

**Deloitte Anjin LLC**

**LOTTE SHOPPING CO., LTD.**

NON-CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED  
DECEMBER 31, 2005 AND 2004  
AND INDEPENDENT AUDITORS' REPORT

## Independent Auditors' Report

English Translation of a Report Originally Issued in Korean

To the Shareholders and Board of Directors of  
Lotte Shopping Co., Ltd.

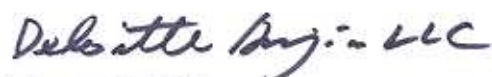
We have audited the accompanying non-consolidated balance sheets of Lotte Shopping Co., Ltd. (the "Company") as of December 31, 2005 and 2004, and the related statements of income, appropriations of retained earnings and cash flows for the years then ended, all expressed in Korean Won. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2005 and 2004, and the results of its operations, changes in its retained earnings and its cash flows for the years then ended in conformity with accounting principles generally accepted in the Republic of Korea (See Note 2).

Our audits also comprehended the translation of Korean Won amounts into U.S. dollar amounts and nothing has come to our attention that cause us to believe that such translation has not been made in conformity with the basis in Note 2. Such U.S. dollar amounts are presented solely for the convenience of the reader outside of Korea.

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



February 15, 2006

### Notice to Readers

This report is effective as of February 15, 2006, the auditors' report date. Certain subsequent events or circumstances may have occurred between the auditors' report date and the time the auditors' report is read. Such events or circumstances could significantly affect the accompanying financial statements and may result in modifications to the auditors' report.

LOTTE SHOPPING CO., LTD.

NON-CONSOLIDATED BALANCE SHEETS

AS OF DECEMBER 31, 2005 AND 2004

<u>ASSETS</u>	<u>Korean won</u>		<u>Translation into</u>
	<u>2004</u>	<u>2005</u>	<u>U.S. dollar</u>
	<u>(In millions)</u>		<u>(Note 2)</u>
			<u>2005</u>
			<u>(In thousands)</u>
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents (Notes 7 and 18)	₩ 30,137	₩ 37,534	\$ 37,052
Short-term financial instruments (Note 3)	21,719	12,184	12,028
Available-for-sale securities (Note 5)	2	3	3
Trade accounts receivable, net of allowance for doubtful accounts of ₩ 1,541 million in 2004 and ₩ 2,162 million in 2005 (Note 21)	148,859	179,882	177,574
Other accounts receivable, net of allowance for doubtful accounts of ₩ 4,178 million in 2004 and ₩ 1,207 million in 2005 (Notes 17 and 21)	39,191	119,477	117,944
Accrued income	387	326	322
Advanced payments, net of allowance for doubtful accounts of ₩ 1,751 million in 2004 and ₩ 481 million in 2005	181,488	234,212	231,207
Current portion of deferred income tax assets (Note 20)	-	8,335	8,228
Inventories (Notes 2, 4 and 7)	906,942	788,539	778,420
Other current assets	<u>8,066</u>	<u>9,297</u>	<u>9,178</u>
<b>Total Current Assets</b>	<b>₩ 1,336,791</b>	<b>₩ 1,389,789</b>	<b>\$ 1,371,956</b>

(Continued)

LOTTE SHOPPING CO., LTD.

NON-CONSOLIDATED BALANCE SHEETS (CONTINUED)

AS OF DECEMBER 31, 2005 AND 2004

	Korean won		Translation into
	2004	2005	U.S. dollar (Note 2)
	(In millions)		(In thousands)
<b>NON-CURRENT ASSETS:</b>			
Long-term financial instruments (Note 3)	₩ 36	₩ 41	\$ 40
Available-for-sale securities (Note 5)	121,061	77,933	76,933
Investment securities accounted for using the equity method (Note 6)	868,501	1,135,699	1,121,124
Guarantee deposits (Notes 21 and 22)	250,480	289,481	285,766
Long-term prepaid expenses	115,460	111,549	110,117
Property, plant and equipment, net of accumulated depreciation of ₩ 848,546 million in 2004 and ₩ 1,067,598 million in 2005 (Notes 7, 8, 9, 21 and 26)	4,897,429	5,342,582	5,274,019
Intangibles, net of amortization (Notes 10, 25 and 26)	31,476	36,847	36,374
Other non-current assets	-	7,431	7,335
Total Non-current Assets	6,284,443	7,001,563	6,911,708
<b>TOTAL ASSETS</b>	<b>₩ 7,621,234</b>	<b>₩ 8,391,352</b>	<b>\$ 8,283,664</b>

(Continued)

LOTTE SHOPPING CO., LTD.

