fiscal year	39 <sup>th</sup> fiscal year	38 <sup>th</sup> fiscal year
Current Assets	3,463,180	2,844,913	2,597,274
Quick Assets	2,211,832	1,714,579	1,540,265
Inventories	1,251,348	1,130,334	1,057,009
Card Assets	3,570,305	3,004,654	3,007,540
Non-current Assets	17,389,893	11,058,677	9,400,887
Investment Assets	2,245,337	1,270,297	802,482

Tangible Assets	12,896,552	7,848,064	7,282,022
Intangible Assets	856,147	1,009,314	559,739
Other Non-current Assets	1,391,857	931,002	756,644
Total Assets	24,423,378	16,908,244	15,005,701
Current Liabilities	6,618,238	5,370,387	5,130,776
Non-current Liabilities	4,639,873	2,381,227	1,441,058
Total Liabilities	11,258,111	7,751,614	6,571,834
Capital Stock	145,217	145,217	145,217
Consolidated Capital Surplus	4,652,244	4,652,244	4,668,374
Consolidated Capital Adjustment	△124,533	-	-
Consolidated Accumulated Other Comprehensive Income	2,973,632	28,400	61,434
Consolidated Retained Earnings	4,684,994	4,005,563	3,299,591
Minority Stockholders' Interests	833,713	325,206	259,251
Total Capital Stock	13,165,267	9,156,630	8,433,867

※ Stability Indicators

Division	40 <sup>th</sup> Fiscal Year	39 <sup>th</sup> Fiscal Year	38 <sup>th</sup> Fiscal Year
Current ratio(%)	61.83	61.65	65.40
Debt ratio(%)	51.31	50.65	46.10
Borrowings and bonds payable ratio(%)	10.38	8.47	4.61
The ratio of interest coverage to operating profits	13.06	26.63	20.68

Note:

1) Current ratio= (current assets/current liability)\*100

2) Debt ratio= (total liabilities/total assets)\*100

3) Borrowings and bonds payable ratio= (loan/total assets)\*100

Borrowings= short-term loan+current portion of bonds payable+bonds payable+long-term loan

4) The ratio of interest coverage to operating profits=operating profits/interest expense

B. Business Performance

Despite the global financial crisis and reduced domestic consumption in 2009, the total sales of the Company increased by Won 1.026 trillion, a 9.8% rise since 2008. High-quality strategies for stores and products and quick responses to changes in customer consumption patterns have served as the driving force in the rise of the Company's total sales. In particular, the 8.2% rise in sales in the department store division has led market growth. The Company recorded a total of Won 876.5 billion in operating profits—a rise by Won 108.4 billion from 2008—and a net profit of Won 716.4 billion—a reduction of Won 26.4 billion due to the rise in interest expenses.



(Unit: million Won)

Division	40 <sup>th</sup> Fiscal Year	39 <sup>th</sup> Fiscal Year	38 <sup>th</sup> Fiscal Year
Total Sales Amount	11,535,281	10,509,251	9,724,837
Costs of Sales	7,959,812	7,290,563	6,804,956
Gross Profit	3,575,470	3,218,687	2,919,880
Sales and Maintenance Costs Selling and administrative expenses	2,698,995	2,450,580	2,164,724
Operation profits	876,475	768,107	755,157
Non-operating income	383,020	521,852	307,044
Non-operating expenses	319,725	364,914	106,664
Carrying on Ordinary Income before Tax	939,770	925,046	955,537
Income tax expense from continuing operations	227,783	183,620	265,094
Net income from continuing operations	711,987	741,426	690,443
Net income from discontinued operations	4,435	1,399	1,692
Current net income	716,422	742,825	692,134

※ Profitability Indicators

Division	40 <sup>th</sup> fiscal year	39 <sup>th</sup> fiscal year	38 <sup>th</sup> fiscal year
Operating Profit to Net Sales Ratio (%)	7.60	7.31	7.77
Net profit rate to sales(%)	6.21	7.07	7.12
Net profit to total assets(%)	4.48	5.88	5.82
Return on equity(%)	6.77	8.74	8.83
The ratio of operating cash flow to total assets(%)	6.64	8.07	7.71

Note:

- 1) Operating Profit to Net Sales Ratio = (operating profits/total sales amount)\*100
- 2) Net profit rate to sales= (net profit/total sales amount)\*100
- 3) Net profit to total assets= (net profit/average total assets)\*100
- 4) Return on equity= (net profit/average equity)\*100
- 5) The ratio of operating cash flow to total assets=(cash flow from operating activities/average total assets)\*100

※ Growth Rate and Activity Indicators

Division	40 <sup>th</sup> fiscal year	39 <sup>th</sup> fiscal year	38 <sup>th</sup> fiscal year
Growth rate of sales(%)	9.76	7.59	7.85
Growth rate of operating profit(%)	14.11	1.51	0.95
Growth rate of current net	-3.55	7.32	-6.79

Division	40 <sup>th</sup> fiscal year	39 <sup>th</sup> fiscal year	38 <sup>th</sup> fiscal year
income(%)			
Growth rate of total assets(%)	40.25	11.40	0.75
Asset turnover ratio(turn)	0.72	0.83	0.82

1) Growth rate of sales= (current year's net sales/prior year's net sales)\*100-100

2) Growth rate of operating profit= (current year's operating profit/prior year's operating profit)\*100-100

3) Growth rate of current net income= (current year's operating profit/prior year's operating profit)\*100-100

4) Growth rate of total assets= (current year's assets/prior year's assets)\*100-100

5) Asset turnover ratio= total sales amount/average total assets

#### C. Discontinued Operations

The Company's Board of Directors decided to transfer the Food Business Division to Lotte Samkang on September 18, 2009. Such decision was based on the Company's long-term management strategy to contribute to a stable and sustained growth through rearranging the business structure by focusing on core businesses that have the potential of future growth and increasing profits. Accordingly, the Company concluded a transfer agreement on September 18, 2009, and the assets and liabilities of the Food Business Division were transferred to Lotte Samkang on September 30, 2009. The book value of the Food Business Division's transferred assets as of September 30, 2009 was Won 25 billion, and the book value of liabilities was Won 4 billion. The calculation details of the net income from discontinued operations recorded on the profit and loss statement are as follows

(Unit: million Won)

Division	2009	2008	2007
Total sales amount	38,001	44,542	43,295
Costs of sales	34,361	41,757	39,937
Gross profit	3,641	2,785	3,358
Selling and administrative expenses	1,759	1,903	1,845
Operating profits	1,881	882	1,514
Non-operating income	638	1,055	822
Non-operating costs	24	7	2
Profits in the Food Business Division	2,469	1,929	2,333
Gain on sale of discontinued operations	3,355	-	-
Income tax effect	1,416	531	642
Discontinued operations income	4,435	1,399	1,692

The net cash outflow in the Food Business Division amounted to Won 1.3 billion in operating activities, and Won 1.2 billion in investment activities.

## 4. Liquidity and Financing

### A. Liquidity Status

The details of the Company's cash and cash equivalents are as follows:

(Unit: million Won)

Division	40 <sup>th</sup> fiscal year	39 <sup>th</sup> fiscal year	Growth
Cash and cash equivalents			
Short term deposit	269,616	207,721	61,895
Term deposit	83,032	272,346	189,314
MMDA			-
MMT			-
Certificate of deposit	120,000	20,000	100,000
Foreign currency deposit	35,056		35,056
Long-term financial instruments	12,500	12,500	-
Other deposits			-
Total	520,204	512,567	7,637

## B. Financing

The financing performance of the Company is as follows:

## (1) Domestic Financing

(Unit: million Won)

Source of Financing	Beginning Balance	New Financing	Redemption or decrease	Balance at the Term-End	Remarks
Bank	35,000	2,031,000	2,066,000	0	CP issuance
Insurance Company				0	
Composite Finance Company				0	
Credit-specialized Financial Company				0	
Mutual Savings Bank				0	
Other Financial Institutions	175,000	1,174,000	1,349,000	0	CP issuance
Total Financial Institutions	210,000	3,205,000	3,415,000	-	
Corporate Bond (public subscription)	291,853	712,500		1,004,353	
Corporate Bond (private subscription)				0	
Paid-in capital increase (public subscription)	685,714			685,714	
Paid-in capital increase (private subscription)				0	
Asset backed securitization (public subscription)				0	

Source of Financing	Beginning Balance	New Financing	Redemption or decrease	Balance at the Term-End	Remarks
Asset backed securitization (private subscription)				0	
Others		11,759		11,759	Bank overdraft
Total Capital Market	977,567			977,567	
Shareholder · employee · related company loans				0	
Others	10,000	10,000	10,000	10,000	
Total	1,197,567			1,197,567	

(2) Overseas Financing

(Unit: million Won)

Source of Financing	Beginning Balance	New Financing	Redemption or decrease	Balance at the Term-End	Remarks
Financial Institution				0	
Overseas Securities(Corporate Bonds)	432,250			432,250	Exchange rate fluctuation
Overseas Securities(Stocks, etc)	2,939,867			2,939,867	
Asset-backed securitization				0	
Others		378,846		378,846	Borrowings in Yen
Total	3,372,117			3,372,117	

## 5. Off-Balance Transactions

### A. Regarding to Payment Guarantees, Contingency Liabilities and Covenants

Please refer to '3. Contingent Liabilities, etc' in the current year's business report 'X. Other Relevant Matters.'

## 6. Other Important Matters for Investment Decisions

### A. Important Matters on Accounting Policy and Estimates

The Company uses a revaluation model according to the amendments in the Statement of Korea Accounting Standard (SKAS) No. 5(Tangible Assets), and recognizes the revalued amount after deducting impairment losses from the fair value accumulated since the time of reevaluation as the book value of all tangible assets classified as real estate. If the book value of the asset increases through the reevaluation, the amount of increase is recognized as other comprehensive income, and if it decreases, it is recognized as losses for the term. Such accounting changes were progressively applied according to the interim measures provided in the above-mentioned statement, and the previous year's financial statements were not recomposed for comparison purposes. For other relevant matters, please refer to Annotation No. 9, Tangible Assets (2) about financial statements in the 2009 Audit Report.

## VI. Corporate Governance and Affiliated Companies

### 1. Matters regarding Board of Directors.

#### A. Overview of Board of Directors

##### (1) Composition of Board of Directors

1. Currently, our board of directors (“BOD”) is comprised of 11 permanent directors and 6 outside directors.
2. BOD decides important matter according to the basic management policies of the Company, matters delegated from the general meeting of shareholders and matters required by the Articles of Association or applicable laws.

##### (2) Committee in BOD

BOD may have subcommittees to achieve efficient and timely decision-making. We currently have an Audit Committee and an Outside Director Nomination Committee. Details regarding operations, authority and composition of such committees are decided by BOD or relevant laws.

#### B. Matters about committee of BOD

##### (1) Name, directors, objectives and authority

Name of Committee	Composition	Name	Objectives and Authority	Remarks
Audit Committee	Three or more directors (more than two-thirds of whom must be outside directors)	Kang, Jeonwoong; Yoon, Seri and Son, Seonggyu	① The committee audits the Company’s accounting and operations. ② The committee reviews the appropriateness of its performances and regulations every year. If necessary, it proposes revisions to BOD. ③ The committee handles the issues specified in the Paragraph 1, 2 or by laws or the Articles of Association and issues delegated by BOD.	
Outside Director Nomination Committee	Two or more directors (more than half of whom must be outside directors)  Currently composed of 1 outside director and 1 permanent director	Lee, Cheolwoo and Kang, Jeonwoong	① The committee recommends candidates for outside directors to the general meeting of shareholders. ② The committee must recommend those candidates recommended by shareholders with applicable rights under Clause 2 of Article 542 of the Commercial Code. ③ The committee handles the issues specified in Paragraphs 1 and 2 above or by laws or Articles of Association and issues delegated by BOD.	

#### C. Independence of Directors

##### (1) Applicable standards

(a) Below persons should not be an outside director according Clause 3, Article 382 and Clause 8, Article 542 of Commercial Code.

1. In case the largest shareholder is natural person, him/herself, spouse or direct ascendant / descendant.
2. In case the largest shareholder is a legal person, directors, auditor or respondent of the legal person
3. Person who has the largest shareholding in a listed company (hereafter “the largest shareholder”) or

his/her specially related parties under the Presidential Decree, based on the total issued shares of the listed company excluding shares without voting rights.

(b) There was no outside director candidate or outside director of the Company who should be disqualified under the above standards.