NON-CONSOLIDATED BALANCE SHEETS (CONTINUED)

AS OF DECEMBER 31, 2005 AND 2004

<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>	<u>Korean won</u>		<u>Translation into</u>
	<u>2004</u>	<u>2005</u>	<u>U.S. dollar</u>
	<u>(In millions)</u>		<u>(Note 2)</u>
			<u>2005</u>
			<u>(In thousands)</u>
<b>LIABILITIES:</b>			
<b>CURRENT LIABILITIES:</b>			
Trade accounts payable (Notes 18 and 21)	₩ 1,349,391	₩ 1,374,908	\$ 1,357,264
Short-term borrowings (Note 11)	516,735	584,031	576,536
Other accounts payable (Note 21)	314,324	291,822	288,077
Advances from customers (Note 21)	12,165	21,787	21,507
Accrued expenses (Note 21)	84,519	115,818	114,332
Gift certificates	251,518	271,176	267,696
Provision for construction losses (Note 17)	6,162	-	-
Current portion of long-term borrowings (Notes 11 and 18)	41,752	-	-
Current portion of long-term debentures, net of discount on debentures of ₩ 1,728 million in 2004 and ₩ 3,092 million in 2005 (Note 12)	398,272	696,908	687,965
Income tax payable (Note 20)	99,060	103,583	102,254
Provision for mileage (Note 16)	-	21,351	21,077
Other current liabilities	<u>38,121</u>	<u>46,815</u>	<u>46,212</u>
Total Current Liabilities	<u>₩ 3,112,019</u>	<u>₩ 3,528,199</u>	<u>\$ 3,482,920</u>

(Continued)

LOTTE SHOPPING CO., LTD.

NON-CONSOLIDATED BALANCE SHEETS (CONTINUED)

AS OF DECEMBER 31, 2005 AND 2004

	Korean won		Translation into
	2004	2005	U.S. dollar (Note 2)
	(In millions)		2005 (In thousands)
<b>LONG-TERM LIABILITIES:</b>			
Long-term borrowings (Notes 11 and 18)	₩ 73,066	₩ 70,910	\$ 70,000
Debtures, net of discount on debtures issued of ₩ 19,475 million in 2004 and ₩ 7,895 million in 2005 (Notes 12 and 18)	1,541,839	1,202,495	1,187,064
Currency swap (Note 19)	17,291	16,396	16,185
Rental guarantee deposits (Note 21)	151,034	219,478	216,661
Accrued severance indemnities, net of National Pension Fund payments of ₩ 257 million in 2004 and ₩ 81 million in 2005, and individual severance insurance deposits of ₩ 45,584 million in 2004 and ₩ 56,579 million in 2005	29,867	35,888	35,428
Deferred income tax liabilities (Note 20)	<u>8,317</u>	<u>82,132</u>	<u>81,078</u>
Total long-term liabilities	<u>1,821,414</u>	<u>1,627,299</u>	<u>1,606,416</u>
<b>TOTAL LIABILITIES:</b>	<u>4,933,433</u>	<u>5,155,498</u>	<u>5,089,336</u>
<b>SHAREHOLDERS' EQUITY (Note 13):</b>			
Capital stock	100,000	100,000	98,717
Capital surplus	1,146,678	1,146,678	1,131,963
Retained earnings (Net income of ₩ 302,482 million for the year ended Dec. 31, 2004 and ₩ 546,217 million for the year ended Dec. 31, 2005)	1,370,790	1,907,007	1,882,534
Capital adjustments (Notes 5, 6, 13, 19 and 20)	<u>70,333</u>	<u>82,169</u>	<u>81,114</u>
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<u>2,687,801</u>	<u>3,235,854</u>	<u>3,194,328</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<u>₩ 7,621,234</u>	<u>₩ 8,391,352</u>	<u>\$ 8,283,664</u>

See accompanying notes to non-consolidated financial statements.

LOTTE SHOPPING CO., LTD.