(2) Nominator, duties and relationship with the largest shareholder

Name	Main Job	Nominator	Duties	Relationship with largest shareholder
Shin, Kyukho	Representative director of Lotte Shopping	BOD	Representative director	Specially related to largest shareholder
Shin, Dongbin	Representative director of Lotte Shopping	BOD	Representative director	Largest shareholder
Lee, Cheolwoo	Representative director of Lotte Shopping	BOD	Representative director, chairman of BOD, chairman of Outside Director Nomination Committee	-
Lee, Inwon	Representative director of Lotte Shopping	BOD	Representative director	-
Shin, Youngja	President of Lotte Shopping	BOD	Permanent Director	Specially related to largest shareholder
Jwa, Seunghee	President of Korea Society for Regulatory Studies	Outside Director Nomination Committee	Outside Director	-
Kim, Seho	Advisor, Lee & Ko	Outside Director Nomination Committee	Outside Director	-
Kang, Jeonwoong	Representative, Dvote Picture	Outside Director Nomination Committee	Chairman of Audit Committee, member of Outside Director Nomination Committee	-
Yoon, Seri	Attorney-at-law. Yulchon	Outside Director Nomination Committee	Member of Audit Committee	-
Lim, Jongin	Dean of Graduate School of Management Engineering, Korea University	Outside Director Nomination Committee	Outside Director	-
Son, Seonggyu	Professor of School of Business, Yonsei University	Outside Director Nomination Committee	Member of Audit Committee	-

(3) Method to elect outside director

(a) The Outside Director Nomination Committee should nominate among qualified persons according to the applicable laws based on Article 32 of Company's Articles of Incorporation. Details for evaluating qualification will be decided by the Outside Director Nomination Committee.

(b) Status of the Outside Director Nomination Committee is as followings.

Name	Position	Outside director	Remark
Lee, Cheolwoo	Chairman	No	More than 50% of the outside directors. (In compliance with the conditions of Equity Markets Law, Article 25)
Kang, Jeonwoong	Committee member	Yes	

## 2. Matters regarding Auditing

### A. Audit Committee

#### (1) Personal information of the members

Name	Education & Career	Remarks
Kang, Jeonwoong	1980 M.A. in visual design Chungang University 1976 Baekhwa Brewing Co, Ltd. 1978 Marketing, Lotte brewing/group 1982 Entered Daeheung Communication 2000 director, CR headquarters, Daeheung Communications 2004 executive director, Advertising Department, Daeheung Communications Representative of Dvote Picture (at present)	Outside Director
Yoon, Seri	1976 Graduated from Seoul National University, majored in Law 1980 L.L.M, Seoul National University 1982 L.L.M, Harvard Law School 1980 Public prosecutor, Busan District Prosecutor's Office 1986 attorney-at-law, Baker & McKenzie Legal advisor, Committee of Fair Trade, Competitive policy advisor, Committee of Fair Trade (at present) Committee member of arbitration, Korea Stock Exchange (at present) attorney-at-law. Yulchon (at present)	Outside Director
Son, Seonggyu	1984 Graduated from Yonsei University 1986 MBA, U.C. Berkeley 1992 Ph.D in accounting, Northwestern University. 2002-2005 a member of supervision, Financial Supervisory Service 2005 Editor in chief of Accounting Research", Accounting Society 2008 Outside Director, STX Engine Co., Ltd. (at present) Member, accounting standard advisory (at present) outside auditor, YBM Sisa.com (at present) professor of School of Business, Yonsei University (at present)	Outside Director

#### (2) Audit body

##### (a) Composition of the committee

1. The committee must consist of more than three members and at least two-thirds of the members must be outside directors.

Also, as according to Commercial Law, Article 542, Clause 11, an audit committee should have 1 or more accounting or financial specialists as per executive decree, and the chief of the audit committee is to be an outside director.

##### (b) Disqualifying factors

1. Persons to whom the below factors apply may not be appointed as an outside director member of the Audit Committee of a listed company, and shall be disqualified from serving as such, under the Clauses 10 and 11 of Article 542 of the Commercial Code.

2. Director or employee who are engaged in the standing affairs of a company or who has been so engaged within the most recent two years.

3. Person who can influence the management of the company as determined in the relevant Presidential Decree.

(c) Appointment or termination of Audit Committee members

1. The general meeting of shareholders has the authority to appoint and terminate members of the Audit Committee, pursuant to Clause 12.1 of Article 542 of the Commercial Code. Member of Audit Committee should be appointed among the appointed directors in the general meeting of shareholders.

2. Also, in the event that the largest shareholder, its specially related persons and other relevant persons as determined in the applicable Presidential Decree hold in excess of 3% of the total issued shares of a listed company (excluding shares without voting rights), such holder(s) may not exercise its voting rights with respect to such shares in excess regarding the time of appointment or termination of the auditor or outside director member of the Audit Committee.

### **3. Voting Rights of Shareholders**

The Company did not adopt the cumulative voting system prescribed under Clause 2 of Article 382 of Commercial Law, and did not adopt the regular or electronic voting system.



#### 4. Affiliated Companies

(As of December 31, 2009)

(Unit: %)

Division	Affiliated company																							
	Lotte Confectionery Co., Ltd.	Lotte Chilsung Beverage Co. Ltd	Lotte Samkang Co., Ltd.	Lotte Aluminum Co., Ltd.	Lotte Ham Co., Ltd.	Lotte Construction Co., Ltd.	Lotte International Co., Ltd.	Lotte Shopping Co., Ltd.	Lotte Giants Co., Ltd.	Lotteria Co., Ltd.	Honam Petrochemical Corp	Korea Fuji Film Corp	Daehong Communications	Lotte Cannon Co., LTD	Lotte Station Building Co., LTD	Lotte Moolsan Co., Ltd	Lotte.com Co., Ltd	Lotte Logistics Co., Ltd	Lotte Capital Co., Ltd.	Lotte Data Communication Company	Korea seven Co., Ltd.	Lotte Freshde lica Co.,Ltd.	Lotte Boulangerie Co., Ltd.	
Investor	Lotte Confectionery Co., Ltd.	1.0	11.7 (8.1)	9.8			1.4	8.5	30.0	11.4		0.9			8.9	0.02	11.3	4.6		6.1	16.2	9.0		
	Lotte Chilsung Beverage Co. Ltd		-	9.8		0.1	3.3	1.9	4.3	20.0	1.5		5.0			0.04	7.0	4.6	1.5	1.5		9.0		
	Lotte Samkang Co., Ltd.			-			0.4			5.0					7.5				1.2	0.4		9.0		
	Lotte Aluminum Co., Ltd.	15.3	8.9 (3.9)		-		11.9	6.2	5.0			2.6		5.6										
	Lotte Ham Co., Ltd.					45.0		1.2					10.0						0.5					
	Lotte Construction Co., Ltd.	1.3				0.5	-	6.0	1.0											11.8				
	Hotel Lotte Co., Ltd.	3.2	5.9 (4.8)	8.6	13.0	0.3	40.6	34.6	9.6		22.8	13.6	7.1	12.8	28.9		31.1	17.2	8.8	26.6	2.9		27.1	
	Busan Lotte Hotel Co., Ltd.			4.8	3.9				0.9		13.7					1.0				11.5				
	Lotte International Co., Ltd							-			1.1		56.8		1.0					0.2				
	Lotte Shopping Co., Ltd.				6.0			10.6	-	30.0	21.2			30.0		25.0		34.4	4.6	20.2		50.1		95.7
	Lotte Logistics Corp.					0.9		13.7							9.0					-		13.5		
	Lotteria Co., Ltd.				2.0		0.2			1.0	-		2.1	12.5					17.3	2.6	34.5			
	Honam Petrochemical Corp.						31.2					-							4.6				27.1	
	Korea Fuji Film Co., Ltd.						0.1		8.5	9.0			-	3.5						1.7				

Daehong Communications INC.	0.8			3.1			1.1						-		2.9		18.3		8.2	28.1			
Lotte Moolsan Co., Ltd.											33.6					-							
Lotte Capital Co., Ltd.																			-				
Lotte Data Communication Co.						5.3	1.1	5.2						5.6	0.2						-		
KP Chemical Corp.				8.1			1.3																
Lotte Card Co., Ltd.		1.6 (0.3)																					
Lotte.com Co., Ltd.						0.8											-						
Lotte Midopa Co., Ltd.	3.0	6.0	3.7	6.0			4.4			9.5										2.1			
Lotte Boulangerie Co., Ltd.							0.5																-
Lotte Fresh Delica Co., Ltd.																		5.0				-	
Lotte Station Building Co., Ltd.							0.8									-							
Lotte Insurance Co., Ltd.																							
Lotte Juryu Biji																							
<b>Total</b>	24.6	34.1 (17.1)	36.7	42.1	46.8	96.4	82.2	38.0	100.0	81.2	47.3	74.5	68.8	50.0	45.5	31.2	88.2	49.7	88.3	73.2	79.8	81.4	95.7

※ The preferred stock equity ratio for Lotte Chilsung Beverage Co. Ltd is indicated separately in parentheses.

		Affiliated company																						
		Lotte Asahi Drinks Co., Ltd.	Lotte pharm Co., Ltd.	Lotte Midopa Co., Ltd.	Lotte Card Co., Ltd.	Si-tech Co., Ltd.	KP chemical Corp	KP chemtech	FRL Korea	Wellga	Cheongra Energy	Daesan MMA	Woori Homeshopping Co. Ltd	Lotte JTB Co., Ltd.	Lotte Assets Development Co., Ltd.	D-Cinema of Korea	Lotte Insurance	Sanjung Beverage	Hayo Technology	Changda e Trading Co., Ltd.	Lotte City Hotel	KI Bank Co.,Ltd.	Lotte jeju Resort	Lotte Buyeo Resort
Investor	Lotte Confectionary Co., Ltd.		100.0											7.0									12.5	11.1
	Lotte Chilsung Beverage Co. Ltd	85.0												13.9			94.1		100.0				12.5	11.1
	Lotte Samkang Co., Ltd.								100.0															
	Lotte Aluminum Co., Ltd.																							
	Lotte Ham Co., Ltd.																							
	Lotte Construction Co., Ltd.										51.0				13.6									12.5

	Affiliated company																							
	Lotte Asahi Drinks Co., Ltd.	Lotte pharm Co., Ltd.	Lotte Midopa Co., Ltd.	Lotte Card Co., Ltd.	Si-tech Co., Ltd.	KP chemical Corp	KP chemtech	FRL Korea	Wellga	Cheongra Energy	Daesan MMA	Woori Homeshopping Co. Ltd	Lotte JTB Co., Ltd.	Lotte Assets Development Co., Ltd.	D-Cinema of Korea	Lotte Insurance	Sanjung Beverage	Hayo Technology	Changda e Trading Co., Ltd.	Lotte City Hotel	KI Bank Co.,Ltd.	Lotte jeju Resort	Lotte Buyeo Resort	
Hotel Lotte Co., Ltd.				1.2										7.0		27.7				100.0		37.5	22.2	
Busan Lotte Hotel Co., Ltd.				1.0												2.0								
Lotte International Co., Ltd																							11.1	
Lotte Shopping Co., Ltd.			79.0	92.5				49.0				53.0		31.3	50.0								12.5	22.2
Lotte Logistics Corp.																								
Lotteria Co., Ltd.																								
Honam Petrochemical Corp.					50.0	51.9					50.0			14.1				91.0						
Korea Fuji Film Co., Ltd.																								
Daehong Communications INC.																4.6							12.5	
Lotte Moolsan Co., Ltd.																								
Lotte Capital Co., Ltd.				4.6																				
Lotte Data Communication Co.																						27.6		
KP Chemical Corp.						-	100.0							5.0										
Lotte Card Co., Ltd.				-														2.9						
Lotte.com Co., Ltd.													50.0									27.6		
Lotte Midopa Co., Ltd.			-											7.0										
Lotte Boulangerie Co., Ltd.																								
Lotte Fresh Delica Co., Ltd.																								
Lotte Station Building Co., Ltd.																	22.7							
Lotte Insurance Co., Ltd.																5.0								
Lotte Juryu Biji																								

	Affiliated company																						
	Lotte Asahi Drinks Co., Ltd.	Lotte pharm Co., Ltd.	Lotte Midopa Co., Ltd.	Lotte Card Co., Ltd.	Si-tech Co., Ltd.	KP chemical Corp	KP chemtech	FRL Korea	Wellga	Cheongra Energy	Daesan MMA	Woori Homeshopping Co. Ltd	Lotte JTB Co., Ltd.	Lotte Assets Development Co., Ltd.	D-Cinema of Korea	Lotte Insurance	Sanjung Beverage	Hayo Technology	Changda e Trading Co., Ltd.	Lotte City Hotel	KI Bank Co.,Ltd.	Lotte jeju Resort	Lotte Buyeo Resort
<b>Total</b>	85.0	100.0	79.0	99.4	50.0	51.9	100.0	49.0	100.0	51.0	50.0	53.0	50.0	100.0	50.0	62.0	94.1	93.9	100.0	100.0	55.2	100.0	100.0