NON-CONSOLIDATED STATEMENTS OF INCOME  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	Korean won		Translation into
	2004	2005	U.S. dollar (Note 2)
	(In millions, except per share amount)		(In thousands, except per share amount)
SALES (Notes 17, 21, 22, 26, and 29)	<u>₩ 7,627,917</u>	<u>₩ 8,607,104</u>	<u>\$ 8,496,648</u>
COST OF SALES (Notes 17, 21 and 29)	<u>5,500,319</u>	<u>6,189,256</u>	<u>6,109,828</u>
GROSS PROFIT	2,127,598	2,417,848	2,386,820
SELLING AND ADMINISTRATIVE EXPENSES (Note 30)	<u>1,582,285</u>	<u>1,729,028</u>	<u>1,706,840</u>
OPERATING INCOME	545,313	688,820	679,980
NON-OPERATING INCOME:			
Interest income (Note 5)	12,035	9,245	9,126
Dividend income	1,214	1,371	1,354
Gain on foreign currency transactions	1	1,289	1,273
Gain on foreign currency translation	20,450	3,085	3,046
Gain on valuation using the equity method (Note 6)	48,049	159,812	157,761
Gain on disposal of property, plant and equipment	91	2,498	2,466
Gain on prior period error corrections (Note 27)	-	11,417	11,270
Gain on disposal of intangible assets	-	8	8
Others	<u>8,744</u>	<u>12,449</u>	<u>12,288</u>
	<u>₩ 90,584</u>	<u>₩ 201,174</u>	<u>\$ 198,592</u>

(Continued)

LOTTE SHOPPING CO., LTD.

NON-CONSOLIDATED STATEMENTS OF INCOME (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	Korean won		Translation into
	2004	2005	U.S. dollar
	(In millions, except per share amount)		(Note 2)
			2005
			(In thousands, except per share amount)
<b>NON-OPERATING EXPENSES:</b>			
Interest expense	₩ 152,104	₩ 131,475	\$ 129,788
Loss on foreign currency transactions	12	25	25
Loss on foreign currency translation	9	27	26
Loss on valuation using the equity method (Note 6)	-	4,649	4,589
Loss on valuation of currency swap (Note 19)	20,450	3,080	3,040
Loss on transaction of currency swap (Note 19)	-	1,256	1,240
Loss on disposal of investment assets	116	-	-
Loss on impairment of available-for-sale securities (Note 5)	12,863	15	14
Loss on disposal of property, plant and equipment	23,515	2,911	2,874
Donations	2,337	4,230	4,176
Additional income tax for prior periods	52	3	3
Loss on prior period error corrections (Note 27)	-	1,066	1,052
Others	10,172	12,478	12,319
	<u>221,630</u>	<u>161,215</u>	<u>159,146</u>
<b>ORDINARY INCOME</b>	414,267	728,779	719,426
<b>EXTRAORDINARY ITEM</b>	<u>-</u>	<u>-</u>	<u>-</u>

(Continued)



LOTTE SHOPPING CO., LTD.

NON-CONSOLIDATED STATEMENTS OF INCOME (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	Korean won		Translation into
	2004	2005	U.S. dollar (Note 2)
	(In millions, except per share amount)		2005 (In thousands, except per share amount)
INCOME BEFORE INCOME TAX	₩ 414,267	₩ 728,779	\$ 719,426
INCOME TAX EXPENSE (Note 20)	<u>111,785</u>	<u>182,562</u>	<u>180,219</u>
NET INCOME	<u>₩ 302,482</u>	<u>₩ 546,217</u>	<u>\$ 539,207</u>
ORDINARY INCOME PER SHARE (Note 15)	<u>₩ 15,124</u>	<u>₩ 27,311</u>	<u>\$ 26.96</u>
NET INCOME PER SHARE (Note 15)	<u>₩ 15,124</u>	<u>₩ 27,311</u>	<u>\$ 26.96</u>

See accompanying notes to non-consolidated financial statements.

LOTTE SHOPPING CO., LTD.

STATEMENTS OF APPROPRIATIONS OF RETAINED EARNINGS

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	Korean won		Translation into
	2004	2005	U.S. dollar (Note 2)
	(In millions, except per share amount)		(In thousands, except per share amount)
RETAINED EARNINGS BEFORE APPROPRIATIONS:			
Unappropriated retained earnings carried over from prior year	₩ 8,248	₩ 10,081	\$ 9,952
Net income	<u>302,482</u>	<u>546,217</u>	<u>539,207</u>
	<u>310,730</u>	<u>556,298</u>	<u>549,159</u>
TRANSFERS FROM RESERVES:			
Reserve for social investment	<u>351</u>	<u>79</u>	<u>78</u>
APPROPRIATIONS:			
Legal reserve	1,000	1,500	1,481
Voluntary reserve	290,000	530,000	523,198
Cash dividends (Note 14)	<u>10,000</u>	<u>15,000</u>	<u>14,808</u>
	<u>301,000</u>	<u>546,500</u>	<u>539,487</u>
UNAPPROPRIATED RETAINED EARNINGS TO BE CARRIED FORWARD TO SUBSEQUENT YEAR	<u>₩ 10,081</u>	<u>₩ 9,877</u>	<u>\$ 9,750</u>

See accompanying notes to non-consolidated financial statements.