	Investor	Affiliated company							
		Lotte Juryu Biji	CH beverage	Lotte Wine	Sambark	Sabark LFT	Mybi	Busan Hanaro Card	Busan Lotte Hotel
	Lotte Confectionary Co., Ltd.								
	Lotte Chilsung Beverage Co. Ltd	100.0	100.0						
	Lotte Samkang Co., Ltd.								
	Lotte Aluminum Co., Ltd.								
	Lotte Ham Co., Ltd.								
	Lotte Construction Co., Ltd.								
	Hotel Lotte Co., Ltd.								0.0
	Busan Lotte Hotel Co., Ltd.						4.1		
	Lotte International Co., Ltd								
	Lotte Shopping Co., Ltd.								
	Lotte Logistics Corp.								
	Lotteria Co., Ltd.								
	Honam Petrochemical Corp.				78.1	66.4			
	Korea Fuji Film Co., Ltd.								
	Daehong Communications INC.								
	Lotte Moolsan Co., Ltd.								
	Lotte Capital Co., Ltd.								
	Lotte Data Communication Co.						45.1		
	KP Chemical Corp.								
	Lotte Card Co., Ltd.						5.0		
	Lotte.com Co., Ltd.								
	Lotte Midopa Co., Ltd.								
	Lotte Boulangerie Co., Ltd.								
	Lotte Fresh Delica Co., Ltd.								
	Lotte Station Building Co., Ltd.								
	Lotte Insurance Co., Ltd.								
	Lotte Juryu Biji	-		100.0					
	Sambark LFT				21.9				
	Mybi							60.0	
	<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>66.4</b>	<b>54.1</b>	<b>60.0</b>	<b>0.0</b>

## B. Equity investment

(As of December 31, 2009)

(Unit: Shares, million Won, %)

Name of Company or Item	Purpose	Beginning balance			Increase (Decrease)			End balance			The most recent fiscal year	
		Number of Shares	Equity Ratio	Book Value	Acquisition (disposal)		Evaluation	Number of Shares	Equity Ratio	Book Value	Total Assets	Current year
					Qty	Amounts	Gain/lose					Net Income
Lotte Station Building (unlisted)	Investment	900,000	25.00	143,441			13,939	900,000	25.00	157,380	845,083	63,698
Daehong Communications (unlisted)	Investment	12,000	30.00	60,921			-33,637	12,000	30.00	27,284	418,920	46,539
Lotte.com (unlisted)	Investment	1,600,000	34.39	10,316			1,294	1,600,000	34.39	11,610	102,819	4,915
Lotte Boulangerie (unlisted)	Investment	4,020,222	95.71	10,111			-581	4,020,222	95.71	9,530	48,003	-1,815
Food Star (unlisted)	Investment	5,582,896	39.76		5,582,896	-	4,667				-	-
Lotte Midopa (listed)	Investment	51,475,843	79.01	471,005			111,870	51,475,843	79.01	582,875	914,596	41,136
Lotte Card (unlisted)	Investment	69,995,159	92.54	863,303			119,647	69,995,159	92.54	982,950	4,088,257	138,083
Lotte Capital (unlisted)	Investment	6,731,600	20.22	56,898			13,316	6,731,600	20.22	70,214	2,956,468	64,678
Lotte Eng. & Machinery Mfg. (unlisted)	Investment	393,283	13.71	3,179	393,283	-	5,938				-	-
Lotte International (unlisted)	Investment	74,561	9.39	42,578	20,224	11,191	1,505	94,785	10.58	55,274	1,489,959	9,168
Lotte Aluminum (unlisted)	Investment	48,391	5.08	32,859	14,218	5,938	11,798	62,609	6.03	50,595	1,360,493	-1,647
Lotteria (unlisted)	Investment	74,000	19.94	59,562	10,127	4,667	-29,051	84,127	21.21	35,178	574,775	56,745
FRL Korea (unlisted)	Investment	2,352,000	49.00	17,127			7,700	2,352,000	49.00	24,827	88,440	15,714
Woori Homeshopping (unlisted)	Investment	4,242,796	53.03	407,415			-14,202	4,242,796	53.03	393,213	429,589	60,992
Lake Park (unlisted)	Investment	860,400	23.90	3,727			1,909	860,400	23.90	5,636	43,750	7,987

Name of Company or Item	Purpose	Beginning balance			Increase (Decrease)			End balance			The most recent fiscal year	
		Number of Shares	Equity Ratio	Book Value	Acquisition (disposal)		Evaluation	Number of Shares	Equity Ratio	Book Value	Total Assets	Current year
					Qty	Amounts	Gain/lose					Net Income
Lotte Logistics (after the merge) (unlisted)	Investment	66,308	4.64	4,110			1,766	66,308	4.64	5,876	269,029	10,219
Lotte Assets Development (unlisted)	Investment	6,060,023	29.85	30,486	2,174,130	10,871	-5,124	8,234,153	31.31	36,233	127,500	-3,718
Zara Retail Korea (unlisted)	Investment	162,600	20.00	8,133	140,000	7,000	973	302,600	20.00	16,106	94,594	5,366
Korea Seven(unlisted)	Investment				8,000,000	28,184	1,656	8,000,000	50.12	29,840	289,015	6,123
Lotte Buyeo Resort (unlisted)	Investment	1,333,333	22.22	6,667	666,667	3,333	6	2,000,000	22.22	10,006	98,698	59
KTB Film Partnership (unlisted)	Investment	15	30.00	932	500,000	2,500	-	1,000,000	12.50	5,000	41,679	90
Isu Entertainment (unlisted)	Investment	30	37.50	1,882	400,000	81,438	-882	400,000	100.00	80,556	86,102	35
D-cinema of Korea (unlisted)	Investment	300,000	50.00	798			46	15	30.00	978	3,347	230
Busan Bank (unlisted)	Investment	3,892,318	2.65	22,653			80	30	37.50	1,962	5,233	215
Shinhan Financial (unlisted)	Investment	271,662	0.07	8,068	250	2,500	-	250	25.00	2,500	10,014	-31
The Korea Express (unlisted)	Investment	584,795	1.46	52,047			-798	300,000	50.00	0	33,887	-1,896
Lotte Giants (unlisted)	Investment	6,000	30.00	30	1,367,279	6,836	43,882	5,259,597	2.82	73,371	27,957,603	274,958
Agentrics (unlisted)	Investment	1,913,479	1.91	346	39,456	663	4,709	311,118	0.07	13,440	25,913,566	2,020,398
M Ciety Development (unlisted)	Investment	499,800	5.55	2,499	252,749	-43,220	10,000	332,046	1.46	18,827	5,832,933	137,740
M Ciety (unlisted)	Investment	2,940	4.90	15			-	6,000	30.00	30	8,480	3,437

Name of Company or Item	Purpose	Beginning balance			Increase (Decrease)			End balance			The most recent fiscal year	
		Number of Shares	Equity Ratio	Book Value	Acquisition (disposal)		Evaluation	Number of Shares	Equity Ratio	Book Value	Total Assets	Current year
					Qty	Amounts	Gain/lose					Net Income
Corona Development (unlisted)	Investment	172,000	2.00	860			-	1,913,479	1.91	346	27,831	-4,360
Lake Park asset management (unlisted)	Investment	14,340	23.90	72			-	499,800	5.55	2,499	41,985	-2,576
Union Arc Development (unlisted)	Investment	362,980	1.10	1,815			-	2,940	4.90	15	527	-17
Bichae Nuri Development (unlisted)	Investment	30,000	0.08	150			-	172,000	2.00	860	19,439	-12,468
Dall Union Ark Private Equity Real Estate Investment No. 1 (unlisted)	Investment	1,319,920,000	3.99	1,320			-	14,340	23.90	72	1,538	3
Lotte jeju Resort (unlisted)	Investment	500,000	12.50	2,500			-	362,980	1.10	1,815	86,006	-3,838
Cosmo Investment (unlisted)	Investment				141,600	708	-	171,600	3.00	858	24,243	-3,426
I Venture Partnership (unlisted)	Investment	14	7.00	700			-	1,319,920,000	3.99	1,320	-	-
Sovic Media Contents Investment Association No.5 (unlisted)	Investment	18	18.00	1,800	23,065	8,165	-1,549	23,065	2.73	6,616	60,586	9,339
Lotte Europe Holdings B.V. (unlisted)	Investment	97,584	29.93	68,707			-	14	7.00	700	7,026	-4
Intime Lotte Department Store (unlisted)	Investment		50.00	3,980	15	1,500	-	15	3.58	1,500	42,050	74
Lotte Shopping Holdings(Hongkong),Ltd. (unlisted)	Investment	180,000	100.00	259			-	18	18.00	1,800	10,857	2,754
Lotte Shopping Holdings(Singapore),Ltd. (unlisted)	Investment	70,667,029	100.00	96,207	50,170	49,458	-29,598	147,754	30.81	88,567	701,604	-28,730
Lotte Shopping India Pvt. Ltd. (unlisted)	Development of Real Estate		80.00	3,498			-3,980		50.00	0	55,409	34,578

Name of Company or Item	Purpose	Beginning balance			Increase (Decrease)			End balance			The most recent fiscal year	
		Number of Shares	Equity Ratio	Book Value	Acquisition (disposal)		Evaluation	Number of Shares	Equity Ratio	Book Value	Total Assets	Current year
					Qty	Amounts	Gain/lose					Net Income
Lotte Vietnam Shopping Co.,Ltd. (unlisted)	Operation of Discount Store		100.00	46,632	638,556,510	740,310	3,301	638,736,510	100.00	743,870	791,623	1,470
Qingdao Lottemart Commercial Co., Ltd. (unlisted)	Operation of Discount Store		100.00	185,903	30,577,734	36,991	-18,669	101,244,763	100.00	114,529	116,763	-3,861
Lotte Mart Co.,Ltd. (unlisted)	Operation of Discount Store		100.00	2,495	99,960	17,418	-	99,960	24.99	17,418	35,181	-172
Shenyang Lotte Mart Commercial Co., Ltd. (unlisted)	Operation of Discount Store	2,622,812	55.00	214,863			-3,498		80.00	0	140,885	-10,041
PT Makro Indonesia (unlisted)	Operation of Discount Store		90.00	3,620			-16,584		100.00	30,048	87,040	-12,673
Lotte Cinema Vietnam Co.,Ltd. (unlisted)	Operation of Cinema						-27,769		100.00	158,134	129,887	-8,488
KKD Lotte Holdings Co., Ltd. (unlisted)	Holding Company	21,141,263	17.93	28,726		10,054	-1,708		100.00	10,841	10,845	-780
China Trade Association Makro Commercial Co., Ltd. (unlisted)	Investment	1,449,085,923		2,985,215		3,304	-4,099	2,622,812	55.00	214,068	165,791	10,021



## VII. Shares

### 1. The Largest Shareholder and Specially Related Parties

(As of December 31, 2009)

(Unit: shares, %)

Name	Relation ship	Type of Shares	Equity Ratio						Reason for Change
			Beginning		Increase	Decrease	At the end of the period		
			Number of Shares	Equity Ratio	Number of Shares	Number of Shares	Number of Shares	Equity Ratio	
Shin, Dongbin	Himself	Common share	4,237,627	14.59	-	-	4,237,627	14.59	-
Shin, Dongju	Relative	Common share	4,235,883	14.58	-	-	4,235,883	14.58	-
Shin, Kyukho	Relative	Common Share	426,511	1.47		132,634	293,877	1.01	Donated, On the exchanged-traded sale
Shin, Yeongja	Relative	Common Share	228,962	0.79	-	-	228,962	0.79	-
Hotel Lotte Co., Ltd.	Affiliated company	Common Share	2,697,201	9.29	84,746	-	2,781,947	9.58	On the exchange-traded buy
Fuji Film Co., Ltd.	Affiliated company	Common Share	2,474,543	8.52	-	-	2,474,543	8.52	-
Lotte Confectionary Co., Ltd.	Affiliated company	Common Share	2,474,543	8.52	-	-	2,474,543	8.52	-
Lotte Data Communication Company, Ltd	Affiliated company	Common Share	1,515,653	5.22	-	-	1,515,653	5.22	-
Lotte Chilsung Co., Ltd.	Affiliated company	Common Share	1,237,272	4.26	-	-	1,237,272	4.26	-
Lotte Construction Co., Ltd.	Affiliated company	Common Share	300,019	1.03	-	-	300,019	1.03	-
Busan Lotte Hotel, Co., Ltd.	Affiliated company	Common Share	246,720	0.85	-	-	246,720	0.85	-
Jang, Jaeyoung	Relative	Common Share	950	0.00	-	-	950	0.00	-
Jang, Seonyun	Relative	Common Share	900	0.00	-	-	900	0.00	-
Yu, Juyoung	Relative	Common Share	499	0.00	-	-	499	0.00	-
Kim, Seho	Board of Directors	Common Share	126	0.00	177	-	303	0.00	On the exchange-traded buy

Seo, Mikyong	Other	Common Share	30,531	0.11	-	-	30,531	0.11	-	
Shin, Yumi	Relative	Common Share	28,903	0.10	-	-	28,903	0.10	-	
Yuwon Industry co., Ltd.	Other	Common Share	3,000	0.01	-	-	3,000	0.01	-	
Lotte Samdong Welfare Foundation	Foundation	Common Share	-	0	47,888	-	47,888	0.16	Received	
<b>Total</b>		Common Share	20,139,843	69.34	132,811	132,634	20,140,020	69.34	-	
		Preferred Share	-	-	-	-	-	-		-
		Total	20,139,843	69.34	132,811	132,634	20,140,020	69.34		

The largest shareholder: Shin, Dongbin / The number of specially related parties: 18

【Changes made after the account date】

- Kim, Seho: Purchased 12 additional shares of common stock on January 28, 2010 and 10 more shares of common stock on March 4, 2010.