LOTTE SHOPPING CO., LTD.

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	Korean won		Translation into U.S. dollar (Note 2)	
	2004	2005	2005	
	(In millions)		(In thousands)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Net income	₩ 302,482	₩ 546,217	\$	539,207
Adjustments to reconcile net income to net cash provided by operating activities:				
Provision for severance indemnities	28,934	28,831		28,462
Depreciation	197,904	225,841		222,942
Provision for doubtful accounts	963	182		180
Amortization of intangible assets	3,050	4,427		4,370
Amortization of discount on bond issuance (Interest expense)	14,375	11,756		11,607
Loss on valuation of inventories	5,707	6,351		6,269
Loss on valuation using the equity method	-	4,649		4,589
Loss on disposal of investment assets	116	-		-
Loss on impairment of available-for-sale securities	12,863	15		14
Loss on disposal of property, plant and equipment	23,515	2,911		2,874
Loss on prior period error corrections	-	1,066		1,052
Loss on valuation of currency swap	20,450	3,080		3,040
Provision for construction losses	-	-		-
Gain on valuation using the equity method	(48,049)	(159,812)		(157,761)
Gain on foreign currency translation	(20,450)	(3,085)		(3,046)
Reversal of provision for construction losses	(2,894)	-		-
Gain on disposal of property, plant and equipment	(91)	(2,498)		(2,466)
Gain on disposal of intangible assets	-	(8)		(8)
Gain on prior period error corrections	-	(11,417)		(11,270)
Others	(4)	15		15
	<u>236,389</u>	<u>112,304</u>		<u>110,863</u>

(Continued)

LOTTE SHOPPING CO., LTD.

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	Korean won		Translation into
	2004	2005	U.S. dollar (Note 2)
	(In millions)		2005 (In thousands)
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Changes in operating assets and liabilities:			
Increase in trade accounts receivable	₩ (22,804)	₩ (31,645)	\$ (31,236)
Decrease (increase) in other accounts receivable	31,879	(79,512)	(78,492)
Decrease (increase) in accrued income	(192)	61	60
Increase in advanced payments	(76,589)	(53,863)	(53,172)
Decrease (increase) in inventories	(698,787)	105,890	104,531
Increase in current portion of deferred income tax assets	-	(8,335)	(8,228)
Decrease (increase) in other current assets	(4,700)	2,680	2,645
Increase in long-term prepaid expenses	(12,454)	-	-
Increase in trade accounts payable	747,149	25,523	25,195
Increase (decrease) in other accounts payable	43,122	(22,501)	(22,213)
Increase (decrease) in advances from customers	(142)	9,622	9,498
Increase (decrease) in accrued expenses	(373)	46,954	46,351
Increase in income tax payable	96,909	4,523	4,465
Increase in gift certificates	13,338	19,658	19,406
Increase in provision for mileage	-	5,696	5,623
Increase (decrease) in other current liabilities	3,720	(2,618)	(2,583)
Increase in deferred income tax liabilities	2,032	42,648	42,100
Decrease in National Pension Fund	1,071	177	175
Payment of severance indemnities	(34,700)	(13,575)	(13,401)
Collection (payment) of severance insurance deposits for employees	2,220	(10,996)	(10,855)
	<u>90,699</u>	<u>40,387</u>	<u>39,869</u>
Net cash provided by operating activities	<u>629,570</u>	<u>698,908</u>	<u>689,939</u>