## 2. Changes of the largest shareholder

(Unit: shares, %)

Name	Date of change/Date of Ratio change	Number of shares	Equity Ratio	Remarks
Shin, Dongbin	Feb. 09, 2006/ Feb. 09, 2006	4,237,627	14.83	Listed newly
Shin, Dongbin	Feb. 09, 2006/ Mar. 15, 2006	4,237,627	14.59	Green Shoe

## 3. Distribution of Shares

### A. Shareholders Owning More than 5% of the Shares

(As of December 31, 2009)

(Unit: shares, %)

No	Name	Common Share		Preference Share		Total	
		Number of Shares	Equity Ratio	Number of Shares	Equity Ratio	Number of Shares	Number of Shares
1	Shin, Dongbin	4,237,627	14.59	-	-	4,237,627	14.59
2	Shin, Dongju	4,235,883	14.58	-	-	4,235,883	14.58
3	Hotel Lotte Co., Ltd.	2,781,947	9.58	-	-	2,781,947	9.58
4	Fuji Film Co., Ltd.	2,474,543	8.52	-	-	2,474,543	8.52
5	Lotte Confectionary Co., Ltd.	2,474,543	8.52	-	-	2,474,543	8.52
7	Lotte Data Communication Company, Ltd	1,515,653	5.22	-	-	1,515,653	5.22
Total		17,720,196	61.01			17,720,196	61.01

B. Status of Shares of employee stock ownership association

Number of Company shares held by the employee stock ownership association is 172,251 as of December 31, 2009.

**4. Distribution of Shares**

(As of December 31, 2009)

(Unit: persons, shares, %)

Division	Number of Shareholders	Ratio	Number of Shares	Ratio	Remarks
Total Minority Shareholders	19,399	99.87	8,326,207	28.67	
Minority Shareholders(corporate)	1,473	7.58	7,466,266	25.71	
Minority Shareholders(private)	17,925	92.28	687,690	2.37	
Woori Financial Holding	1	0.01	172,251	0.59	
Largest Shareholders, etc	23	0.12	20,140,020	69.34	
Total Other Shareholders	1	0.01	576,548	1.99	
Other Shareholders(corporate)	1	0.01	576,548	1.99	
Other Shareholders(private)	0	0.00	0	0.00	
KSD(laggard)	1	0.01	599	0.00	
Total	19,424	100.00	29,043,374	100.00	

**5. Shares**

<p>Subscription right according to the articles of the Company</p>	<p>① Shareholders of the Company have a subscription right for issuance of new shares, in proportion to the number of shares that shareholders own.</p> <p>② Despite article 1, new shares can be issued to those other than the current shareholders in the following occasions. However, the total number of shares issued should not be more than 50% of the total number of issued shares, except in case (3).</p> <p>(1) Initial Public Offering in order to list shares into the stock market, or underwriter acquires stocks for subscription  (2) Issuance of new shares through a public offering according to No. 6, article 165 of Securities Exchange Act, upon decision of the board of directors.  (3) Preferential distribution of new shares to members of Employee Stock Ownership Association pursuant to Article 32 of Employees' Welfare Law or No 7 of article 165 of Securities Exchange Act.  (4) Issuance of new shares according to the issuance of DR pursuant to Clause 16 of Article 165 of Securities Exchange Act  (5) Issuance of new shares according to Foreign Investment Promotion Law to induce foreign investment, as needed for business  (6) Issuance of new shares to domestic or overseas financial institutions for financing in urgency</p>
--	--

	(7) Issuance of new shares to a concerned affiliated company for the introduction of technology  ③ In the event that shareholders give up or lose their subscription right or odd-lot stocks are occurred, the board of directors will decide disposal of above mentioned shares. (Clause 10 – Subscription right)		
Settlement date	December 31	Regular meeting of shareholders	Within 3 months after settlement
Closing date of list of shareholders' names	Stock transfer, registration or cancellation of a pledge, or indication of trust property or cancellation of such registration in relation to the Company shall be suspended during the period of January 1 through January 31 every year. (Articles of Incorporation, Clause 14 -- Closing of Stockholder's List and Date of Record).		
Type of shares	1, 5, 10, 50, 100, 500, 1000, 10000 Shares (8 types in total)		
Transfer agent	Korea Securities Depository		
Shareholders' privilege	-	Posting of Public Notice	The Korea Economic Daily

## 5. Stock Price and Transaction Record of Stocks for the last six months

### A. Domestic Stock Market

(Unit: Won, shares)

Type		July 2009	August 2009	September 2009	October 2009	November 2009	December 2009
Common Stock	307,500	307,500	298,500	326,000	318,143	350,238	359,000
	262,500	262,500	273,000	283,500	307,262	338,262	349,833
Monthly transaction volume		1,265,046	1,383,247	1,504,632	1,664,902	1,537,201	1,661,994

### B. Overseas Stock Markets

[Exchange: London Stock Exchange]

(Unit: USD, GDR)

Type		July 2009	August 2009	September 2009	October 2009	November 2009	December 2009
Common Stock	Maximum	12.21	12.21	13.31	13.51	14.28	15.68
	Minimum	9.7	10.31	11.2	13.42	14.2	15.52
Monthly transaction volume		27,143	32,735	27,143	34,393	26,911	83,641

## VIII. Executives and Employees

### 1. Status of Executives and Employees

#### A. Executives

(As of December 31, 2009)

Position	Registration	Name	DOB (YY.MM.DD)	Brief History	Duties	Shares	Remarks
						Common share	
Representative Director (Permanent)	Registered	Shin, Kyukho	22.10.04	1946 Graduated from Waseda University, majored in Chemistry	Representative	293,877	
Representative Director (Permanent)	Registered	Shin, Dongbin	55.02.14	1977 Graduated from Aoyama Gakuin University, majored in economics 1980 MBA, Columbia University 1990 Executive Director, Honam Petrochemical Co. Ltd. 2000 Director, Lotte Shopping Co., Ltd.	Representative	4,237,627	
Representative Director (Permanent)	Registered	Lee, Inwon	47.08.12	1970 Graduated from Hankuk Univ. of Foreign Studies, majored in Japanese 1995 Executive Director, Products Procurement, Lotte Shopping Co. Ltd. 1997 CEO of Lotte Shopping Co., Ltd	Representative		
Representative Director (Permanent)	Registered	Lee, Cheolwoo	43.04.21	1965 Graduated from Seoul National University, majored in agricultural economics 1970 MBA, Seoul National University 1999 Ph.D., business administration, Aju University 1988 Planning Director, Lotte Shopping Co., Ltd. 1998 CEO, Lotteria Co., Ltd. 2003 CEO, Lotte Mart Division, Lotte Shopping Co., Ltd. 2007 CEO, Lotte Shopping Co., Ltd.	Representative, Chairmen of BOD, Head of Outside Director Nomination Committee		
Director (Permanent)	Registered	Shin, Youngja	42.10.16	1964 Graduated from Ewha Women's University, majored in domestic science 1973 Director, Hotel Lotte Co., Ltd. 1989 General manager, merchandise department, Lotte Shopping Co., Ltd. 1997 Vice president, Lotte Shopping Co., Ltd. 2008 President, Lotte Shopping Co., Ltd.	Representative	228,962	
Director (Non-permanent)	Registered	Im, Jongin	56.12.02	1980 Graduated from Korea University, majored in Mathematics 1982 Master's degree in Mathematics, Korea University 1996 Doctorate degree in Mathematics, Korea University 1986 Professor of the Department of Mathematics, Korea University 1999 Outside director of Korea Information Security Agency 2004 Consultant of National Security Council Member of Policy Advisory Committee in the Ministry of Public Administration and Security (at present) Academic director of Korea Industrial Security Institute (at present) President of Graduate School of Information Management & Security, Korea University (at present)	Outside Director		
Director (Non-permanent)	Registered		53.11.20	1976 Graduated from Seoul National University, majored in Law 1980 L.L.M, Seoul National University 1982 L.L.M, Harvard Law School 1980 Public prosecutor, Busan District Prosecutor's Office 1986 attorney-at-law, Baker & McKenzie Legal advisor, Committee of Fair Trade, Competitive policy advisor, Committee of Fair Trade (at present) Committee member of arbitration, Korea	Outside Director		

Position	Registration	Name	DOB (YY.MM.DD)	Brief History	Duties	Shares	Remarks
						Common share	
				Stock Exchange (at present) attorney-at-law. Yulchon (at present)			
Director (Non-permanent)	Registered	Son, Seonggyu	59.12.16	1984 Graduated from Yonsei University 1986 MBA, U.C. Berkeley 1992 Ph.D in accounting, Northwestern University. 2002-2005 a member of supervision, Financial Supervisory Service 2005 Editor in chief of Accounting Research", Accounting Society 2008 Outside Director, STX Engine Co., Ltd. (at present) Member, accounting standard advisory (at present) outside auditor, YBM Sisa.com (at present) professor, School of Business, Yonsei University (at present)	Outside Director		
Director (Non-permanent)	Registered	Jwa, Seungh ee	46.04.06	1971 Graduated from Seoul National University, majored in Economics 1975 M.A. in Economics, Seoul National University 1983 Ph.D in Economics, UCLA 1997 principal, Korea Economic Research Institute 2000 director, Government Innovation Commission (President's Advisors) 2005 visiting professor, Graduate School of International Studies, Seoul National University (at present) 2006 principal, Gyeonggi Research Institute (at present) 2006 representative, Korea Society for Regulatory Studies (at present)	Outside Director		
Director (Non-permanent)	Registered	Kang, Jeonwoong	53.04.29	1975 Chungang University, majored in Visual Design 1980 M.A. in visual design Chungang University 1976 Baekhwa Brewing Co, Ltd. 2000 director, CR headquarters, Deaheung Communications 2004 executive director, Advertising Department, Daeheung Communications	Outside Director		
Director (Non-permanent)	Registered	Kim, Seho	53.02.18	1977 Korea University, majored in Political Science and Diplomacy 1984 M.A. in Political Science, Seoul National University 2004 Honorary Doctor for Business Economics, Seoul National University of Technology 1999 Leader, New Airport Construction Planning Department, Ministry of Construction and Transportation 2001 Auditor, Chief of Transportation Policy Department, Ministry of Construction and Transportation 2003 President, KORAIL 2004 Vice-minister, Ministry of Construction and Transportation Advisor, Bae, Kim and Lee (at present)	Outside Director	303	

**【Changed matters】**

- ※ Decisions made in the 40<sup>th</sup> General Shareholders Meeting held on March 26, 2010
- Reappointment of directors : Shin, Dongbin; Lee, Inwon; Lee, Cheolwoo; Shin, Youngja
- Reappointment of outside directors : Jwa, Seunghee; Kim, Seho
- Appointment of new outside directors : Park, Kyungbeom; Kim, Sehheon; Lee, Hongroh
- Kim, Seho: Purchased 12 additional shares on January 28, 2010, and 10 more on March 4, 2010.