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LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	Korean won		Translation into U.S. dollar (Note 2)
	2004	2005	2005
	(In millions)		(In thousands)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Cash inflows from investing activities:			
Withdrawal of short-term financial instruments	₩ 928,877	₩ 612,027	\$ 604,173
Withdrawal of long-term financial instruments	4	-	-
Proceeds from disposal of available-for-sale securities	4,919	2	2
Refund of guarantee deposits	35,302	47,015	46,411
Proceeds from disposal of property, plant and equipment	6,175	10,353	10,271
Proceeds from disposal of intangible assets	-	22	22
Others	-	12,035	11,881
	<u>975,277</u>	<u>681,454</u>	<u>672,760</u>
Cash outflows from investing activities:			
Purchase of short-term financial instruments	(941,113)	(602,492)	(594,760)
Purchase of long-term financial instruments	-	(5)	(5)
Purchase of available-for-sale securities	(9,047)	(9,767)	(9,642)
Purchase of investment securities accounted for using the equity method	(18,606)	(4,500)	(4,442)
Payment of guarantee deposits	(53,150)	(86,016)	(84,912)
Acquisition of property, plant and equipment	(477,420)	(683,948)	(675,222)
Additions to intangible assets	(3,007)	(5,231)	(5,164)
Others	-	(7,450)	(7,354)
	<u>(1,502,343)</u>	<u>(1,399,409)</u>	<u>(1,381,501)</u>
Net cash used in investing activities	<u>(527,066)</u>	<u>(717,955)</u>	<u>(708,741)</u>

(Continued)

LOTTE SHOPPING CO., LTD.

STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2005 AND 2004

	Korean won		Translation into U.S. dollar (Note 2)
	2004	2005	2005
	(In millions)		(In thousands)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Cash inflows from financing activities:			
Proceeds from short-term borrowings	₩ 11,866,339	₩ 10,211,596	\$ 10,080,549
Proceeds from issuance of debentures	851,756	348,460	343,988
Proceeds from long-term borrowings	83,069	-	-
Receipt of rental guarantee deposits	<u>30,740</u>	<u>95,727</u>	<u>94,498</u>
	<u>12,831,904</u>	<u>10,655,783</u>	<u>10,519,035</u>
Cash outflows from financing activities:			
Repayment of short-term borrowings	(12,054,000)	(10,144,300)	(10,014,116)
Repayment of current portion of long-term debt	(700,000)	(441,752)	(436,083)
Repayment of deposits received	(27,475)	(27,283)	(26,933)
Payment of dividends	(10,000)	(10,000)	(9,872)
Decrease in currency swap	<u>-</u>	<u>(6,004)</u>	<u>(5,927)</u>
	<u>(12,791,475)</u>	<u>(10,629,339)</u>	<u>(10,492,931)</u>
Net cash provided by financing activities	<u>40,429</u>	<u>26,444</u>	<u>26,104</u>
DECREASE IN CASH DUE TO ACQUISITION ACTIVITY	<u>(154,799)</u>	<u>-</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(11,866)	7,397	7,302
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	<u>42,003</u>	<u>30,137</u>	<u>29,750</u>
CASH AND CASH EQUIVALENTS, END OF THE YEAR	<u>₩ 30,137</u>	<u>₩ 37,534</u>	<u>\$ 37,052</u>

See accompanying notes to non-consolidated financial statements.

LOTTE SHOPPING CO., LTD.  
NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

1. GENERAL:

Lotte Shopping Co., Ltd. (the “Company”) was incorporated on July 2, 1970 to engage in retail business through department stores. As of December 31, 2005, the Company operates 19 department stores, 42 discount stores, 15 movie theatres, 47 supermarkets and 6 doughnut chain stores.

The Company has issued 20 million common shares (~~₩~~ 100,000 million) as of December 31, 2005 and the major shareholders are as follows:

<u>Shareholder</u>	<u>Number of shares</u>	<u>Ratio of shareholding</u>
Shin Dong Bin	4,237,627	21.19%
Shin Dong Ju	4,235,883	21.18%
Hotel Lotte	2,697,201	13.49%
Fuji Film	2,474,543	12.37%
Lotte Confectionery	2,474,543	12.37%
Others	3,880,203	19.40%
Total	<u>20,000,000</u>	<u>100.00%</u>

The Company merged with Lotte Foods Co., Ltd. and CheongBon Industry Co., Ltd. on December 31, 1994, and with SongGok Trading Industry Co., Ltd. on December 31, 1997.

The Company took over 25 supermarkets and 1 logistics center from Hanwha Stores Co., Ltd. on March 12, 2004 and established the Doughnut division in 2004.

The Company has entered into a contract with Lotte Midopa Co., Ltd. and Lotte Station Building Co., Ltd., Lotte Group affiliated companies, for providing management service until 2005 and 2006, respectively.