**[Non-registered Executives]**

Position	Registration	Name	DOB (YY.MM.DD)	Brief History	Duties	Shares	Remark
						Common share	
President (Permanent)	Non-registered	Noh, Byungyong	51.06.20	1976 Graduated from Yonsei University majored in Business Management	Managing Mart Division	10	
President (Permanent)	Non-registered	So, Jinse	50.05.08	1977 Graduated from Korea University majored in Public Administration	Managing Super Division	142	Head Manager of Korea Seven, Co.(concurrently employee)
Vice President (Permanent)	Non-registered	Chae, Jungbyung	50.11.10	1974 Graduated from Yonsei University majored in Economics	In charge of Support	-	
Vice President (Permanent)	Non-registered	Hwang, Gakgyu	55.04.28	1977 Graduated from Seoul University majored in Chemical Engineering	In charge of International	65	
Vice President (Permanent)	Non-registered	Lee, Jaehyuk	54.02.17	1976 Graduated from Seoul University majored in Food Science & Technology	In charge of Operation	-	
Executive Director (Permanent)	Non-registered	Kim, Sunghoi	43.06.14	1965 Graduated from Korea University majored in Agriculture	In charge of Secretary	-	
Executive Director (Permanent)	Non-registered	Kim, Youngjun	60.08.18	1983 Graduated from Seoul University majored in Chemical Engineering 1985 M.A. Chemical Engineering, Seoul University	Economic Research Institution	-	
Managing Director (Permanent)	Non-registered	Lee, Jonggul	53.03.28	1975 Graduated from Korea University majored in Law	In charge of Judicial Affairs	-	
Managing Director (Permanent)	Non-registered	Lee, Jaehun	54.02.10	1979 Graduated from Jeonbuk University majored in Management	In charge of Operation	72	Head Manager of Lotte Midopa (concurrently employee d)
Managing Director (Permanent)	Non-registered	Lee, Wonjun	56.11.03	1977 Graduated from Cheongju University majored in Public Administration	In charge of Products	135	Managing Director of Lotte Station(co concurrently employee d)
Managing Director (Permanent)	Non-registered	Park, Gilyong	53.08.21	1978 Graduated from Hongik University majored in Industrial Design 2008 Graduated from Hongik Graduate School, M.A Interior Design	Head of Design Team	72	
Managing Director (Permanent)	Non-registered	Gu, Jayoung	55.08.09	1981 Graduated from Korea University majored in Statistics 1984 Graduated from Korea University Business School	In charge of International	270	
Executive Director (Permanent)	Non-registered	Son, Gwangik	54.09.05	1982 Graduated from Hankuk University of Foreign Studies majored in Russian	Managing Cinema Division	-	
Managing Director (Permanent)	Non-registered	Choi, Gunyong	56.07.17	1984 Graduated from Jungang University majored in Trade and Business	In charge of Movie Business	48	
Managing Director (Permanent)	Non-registered	Kim, Youngil	52.10.15	1974 Graduated from Korea University majored in Food Science & Technology	In charge of Development	142	
Managing Director(Perma	Non-regist	Yoon-Seong	57.02.25	1982 Joongang University majored in Voice	In charge of Sales	127	

Position	Registration	Name	DOB (YY.MM.DD)	Brief History	Duties	Shares	Remark
						Common share	
ent)	ered	Park					
Managing Director(Permanent)	non-registered	Choonseok Choi	60.03.30	1986 Gwangwoon University majored in Management	In charge of Products Division	86	
Managing Director(Permanent)	non-registered	Jongin Kim	63.03.28	1986 Seoul University majored in Economics	In charge of Planning	24	
Managing Director (Permanent)	Non-registered	Gang, Heetae	59.04.23	1987 Graduated from Kyunghee University majored in English Literature	Head of Main store	111	
Managing Director (Permanent))	Non-registered	Min, Gwanggi	56.01.05	1983 Graduated from Kookmin University majored in Political Science and Diplomacy	Head of Busan Branch	127	
Managing Director (Permanent)	Non-registered	Kim, Changrak	57.12.05	1981 Graduated from Sungkyunkwan University majored in Textile Engineering	Head of Men's Sport Products Procurement	119	
Managing Director (Permanent)	Non-registered	Lee, Dongwoo	60.09.07	1984 Graduated from Konkook University majored in Business Management	Chief Creative Officer for Department Store Operation	111	
Director (Permanent)	Non-registered	Kim, Hyunsoo	56.06.10	1985 Graduated from Hanyang University majored in Accounting	In charge of Finance	96	
Director (Permanent)	Non-registered	Jung, Seungin	58.06.13	1987 Graduated from Korea University majored in Business Management	In charge of Marketing	86	
Director (Permanent)	Non-registered	Kim, Sungwan g	59.08.24	1986 Graduated from Korea University majored in Agricultural Economics	In charge of Russia Business	94	
Director (Permanent)	Non-registered	Yoon, Jongmin	60.11.28	1983 Seoul University majored in Philosophy	In charge of HR		
Managing Director (Permanent)	Non-registered	Lee, Deokwoo	58.06.03	1981 Graduated from Sungkyunkwan University majored in Business Management	In charge of Operation	-	
Managing Director (Permanent)	Non-registered	Lee, Bongchul	58.05.23	1985 Graduated from Busan University majored in Business Management	In charge of Finance	-	
Managing Director (Permanent))	Non-registered	Park, Donggi	57.12.12	1984 Graduated from Chonbuk University majored in Business Management	In charge of Labor	41	
Director (Permanent)	Non-registered	Yoo, Jedon	60.08.09	1983 Graduated from Jungang University majored in Business Management	In charge of Secretary	122	
Director (Permanent)	Non-registered	Choi, Hajin	60.01.12	1983 Graduated from Sungkyunkwan University majored in Trade and Business 1985 M.A. Trade Management, Sungkyunkwan University	Auditor	-	
Director (Permanent)	Non-registered	Lee, Changwon	59.03.18	1984 Graduated from Korea University majored in English Language and Literature	In charge of Promotion		
Director(Permanent)	Non-registered	Kim, Ilhwan	51.09.27	1978 Graduated from Sungkyunkwan University majored in Economices 1985 Graduated from Yonsei University majored in Economics	Head of Product Division	65	
Director (Permanent)	Non-registered	Cha, Wonchun	57.12.05	1979 Graduated from Chosun University majored in Business Management 1981 M.A. Accounting, Chosun University	In charge of Operation	-	



Position	Registration	Name	DOB (YY.MM.DD)	Brief History	Duties	Shares	Remark
						Common share	
Director (Permanent)	Non-registered	Park, Hyunchul	60.10.16	1984 Graduated from Gyeongbuk National University majored in Statistics	In charge of Operation	-	
Director (Permanent)	Non-registered	Lee, Ilmin	59.06.14	1982 Graduated from Chungnam National University majored in Architectural Engineering 1990 M.A. Business Management, Mercer University	In charge of Secretary	47	
Director (Permanent)	Non-registered	Lee, Chungik	64.11.17	1987 Graduated from Seoul University majored in Food Science and Technology	In charge of International	24	
Director (Permanent)	Non-registered	Park, Jungwoo	61.09.05	1986 Graduated from Korea University majored in Business Management	In charge of Distribution CFD	40	
Director (Permanent)	Non-registered	Kim, Gisuk	62.01.01	1990 Graduated from Jungang University majored in Trade and Business	In charge of Operation	-	
Director (Permanent)	Non-registered	Lee, Jinsung	69.02.25	1992 Graduated from Seoul University majored in International Economics 1997 Seoul University M.A in Economics 2002 University of Chicago Ph.D in Strategy/Marketing	In charge of Economic Research Institution	-	
Director (Permanent)	Non-registered	Lim, Byungyeon	64.09.27	1987 Graduated from Seoul University majored in Chemical Engineering 1989 M.A. Chemical Engineering, Seoul University 2002 Dr. Chemical Engineering, KAIST	In charge of International	-	
Director (Permanent)	Non-registered	Kang Sunghyun	70.01.23	1995 Graduated from Yonsei University majored in Management 1997 Ecole HEC MBA	In charge of Economic Research Institution		
Director (Permanent)	Non-registered	Jeon, Youngmin	67.05.24	1989 Korea University majored in Philosophy 2000 Korea University M.A in Human Resource Management 2009 Kyeonghee University Ph.D in Management	In charge of HR		New
Director (Permanent)	Non-registered	Choi, Kirim	65.01.15	1987 Korea University majored in Law	In charge of Legal Affairs		New
Director (Permanent)	Non-registered	Kim, Inho	67.01.02	1996 Kyeonghee University majored in English Literature	In charge of International	40	New
Director (Permanent)	Non-registered	Lee, Gwangyong	62.12.21	1988 Graduated from Youngnam University majored in Business Administration	In charge of CP project	118	
Director (Permanent)	Non-registered	Shin, Jaeho	63.03.07	1986 Graduated from Korea University majored in Korean Language and Literature	Head of Jamsil branch	156	
Director (Permanent)	Non-registered	Kwon, Jungyeol	60.12.10.	1987 Graduated from Kunkuk University majored in Textile Engineering	Head of Gwangbok branch	-	
Director (Permanent)	Non-registered	Lee, Wansin	60.10.2.	1987 Graduated from Korea University majored in Chinese Language and Literature 1999 M.A. Business Management, Yonsei University, Graduate School	Head of Nowon branch	86	
Director	Non-	Park,	58.09.04	1984 Graduated from Korea	Head of Daegu branch	102	

Position	Registration	Name	DOB (YY.MM.DD)	Brief History	Duties	Shares	Remark
						Common share	
(Permanent)	registered	Hosung		University majored in Agricultural Economics			
Director (Permanent)	Non-registered	Park, Geumsoo	62.01.28	1988 Graduated from Jungang University majored in English Language and Literature	In charge of International Business	40	
Director (Permanent)	Non-registered	Lee, Gap	62.09.28	1988 Graduated from Korea University majored in Society	In charge of merchandise for women	85	
Director (Permanent)	Non-registered	Jung, Donghyuk	62.07.20	1988 Graduated from Kyunghee University majored in Trade and Business	In charge of GF Business	32	
Director (Permanent)	Non-registered	Chin, Changbum	58.10.09	1985 Graduated from Mokwon University majored in Business Management	Head of Ulsan branch	94	
Director (Permanent)	Non-registered	Ku, Soohoi	58.02.01	1987 Graduated from Chonju University majored Business Management	Head of Gwangju branch	86	
Director (Permanent)	Non-registered	Lee, Janghwa	59.06.05	1988 Graduated from Dongguk University majored in Trade and Business	Head of Bundang branch	86	
Director (Permanent)	Non-registered	Go, Gwangho	62.05.18	1985 Graduated from Seoul University majored in Korean Language and Literature	Head of Sangin branch	-	
Director (Permanent)	Non-registered	Noh, Yoonchul	61.04.13	1984 Graduated from Dong Eui University majored in Architecture	In charge of New Business	79	
Director (Permanent)	Non-registered	Seol, Pungjin	61.04.03	1987 Graduated from Hanyang University majored in Textile Engineering	Head of Centerm City	86	
Director (Permanent)	Non-registered	Cho, Taehak	61.03.09	1984 Graduated from Dankook University majored in Chinese Language and Literature	Head of Yeungdeungpo branch	86	
Director (Permanent)	Non-registered	Lee, Donggu	58.02.23	1981 Graduated from Inha University majored in Public Administration	Head of Chungyangri Station branch	103	
Director (Permanent)	Non-registered	Guk, Jungbeom	58.10.10	1987 Graduated from Inha University majored in Sociology	Head of Changwon branch	40	
Director (Permanent)	Non-registered	Jang, Soohyun	64.06.10	1989 Graduated from Hankuk University of Foreign Studies	Head of Gangnam branch	104	
Director (Permanent)	Non-registered	Kim, Sewan	65.04.20	1992 Graduated from Yonsei University majored in Business Management	In charge of Planning	71	
Director (Permanent)	Non-registered	Choi, Wonil	62.09.09	1984 Graduated from Chungbuk University majored in Business Management	In charge of Food	-	
Director (Permanent)	Non-registered	Lee, Donghun	61.09.25	1985 Graduated from Hanyang University majored in Business Management	Head of Mia branch	86	
Director (Permanent)	Non-registered	Jun, Jang	58.12.31	1982 Graduated from Hongik University majored in Commercial Design 1985 Graduated from Hongik University(Graduate School) Commercial Design	Head of Design Management	32	New
Director (Permanent)	Non-registered	Kim, Taehwa	59.12.19	1986 Graduated from Danguk University majored in Management	Head of the Jeonju branch	86	New
Director (Permanent)	Non-registered	Cho, Hakhyun	59.03.20	1986 Graduated from Hanyang University majored in Economics	Head of the Dongrae branch	24	New

Position	Registration	Name	DOB (YY.MM.DD)	Brief History	Duties	Shares	Remark
						Common share	
Director (Permanent)	Non-registered	Koh, Yooncheol	60.03.30	1984 Graduated from Kyeonghee University majored in Law 1997 Graduated from Peking University(Graduate School) LLD	Head of China Division		New
Director (Permanent)	Non-registered	Hong, Ikpyo	53.05.14	1977 Graduated from Sungkyunkwan University majored in Accounting	In charge of Finance	-	
Director (Permanent)	Non-registered	Lee, Samgu	56.06.08	1979 Graduated from Hankuk University of Foreign Studies majored in French Language	In charge of Education	135	
Director (Permanent)	Non-registered	Kim, Kyunghwan	61.02.11	1983 Graduated from Yonsei University majored in Electrons 1988 Graduated from Yeonsei Graduate School of Industry majored in Computer Science	In charge of SCM	100	
Director (Permanent)	Non-registered	Lee, Jaechan	60.02.05	1985 Graduated from Yonsei University majored in Business Management	Head of Youngnam Jeju region		
Director (Permanent)	Non-registered	Woo, Kyungjoo	61.06.02	1985 Graduated from Hanyang University majored in English Language and Literature	Member in charge of Development 2		
Director (Permanent)	Non-registered	Moon, Youngpyo	62.04.27	1988 Graduated from Yeungnam University majored in Textile Engineering	Corporation in Indonesia	32	
Director (Permanent)	Non-registered	Her, Soo	60.09.26	1982 Graduated from Gyeongbuk National University majored in French Language and Literature	Delegate for the CP Project Support Division	30	
Director (Permanent)	Non-registered	Yoon, Jaehun	62.10.11	1985 Graduated from Hanyang University majored in Business Management	Managing Director of International branch(Qingdao Lotte Mart)	94	
Director (Permanent)	Non-registered	Jang, Youngtae	58.07.05	1982 Graduated from Sogang University majored in Political Science and Diplomacy	Member in charge of Development 1	86	
Director (Permanent)	Non-registered	Kim, Youngkyun	60.10.30	1983 Graduated from Sungkyunkwan University majored in Trade	Head of Product Development Division		
Director (Permanent)	Non-registered	Hyun, Guwon	55.06.05	1980 Graduated from Inha University majored in Chemistry	Head of Family Life Division	94	
Director (Permanent)	Non-registered	Kim, Gysung	60.01.30	1987 Graduated from Dongguk University majored in Law	Head of Apparels Division	86	
Director (Permanent)	Non-registered	Park, Jongdo	61.05.09	1987 Graduated from Yeungnam University majored in Public Administration	China 1 Division	86	
Director (Permanent)	Non-registered	Lee, Inchul	59.06.24	1982 Graduated from Dankook University majored in Public Administration	In charge of Supporting	47	
Director (Permanent)	Non-registered	Nam, Changhe	66.10.30	1992 Graduated from Hanyang University majored in German Language and Literature	In charge of Product Managing	96	
Director(Permanent)	Non-registered	Kim, Jongseop	61.11.24	1988 Graduated from Danguk University majored in Management	Head of Youngnam Jeju region	462	New
Director(Permanent)	Non-registered	Hahn, Byeongmoon	63.06.15	1986 Graduated from Korea University majored in English Literature	Head of Promotion	40	New
Director(Permanent)	Non-registered	Lee, Hyunkyo	63.10.15	1986 Graduated from Korea University majored in English	Head of North Metropolitan Region		New

Position	Registration	Name	DOB (YY.MM.DD)	Brief History	Duties	Shares	Remark
						Common share	
	Registered			Education			
Director (Permanent)	Non-registered	Cho, Sungyeop	55.01.04	1981 Graduated from Kyunghee University majored in History	In charge of Sales	40	
Director (Permanent)	Non-registered	Lee, Younghyun	58.12.14	1985 Graduated from Kookmin University majored in Law	Supporting Division	24	
Director (Permanent)	Non-registered	Kang, Jonghyun	64.05.19	1990 Graduated from University of Seoul majored in Accounting	Strategic Innovation Division	40	
Director (Permanent)	Non-registered	Kim, Seunghee	65.04.10	1991 Graduated from Wooseok University majored in Biology	Head of Development		New
Director (Permanent)	Non-registered	Hong, Seungbok	57.09.13	1978 Graduated from Sungdong Commercial High School	Sales 1 <sup>st</sup> Division	16	New
Director (Permanent)	Non-registered	Lee, Sungkwon	58.03.28	1983 Graduated from Busan National University majored in Business Management	In charge of Business Support	-	
Director (Permanent)	Non-registered	Lee, Dongho	62.06.25	1986 Graduated from Hankuk University of Foreign Studies majored in Portuguese Language	Head of Marketing Division	40	

※ The status of above non-registered executives is as of the day of submission of this report to the FSS.

## B. Employees

(As of December 31, 2009)

(Unit: persons, year, thousand Won)

Division	The number of staff	Average number of working years	Annual compensation	Average compensation per person	Remarks
Department Store	3,827	9.38	184,427,629	48,191	-
Discount Store	3,543	5.84	134,812,043	38,050	-
Others	1,711	4.54	55,986,547	32,722	-
Total	9,081	6.85	375,226,219	41,320	-

※ As of September 30, 2009 staff in the Food Business Division (which was transferred to Lotte Samkang) was excluded. As of December 31, 2009, staff of KKD Business Division were also excluded due to the division splitting into a separate company.

## 2. Compensation

### A. Compensation of Directors

(As of December 31, 2009)

(Unit: Won)

Division	Total amount	Approved amount	Remarks
Director	4,472,703,231	11,000,000,000	
Outside Director	144,000,000		
Audit Director	132,000,000		

## IX. Transaction Record with Interested Parties

### 1. Transaction Record with the Largest Shareholder

(Unit: USD10,000)

Company Name	Relation	Account	Changed detail				Accrued interest	Note
			Beginning	Increase	Decrease	Ending		
Lotte Vietnam Shopping Co., Ltd.	Overseas affiliate	Loan	2,000	-	2,000	-	-	- Interest rate:5.24% - Loan Term: Aug. 1, 2008 to Jun. 30, 2009
Lotte Vietnam Shopping Co., Ltd.	Overseas affiliate	Loan	500	-	500	-	-	- Interest rate:5.93% - Loan Term: Nov. 25, 2008 to Oct. 24, 2009
Lotte Vietnam Shopping Co., Ltd.	Overseas affiliate	Loan	-	2,500	-	2,500	63	-Interest rate: 4.84% -Loan Term: Jun. 26, 2009 to Apr. 24, 2010
Intime Department Store Co., Ltd.	Overseas affiliate	Loan	-	732	-	732	33	- Interest rate:4.86% - Loan Term: Jan. 23, 2009 to Jan. 21, 2010
Total			2,500	3,232	2,500	3,232	96	

### 2. Collateral

Company Name	Relation	Details of Transactions				Note
		Beginning	Increase	Decrease	Ending	
Intime Department Store Co., Ltd.	Affiliate		RMB 78,000		RMB 78,000	<ul style="list-style-type: none"> <li>• Collateral granted in favor of Woori Bank Beijing Branch</li> <li>• Collateral type: Savings</li> <li>• Period of collateral: May 7, 2009 to March 31, 2010</li> </ul>

### 3. Guarantee of Obligations

(Unit: USD1,000, RMB1,000)

Company Name	Relation	Details of Transactions				Note
		Beginning	Increase	Decrease	Ending	

Qingdao Lottemart Commercial Co., Ltd.	Affiliate	RMB150,000	RMB 100,000	RMB 79,000	RMB 171,000	Agreed interest is not included
Lotte Vietnam Shopping Co., Ltd.	Affiliate	USD 67,500	USD 13,361	USD 7,500	USD 73,361	Agreed interest is included
Lotte Cinema Vietnam Co., Ltd.	Affiliate	USD 4,000		-	USD 4,000	Agreed interest is included
Lotte Mart Co., Ltd.	Affiliate		RMB 110,000	-	RMB 110,000	Agreed interest is not included
Lotte EURO Holdings B.V.	Affiliate		USD 10,000	-	USD 10,000	Agreed interest is included
PT Markro Indonesia	Affiliate		IDR 4,000	-	IDR 4,000	Agreed interest is not included

#### 4. Business Transfer with Large Shareholders

Name (Name of Corporation)	Relationship	Transfer Details					Remarks
		Subject	Acquisition · Transfer Purpose	Acquisition · Transfer Date	Amount		
					Acquisition Price	Transfer Price	
Lotte Samkang	Affiliate	Food Business Division	Transfer of minor business divisions for the dominant operation of key businesses	2009.10.01	-	25,110,570,640	
Total						25,110,570,640	

## X. Other Relevant Matters

### 1. Report of Major Matters Regarding Management

Date	Title	Contents	Progress Report
February 14, 2006 October 29, 2008	New investment in equipment	<ul style="list-style-type: none"> <li>- Subject of investment: Sky Park at Gimpo International Airport</li> <li>- Investment price: Won 263.6 billion</li> <li>Equity capital: Won 8.2 trillion</li> <li>Equity capital rate: 3.22%</li> <li>-Business contents: Complex Shopping center</li> <li>- Invest term: from contract date to December 2009</li> <li>- location: Frontal area of the international line building of Gimpo International Airport</li> </ul>	<ul style="list-style-type: none"> <li>• Subsequent to the initial BOD resolution on the investment amount on February 14, 2006, the Company's BOD amended the investment amount on October 29, 2008.</li> <li>• Construction in progress</li> </ul>
September 18, 2009/ October 23, 2009 (corrected date)	Decision on physical split	<ul style="list-style-type: none"> <li>- Purpose of split : to increase competitiveness and maximize industry value</li> <li>- Method of division : established a new company through a simple physical split</li> </ul>	<ul style="list-style-type: none"> <li>• The company split was registered on December 31, 2009 after the general shareholders meeting on November 20, 2009</li> <li>• The current Lotte KKD Company was established</li> </ul>

### 2. Summary of the Minutes from the General Meeting of Shareholders

Date	Matters	Decision	Remark
Extraordinary Shareholders Meeting (November 20, 2009)	Agenda No.1: Approval of Divesture of the Company's Krispy Kreme Donut business	Approved	
40 <sup>th</sup> general meeting of shareholders (March 26, 2010)	Agenda No.1: Approval of the 40 <sup>th</sup> fiscal year balance sheet, statement of profit and loss, disposal receipt of retained earnings (plan)  Agenda No. 2: Changes in the Articles of Incorporation  Agenda No. 3: Appointment of directors -Agenda No. 3-1: Appointment of outside directors -Agenda No. 3-2: Appointment of directors -Agenda No. 3-3: Appointment of Audit Committee members  Agenda No. 4: Approval of compensation limit for directors	Approved	-

### 3. Contingent Liabilities

#### A. Major Legal Proceedings

Pending litigations as of December 31, 2009 include 15 lawsuits in which the Company is the plaintiff (the aggregate claim amount of which is approximately Won 14.3 billion) and 10 lawsuits in which the Company is the defendant (the aggregate claim amount of which is approximately Won 3.4 billion). Our management does not expect that the final outcome of these lawsuits will have significant effects on our financial condition.

#### B. Bills or Checks as Collateral

[As of December 31, 2009]

(Unit: Won)

Place to submit	No. of sheets	Amount	Note
Bank	-	-	-
Financial institution	-	-	-
Corporation	1	Blank bill	Korea Agro-Fisheries Trade Corporation (security interest for repayment of funds to support direct transaction)
Other (Individual)	-	-	-

#### C. Other Contingent Liabilities

##### 1) Detail of payment guarantees on behalf of specially related parties (As of December 31, 2009)

Details of guarantee or payment guarantees provided by the Company in favor of its specially related parties are as follows. (There are no guarantee or payment guarantees provided by such specially related parties in favor of the Company.)

Company Name	Guarantor	Amount	Guaranteed Amount	Term of Guarantee	Remarks
Lotte Vietnam Shopping Co., Ltd.	Citibank N.A. Ho Chi Minh	USD 60,000,000	USD 60,000,000 of principal and interest	Until repayment	Payment guarantees for fund supplies
	ANZ Bank	VND260,000,000,000	VND 260,000,000,000 of principal and interest	Until repayment	
Qingdao Lottemart Commercial Co., Ltd.	Hana Bank Co., Ltd. (China)	RMB 71,000,000	RMB 71,000,000 principal	Mar. 11, 2009 to Mar. 20, 2010	
	Mizuho Bank	RMB 57,000,000	RMB 100,000,000	Sep. 30. 2009 to Sep. 30. 2010	
Lotte Cinema Vietnam Co., Ltd.	Export-Import Bank of Korea	USD 4,000,000	USD 4,000,000 of principal and interest	Dec. 22, 2009 to Dec. 21, 2010	
Intime Lotte Department Store Co., Ltd.	Woori Bank	RMB 25,000,000	RMB 78,000,000	May. 7, 2009 to Mar. 31, 2010	
Lotte Europe Holdings B.V.	Korea Development Bank	USD 9,682,000	USD 10,000,000	Until repayment	
PT Makro Indonesia	Korea Exchange Bank	IDR 50,000,000,000	IDR 400,000,000,000	Sep. 29, 2009 to Sep 29,2010	



Lotte Mart Co., Ltd.	HSBC	RMB 40,000,000	RMB 110,000,000	Jun. 2009 to Apr. 30, 2010
----------------------	------	-------------------	--------------------	----------------------------------

2) D Cinema of Korea Co., Ltd. entered into a VPF agreement with Twentieth Century Fox Film Corporation in October 2008, and D Cinema's performance thereunder was guaranteed by CJ CGV Co., Ltd. and the Company (50% each).

#### **4.Subsequent Events**

On February 9, 2010, the Company made an agreement to acquire department store and discount store divisions of GS Retail Co., Ltd., which included 3 department stores, 14 discount stores, their staff and landsite. The Company expects to achieve economies of scale and synergy effects through this acquisition. Aggregated amount for acquisition accounted for Won 1.34 trillion.

## XI. Attached Statements

### 1. Financial Statements

#### Non-Consolidated Statements of Financial Position

As of December 31, 2009 and 2008

<u>Assets</u>	Korean Won (millions)		U.S. dollars (thousands) (note 3)
	2009	2008	2009
<b>Current assets:</b>			
Cash and cash equivalents (notes 10 and 14)	₩ 434,547	309,696	\$ 372,171
Short-term deposits (notes 4 and 13)	87,032	43,901	74,539
Short-term held-to-maturity securities (note 6)	-	159,445	-
Trade accounts receivable, net of allowance for doubtful accounts of ₩2,652 million in 2009 and ₩2,683 million in 2008 (note 9)	239,779	234,714	205,360
Other accounts receivable, net of allowance for doubtful accounts of ₩2,883 million in 2009 and ₩2,813 million in 2008 (notes 9 and 14)	82,535	75,045	70,688
Advance payments, net of allowance for doubtful accounts of ₩1,852 million in 2009 and ₩463 million in 2008	20,534	16,285	17,587
Inventories (notes 5, 9 and 10)	1,101,309	1,037,885	943,224
Deferred income tax assets, net (note 29)	19,378	12,535	16,597
Other current assets (notes 7 and 14)	47,884	50,897	41,011
Total current assets	2,032,998	1,940,403	1,741,177
<b>Non-current assets:</b>			
Available-for-sale securities (notes 6 and 13)	191,210	157,753	163,764
Equity method accounted investments (note 6)	3,975,317	2,854,947	3,404,691
Derivative assets (notes 6 and 21)	116,667	208,866	99,921
Other investment assets (notes 4, 12, 13 and 14)	58,999	42,413	50,529
Property, plant and equipment, net of accumulated depreciation of ₩2,265,918 million in 2009 and ₩1,937,027 million in 2008 (notes 10 and 37)	11,129,377	7,060,981	9,531,840
Intangible assets, net of amortization (notes 11 and 37)	134,503	131,530	115,196
Long-term prepaid expenses	262,667	190,700	224,963
Long-term advance payments (note 32)	76,148	52,030	65,218
Guarantee deposits (note 18)	680,470	664,060	582,794
Total non-current assets	16,625,358	11,363,280	14,238,916
Total assets	₩ 18,658,356	13,303,683	\$ 15,980,093

## Non-Consolidated Statements of Financial Position, Continued

As of December 31, 2009 and 2008

<u>Liabilities and Stockholders' Equity</u>	Korean Won (millions)		U.S. dollars (thousands) (note 3)
	2009	2008	2009
Current liabilities:			
Trade accounts payable (notes 9 and 14)	₩ 1,799,560	1,642,378	\$ 1,541,247
Short-term borrowings (notes 16 and 32)	21,759	220,001	18,636
Current portion of debentures, net of discount of ₩95 million in 2009 (notes 14, 17 and 21)	126,187	-	108,074
Other accounts payable (notes 9 and 14)	475,802	486,372	407,505
Advances from customers	29,543	17,596	25,303
Accrued expenses	261,334	142,822	223,821
Accrual for gift certificates	378,148	339,526	323,868
Income tax payable	112,306	214,128	96,186
Accrual for bonus points reward program (note 20)	30,312	30,808	25,961
Other current liabilities (note 15)	52,881	53,842	45,289
	<u>3,287,832</u>	<u>3,147,473</u>	<u>2,815,890</u>
Long-term liabilities:			
Long-term borrowings (notes 14 and 16)	378,846	-	324,466
Debentures, net of discount of ₩7,313 million in 2009 and ₩8,227 million in 2008 (notes 14, 17 and 21)	1,402,227	899,001	1,200,948
Leasehold deposits (note 18)	254,769	244,808	218,199
Accrual for retirement and severance benefits, net (note 19)	45,315	47,503	38,810
Deferred income tax liabilities (note 29)	957,811	134,236	820,324
	<u>3,038,968</u>	<u>1,325,548</u>	<u>2,602,747</u>
Total long-term liabilities	<u>3,038,968</u>	<u>1,325,548</u>	<u>2,602,747</u>
Total liabilities	<u>6,326,800</u>	<u>4,473,021</u>	<u>5,418,637</u>
Stockholders' equity:			
Common stock of ₩5,000 par value (note 22)			
Authorized - 60,000,000 shares			
Issued and outstanding - 29,043,374 shares	145,217	145,217	124,372
Capital surplus (note 22)	4,650,895	4,650,895	3,983,295
Capital adjustments (note 23)	(16,271)	(16,271)	(13,935)
Accumulated other comprehensive income (note 24)	2,866,719	45,943	2,455,223
Retained earnings (note 25)	4,684,996	4,004,878	4,012,501
	<u>12,331,556</u>	<u>8,830,662</u>	<u>10,561,456</u>
Total stockholders' equity	<u>12,331,556</u>	<u>8,830,662</u>	<u>10,561,456</u>
Commitments and contingencies (note 32)			
	<u>₩ 18,658,356</u>	<u>13,303,683</u>	<u>\$ 15,980,093</u>
Total liabilities and stockholders' equity	<u>₩ 18,658,356</u>	<u>13,303,683</u>	<u>\$ 15,980,093</u>

## Non-Consolidated Statements of Income

For the years ended December 31, 2009 and 2008

	Korean Won (millions, except for earnings per share)		U.S. dollars (thousands, except for earnings per share)(note 3)
	2009	2008	2009
Continuing operations			
Sales (notes 9, 26, 27, 36 and 37)	₩ 11,535,281	10,509,251	\$ 9,879,480
Cost of sales (notes 9, 26 and 27)	7,959,811	7,290,564	6,817,242
Gross profit	3,575,470	3,218,687	3,062,238
Selling and administrative expenses (notes 9 and 28)	2,698,995	2,450,580	2,311,574
Operating income (notes 36 and 37)	876,475	768,107	750,664
Non-operating income:			
Interest income	31,781	42,237	27,219
Dividend income	728	2,267	624
Gain on foreign currency transactions	3,112	755	2,665
Gain on foreign currency translation	102,159	5,415	87,495
Equity in earnings of equity method accounted investments (note 6)	221,621	203,150	189,809
Gain on disposition of equity method accounted investments	2,647	20,395	2,267
Gain on valuation of derivative instruments (note 21)	-	184,663	-
Gain on disposition of property, plant and equipment	655	48,837	561
Others	20,317	14,133	17,400
	383,020	521,852	328,040
Non-operating expenses:			
Interest expense	67,105	28,839	57,473
Loss on foreign currency transactions	7,347	817	6,292
Loss on foreign currency translation	4,861	184,328	4,163
Equity in loss of equity method accounted investments (note 6)	82,690	111,684	70,821
Loss on disposition of equity method accounted investments	1,042	935	892
Loss on valuation of derivative instruments (note 21)	103,717	59	88,830
Loss on disposition of property, plant and equipment	778	13,609	666
Loss on revaluation of land (note 10)	7,256	-	6,214
Others	44,929	24,642	38,480
	319,725	364,913	273,831
Income before income taxes	939,770	925,046	804,873
Income taxes (note 29)	227,783	183,620	195,086
Income from continuing operations	₩ 711,987	741,426	\$ 609,787

## Non-Consolidated Statements of Income, Continued

For the years ended December 31, 2009 and 2008

	Korean Won (millions, except for earnings per share)		U.S. dollars (thousands, except for earnings per share)(note3)
	2009	2008	2009
Discontinued operation			
Income from discontinued operation, net of income tax of ₩1,416 million in 2009 and ₩531 million in 2008 (note 38)	₩ 4,435	1,398	\$ 3,798
Net income	716,422	742,824	613,585
Earnings per share (notes 30 and 36)			
Basic earnings per share from continuing operations in Won and U.S. dollars	24,515	25,528	21.00
Basic earnings per share in Won and U.S. dollars	₩ 24,667	25,576	\$ 21.13

## Non-Consolidated Statements of Appropriation of Retained Earnings

For the years ended December 31, 2009 and 2008

	Korean Won (millions)		U.S. dollars (thousands)
	2009	2008	(note 3) 2009
Unappropriated retained earnings:			
Balance at beginning of year	₩ 15,559	22,669	\$ 13,325
Net income	716,422	742,824	613,585
Balance at end of year before appropriation (note 25)	731,981	765,493	626,910
Appropriation of retained earnings:			
Legal reserve	3,630	3,630	3,109
Voluntary reserve	670,000	710,000	573,827
Cash dividends (note 31) – 25.00% on par value at ₩1,250 per share	36,304	36,304	31,093
	709,934	749,934	608,029
Unappropriated retained earnings to be carried over to subsequent year	₩ 22,047	15,559	\$ 18,881

## Non-Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2009 and 2008

	Korean Won (millions)						U.S. dollars (thousands) (note 3)
	Capital stock	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Total equity	Total equity
Balance at January 1, 2008	₩ 145,217	4,652,123	-	78,377	3,298,358	8,174,075	\$ 7,000,748
Net income	-	-	-	-	742,824	742,824	636,198
Payment of cash dividends	-	-	-	-	(36,304)	(36,304)	(31,093)
Change in fair value of available-for-sale securities, net of tax	-	-	-	(29,505)	-	(29,505)	(25,270)
Change in equity of equity method investments, net of tax	-	(1,228)	(16,271)	17,263	-	(236)	(202)
Effective portion of changes in fair value of cash flow hedges, net of tax	-	-	-	(20,192)	-	(20,192)	(17,293)
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>\$ 7,563,088</u>
Balance at January 1, 2009	₩ 145,217	4,650,895	(16,271)	45,943	4,004,878	8,830,662	\$ 7,563,088
Net income	-	-	-	-	716,422	716,422	613,585
Payment of cash dividends	-	-	-	-	(36,304)	(36,304)	(31,093)
Change in fair value of available-for-sale securities, net of tax	-	-	-	44,203	-	44,203	37,858
Change in equity of equity method investments, net of tax	-	-	-	(24,317)	-	(24,317)	(20,827)
Effective portion of changes in fair value of cash flow hedges, net of tax	-	-	-	8,984	-	8,984	7,695
Change in fair value of land, net of tax	-	-	-	2,791,906	-	2,791,906	2,391,150
Balance at December 31, 2009	₩ <u>145,217</u>	<u>4,650,895</u>	<u>(16,271)</u>	<u>2,866,719</u>	<u>4,684,996</u>	<u>12,331,556</u>	<u>\$ 10,561,456</u>

## Non-Consolidated Statements of Cash Flows

For the years ended December 31, 2009 and 2008

	Korean Won (millions)		U.S. dollars (thousands) (note 3)
	2009	2008	2009
Cash flows from operating activities:			
Net income	₩ 716,422	742,824	\$ 613,585
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	373,218	337,856	319,645
Amortization of intangible assets	29,970	28,844	25,668
Accrual for retirement and severance benefits	50,859	55,642	43,559
Loss on inventory shrinkage	12,744	10,373	10,915
Loss on valuation of inventory	555	1,076	475
Amortization of discount on debentures	3,281	1,250	2,810
Bad dept expenses	1,888	153	1,617
Loss on foreign currency translation	4,612	184,328	3,950
Gain on foreign currency translation	(102,159)	(5,415)	(87,495)
Equity in earnings of equity method accounted investments, net	(138,931)	(91,466)	(118,988)
Loss (gain) on disposition of equity method accounted investments, net	(1,605)	(19,460)	(1,375)
Loss on valuation of derivative instruments	103,717	59	88,830
Gain on valuation of derivative instruments	-	(184,663)	-
Loss (gain) on disposition of property, plant and equipment, net	117	(35,229)	100
Loss on revaluation of land	7,256	-	6,214
Gain on disposition of assets and liabilities constituting the discontinued operation	(3,355)	-	(2,873)
Others	16,945	1,297	14,513
Changes in operating assets and liabilities:			
Trade accounts receivable	(21,972)	12,964	(18,818)
Other accounts receivable	(4,083)	(9,034)	(3,497)
Advance payments	(7,833)	(53,805)	(6,709)
Inventories	(84,602)	(31,454)	(72,458)
Other current assets	(6,890)	4,643	(5,900)
Long-term prepaid expenses	(73,286)	(29,447)	(62,766)
Trade accounts payable	161,971	28,622	138,721
Other accounts payable	(8,221)	104,920	(7,041)
Advances from customers	12,204	3,161	10,452
Accrued expenses	120,346	22,014	103,071
Accrual for gift certificates	38,622	17,418	33,078
Income taxes payable	(101,822)	18,255	(87,206)
Bonus points reward program	(393)	1,446	(337)
Other current liabilities	(502)	(10,290)	(431)
National Pension Fund	3	5	2
Payment of retirement and severance benefits	(41,178)	(50,188)	(35,267)
Deposit for severance benefit insurance	(14,158)	(4,596)	(12,125)
Others	17,137	(33,918)	14,677
Net cash provided by operating activities	₩ 1,060,877	1,018,185	\$ 908,596



## Non-Consolidated Statements of Cash Flows, Continued

For the years ended December 31, 2009 and 2008

	Korean Won (millions)		U.S. dollars (thousands) (note 3)
	2009	2008	2009
Cash flows from investing activities:			
Cash inflows from investing activities:			
Maturity of short-term deposits	₩ 43,613	668,485	\$ 37,353
Decrease in short-term loans	38,862	-	33,284
Sale of available-for-sale securities	43,237	202	37,030
Sale of held-to-maturity securities	159,445	-	136,558
Refund of long-term advance payments	19,050	4,251	16,316
Refund of guarantee deposits paid	35,455	14,018	30,366
Proceeds from disposition of property, plant and equipment	22,248	228,252	19,054
Sale of assets and liabilities on the discontinued operation	24,339	-	20,845
Others	16,377	15,554	14,027
	402,626	930,762	344,833
Cash outflows for investing activities:			
Purchase of short-term deposits	(86,744)	(393,401)	(74,293)
Increase in short-term loans	(47,176)	(29,948)	(40,404)
Purchase of long-term deposits	(9)	(12,500)	(7)
Purchase of available-for-sale securities	(39,833)	(97,072)	(34,116)
Purchase of held-to-maturity securities	-	(160,445)	-
Purchase of equity method accounted investments	(934,463)	(601,123)	(800,328)
Payment of long-term advance payments	(44,768)	(89,940)	(38,342)
Payment of guarantee deposits	(108,983)	(87,016)	(93,339)
Purchase of property, plant and equipment	(923,381)	(888,866)	(790,838)
Additions to intangible assets	(15,026)	(18,273)	(12,869)
Purchase of derivative assets	-	(50,090)	-
Others	(20,872)	(25,165)	(17,876)
	(2,221,255)	(2,453,839)	(1,902,412)
Net cash used in investing activities	₩ (1,818,629)	(1,523,077)	\$ (1,557,579)

## Non-Consolidated Statements of Cash Flows, Continued

For the years ended December 31, 2009 and 2008

	Korean Won (millions)		U.S. dollars (thousands)
	2009	2008	(note 3) 2009
Cash flows from financing activities:			
Cash inflows from financing activities:			
Proceeds from short-term borrowings	₩ 3,327,758	480,001	\$ 2,850,084
Proceeds from issuance of current portion of debentures	131,369	-	112,512
Proceeds from long-term borrowings	397,040	-	340,048
Proceeds from issuance of debentures	578,670	715,068	495,606
Receipt of leasehold deposits	63,729	28,675	54,581
	4,498,566	1,223,744	3,852,831
Cash outflows for financing activities:			
Repayment of short-term borrowings	(3,526,000)	(260,001)	(3,019,870)
Redemption of debentures	-	(550,000)	-
Refund of leasehold deposits received	(53,659)	(29,877)	(45,956)
Dividends paid	(36,304)	(36,304)	(31,093)
	(3,615,963)	(876,182)	(3,096,919)
Net cash provided by financing activities	882,603	347,562	755,912
Net increase (decrease) in cash and cash equivalents	124,851	(157,330)	106,929
Cash and cash equivalents at beginning of year	309,696	467,026	265,242
Cash and cash equivalents at end of year	₩ 434,547	309,696	\$ 372,171

## XII. Additional Transcripts

### 1. Establishment of Bad Debt Allowance

#### A. Establishment of Bad Debt Allowance for the Past Three Years

(Unit: million Won, %)

Period	Accounts	Total trade receivables	Allowances for bad debts	Bad debt allowance rate
40 <sup>th</sup> fiscal year	Trade receivables	242,431	2,652	1.1
	Short-term borrowings	37,771	14,982	39.7
	Other receivables	85,418	2,883	3.4
	Advance payments	22,386	1,852	8.3
	Long-term borrowings	42,102	421	1.0
	Total	430,108	22,790	5.3
39 <sup>th</sup> fiscal year	Trade receivables	237,397	2,683	1.1
	Short-term borrowings	34,062	341	1.0
	Other receivables	77,858	2,814	3.6

	Advance payment	16,748	463	2.8
	Long-term borrowings	27,236	272	1.0
	Total	393,301	6,573	1.7
38 <sup>th</sup> fiscal year	Trade receivables	250,381	2,838	1.1
	Short-term borrowings	400	4	1.0
	Other receivables	56,679	1,164	2.1
	Advance payment	11,964	379	3.2
	Long-term borrowings	8,328	83	1.0
	Total	327,752	4,468	1.4

#### B. Changes in the Status of Bad Debt Allowance for the Past Three Fiscal Years

(Unit: million Won)

Division	40 <sup>th</sup> fiscal year	39 <sup>th</sup> fiscal year	38 <sup>th</sup> fiscal year
1. Total bad debt allowance balance at beginning of period	6,573	4,468	4,923
2. Net bad debts ([1] – [2] ± [3])	398	51	1,276
[1] Bad debts (written-off debts)	284	51	1,276
[2] Redemption of written-off debts			
[3] Other changes	114		
3. Return of bad debt expenses	16,615	2,156	821
4. Total bad debt allowance balance at end of period	22,790	6,573	4,468

※ The item of "Other Changes" worth Won 114 million is the bad debt allowance which arose from the transfer of the Food Business Division and the physical split of KKD.

#### C. Policy for Establishment of Bad Debt Allowance Regarding Trade Receivables

The Company sets the allowance for bad debts based on individual analysis of each trade receivable and the estimated amount of bad debt losses from past experience. When the principal of the trade receivable is adjusted unfavorably to creditors due to the commencement of liquidation procedure, composition procedure or by mutual agreement with both parties, the difference between the current value of future cash flow and the book value is treated as an allowance. Furthermore, based on a case by case analysis, the Company sets up an allowance for bad debts for balance of trade receivables, non-trade receivables and advance payments.

#### D. Balance of Trade Receivables as of the End of the Relevant Fiscal Year

(Unit: million Won)

Division		Under six months	Exceeds six months under one year	Exceeds one year under three years	Exceeds three years	Total
Amount	General	133,299	13	35	179	133,526
	Affiliates	98,921	9,984	-	-	108,905
	Total	232,220	9,997	35	179	242,431
Ratio		95.79%	4.12%	0.01%	0.07%	100.00%

## 2. Inventory Status

### (a) Inventory Status for the Past Three Fiscal Years

(Unit: million Won)

Business area	Account	40 <sup>th</sup> fiscal year	39 <sup>th</sup> fiscal year	38 <sup>th</sup> fiscal year	Remark
Department store	Merchandise	848,173	794,917	780,881	-
	Goods		-	-	-
	Raw materials		-	-	-
	Stored goods		-	-	-
	Goods to arrive		-	-	-
	Land		-	-	-
	Unfinished housing		-	-	-
	Subtotal	848,173	794,917	780,881	-
Discount store	Merchandise	193,686	168,024	167,163	-
	Goods		-	-	-
	Raw materials		-	-	-
	Stored goods		-	-	-
	Goods to arrive	557	209		-
	Land		9,749	22,804	-
	Finished housing	1,757			
	Unfinished housing		13,730	6,915	-
Subtotal	196,000	191,712	196,883	-	
Others	Merchandise	56,240	41,971	31,455	-
	Goods		3,615	3,974	-
	Raw materials	325	3,722	2,935	-
	Stored goods	570	734	942	-
	Goods to arrive		1,214	811	-
	Land				-
	Finished housing				
	Unfinished housing				-
Subtotal	57,136	51,256	40,117	-	
Total	Merchandise	1,098,099	1,004,912	979,499	-
	Goods		3,615	3,974	-
	Raw materials	325	3,722	2,935	-
	Stored goods	570	734	942	-
	Goods to arrive	557	1,423	811	-
	Land		9,749	22,804	
	Finished housing	1,757			-
	Unfinished housing		13,730	6,915	-
	Total	1,101,309	1,037,885	1,017,880	-
Inventory as percentage of total assets (%) [Inventory ÷ Assets × 100]		5.90%	7.80%	8.52%	-
Inventory turnover (ratio) [Annualized cost of sales ÷ {(Period start inventory + Period end inventory) ÷ 2}]		7.4	7.1	7.0	-

(b) Due Diligence Details of Inventories

1. Date of due diligence

Business unit	Department Store	Discount Store	Others
Date of due diligence	December 10	November 16 ~ November 27	December 7 ~ December 30

2. Attendance of independent professional/auditor at due diligence of inventories  
- Due diligence executed under inspection of independent auditors

3. Status of long-term stockpile inventories

(Unit: million Won)

Accounts	Acquisition cost	Retained amounts	Valuation increase (decrease) during period	Amounts at end of period	Remarks
Merchandise	1,111,398	1,111,398	13,299	1,098,099	
Total	1,111,398	1,111,398	13,299	1,098,099	

**3. Changes in the Accounting Standards for the Past Five Fiscal Years and Reasons for the Change**

40<sup>th</sup> fiscal year

(a) Application of the Financial Accounting Standards

Under the newly adopted Standard, SKAS No.5, the book value of land is accounted at fair value as of the date of the revaluation less accumulated impairment loss. According to the transitional provision to this Standard, the accounting changes will be applied prospectively and the prior period's non-consolidated financial statements presented for comparison purposes have not been recomposed.

Except as described above, all accounting policies of the Company remain identical to those of the prior period.

39<sup>th</sup> fiscal year

(a) Application of the Financial Accounting Standards

The Company prepares its financial statements in accordance with Korean GAAP. Due to an amendment to SKAS No. 15 "Equity Method of Accounting" in the current nine-month period, the Company has changed its accounting policy to conform to the revised equity method of accounting. As a result of such change, the equity method income for the current period and the income surplus at the end of the current period have increased by Won 3.1 billion and Won 12.5 billion, respectively, and equity method investments, capital surplus, equity method capital change and equity method negative capital change of the Company showed a decrease of Won 12.2 billion, an increase of Won 1.2 billion, a decrease of Won 20.4 billion and an increase of Won 81 million, respectively, during such period.

Except as described above, all accounting policies of the Company remain identical to those of the prior period.

38<sup>th</sup> fiscal year

(a) Application of the Financial Accounting Standards

The Company prepares its financial statements in accordance with Korean GAAP, including Statements of Korea Accounting Standards ("SKAS") No.21 "Preparation and Presentation of Financial Statements," No.22

“Share based Payment” and No.23 “Earnings Per Share”. In accordance with the Company’s adoption of SKAS No.21 “Preparation and Presentation of Financial Statements,” certain items in the financial statements covering prior periods were re-classified for comparison purposes. In addition, the Company decided on early adoption of the amended SKAS No.2 “Interim Financial Statements,” and prepared its cash flow statement and statement of change in equity for cumulative interim periods only in accordance with the amended SKAS No.2.

37<sup>th</sup> fiscal year

(a) Application of the Financial Accounting Standards

The Company’s financial statements of the current term reflect Articles 18 (joint venture investment), 19 (lease), and 20 (related parties official notice) of the Financial Accounting Standards. The application of such standards had no effect on the financial condition, ordinary income, and net profit of the Company in the current term. The comparative financial statements from the prior periods provided for comparative purposes were not restated in accordance with such new standards; however, certain line items have been reclassified according to the new standards for convenience of comparison with the current period’s financial statements.

36<sup>th</sup> fiscal year

(a) Application of the Financial Accounting Standards

According to Article 15 (Equity Method) of the Financial Accounting Standards, when eliminating unrealized gains or losses from intercompany transactions with investee companies that are not subsidiary companies, accounting for gain or loss from discounted sales changed from full elimination to the elimination of applicable amounts according to the Company’s stake in the investee companies. However, the comparative financial statements from the previous period were not restated.

The Company reflects directly the deferred taxes regarding the unrealized losses on marketable securities that are reflected on the capital adjustment according to Article 16 (Corporate Tax) of the Financial Accounting Standards on the applicable capital adjustment accounts, net of tax.

Due to the changes in the accounting standards, both the deferred tax asset and the net asset decreased by Won 31.2 billion, but the changes did not have any effect on the net income for the period.

The comparative financial statements from the previous period were not restated. According to Article 17 (Provisions) of the Financial Accounting Standards, the Company recognizes provisions when certain requirements as stipulated in the above accounting standards are met.

However, the comparative financial statements were not restated.

#### **4. Net Profit Increase/Decrease of over 30% within the Last Five Years and Causes Thereof**

40<sup>th</sup> fiscal year: Not applicable

39<sup>th</sup> fiscal year: Not applicable

38<sup>th</sup> fiscal year: Not applicable

37<sup>th</sup> fiscal year: Increase (Decrease) rate of net profit: 35.3% (Main reason: Sales increase and equity method income increase)

36<sup>th</sup> fiscal year: Increase (Decrease) rate of net profit: 79.9% (Main reason: Sales increase)

35<sup>th</sup> fiscal year: Increase (Decrease) rate of net profit: 237.7% (Main reason: Sales increase)