The Company listed its shares on the Korea Stock Exchange on February 9, 2006 and London Stock Exchange on February 8, 2006.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

### Basis of Financial Statement Presentation

The Company maintains its official accounting records in Korean won and prepares statutory financial statements in the Korean language (Hangul) in conformity with the accounting principles generally accepted in the Republic of Korea. Certain accounting principles applied by the Company that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles in other countries. Accordingly, these financial statements are intended for use by those who are informed about Korean accounting principles and practices. The accompanying financial statements have been condensed, restructured, and translated into English from the Korean language financial statements. Certain information included in the Korean language financial statements, but not required for a fair presentation of the Company's financial position, results of operations or cash flows, is not presented in the accompanying financial statements.

The accompanying financial statements are stated in Korean Won, the currency of the country in which the Company is incorporated and operates. The translation of Korean Won into U.S. dollar amounts is included solely for the convenience of readers outside of the Republic of Korea and has been made at the rate of ₩1,013.00 to US\$1.00 at December 31, 2005, the Base Rate announced by Seoul Money Brokerage Services, Ltd. Such translations should not be construed as representations that the Korean won amounts could be converted at that or any other rate.

The Company prepared its financial statements as of December 31, 2004 in accordance with the Statements of Korea Accounting Standards ("SKAS") No. 1~13 (except No. 11) and adopted the additional SKAS No. 14 "Exceptions to Accounting for Small and Medium-sized Entities", No. 15 "Investments in Associates", No. 16 "Income Taxes" and No. 17 "Provisions, Contingent Liabilities and Contingent Assets", effective from January 1, 2005. In addition, the SKAS No.18 "Interests in Joint Ventures", No. 19 "Lease" and No. 20 "Related Party Disclosures", which are effective from the first fiscal year beginning on or after December 31, 2005, will be adopted after December 31, 2005.

#### a. SKAS No.15 "Investments in Associates"

According to SKAS No. 15 "Investments in Associates", the Company's portion of profits and losses resulting from inter-company (not subsidiary company) transactions that are recognized in assets, such as inventories and fixed assets, are eliminated and charged to equity securities accounted for using the equity method. Also, unrealized profits and losses resulting from sales of assets from the Company to investee are eliminated according to the ratio of ownership. The adoption of this SKAS had no effect on the ordinary income and net income reported in the 2005 financial statements.

#### b. SKAS No.16 "Income Taxes"

According to SKAS No. 16 "Income Taxes", deferred taxes related with valuation of investments in associates accounted for as capital adjustments are disclosed net of taxes. The adoption of this SKAS decreased deferred tax assets and net assets amounting to ₩31,167,408 thousand as of December 31, 2005, but had no effect on the net income reported in the 2005 financial statements. In addition, the accompanying balance sheets as of December 31, 2004 and the statements of income and cash flows for the year ended December 31, 2004, which are presented for comparative purposes, have not been restated in accordance with interim measures of SKAS No. 16.

#### c. SKAS No.17 "Provisions, Contingent Liabilities and Contingent Assets"

According to SKAS No. 17 "Provisions, Contingent Liabilities and Contingent Assets", the Company recognizes provisions if contingent liabilities meet the required conditions. In addition, the accompanying balance sheets as of December 31, 2004 and the statements of income and cash flows for the year ended December 31, 2004, which are presented for comparative purposes, have not been restated in accordance with interim measures of SKAS No. 17.



### Revenue Recognition

Revenue from sale of goods is recognized when all of the following conditions have been satisfied:

- (1) The Company has transferred significant risks and rewards of the ownership of the goods to the buyer.
- (2) The Company retains neither continuing managerial involvement, to the degree usually associated with the ownership, nor effective control over the goods sold.
- (3) The amount of revenue can be measured reliably.
- (4) It is probable that the economic benefits associated with the transaction will flow into the Company.
- (5) Costs incurred or to be incurred with respect to the transaction can be measured reliably.

Revenues from sale of apartments in lots are recognized using percentage-of-completion method, measured principally by the percentage of costs incurred to total estimated contract costs.

According to SKAS No. 4, the Company recognizes sales of merchandise of which the Company bears the overall risk for inventories, such as purchase contract containing the condition that the merchandise may only be returned for a full refund prior to the end of the relevant season (for seasonal merchandise) or within 90 days from delivery (for non-seasonal merchandise) and others, at a gross basis and records relevant inventories and accounts payable in the balance sheet.

### Allowance for Doubtful Accounts

The Company provides an allowance for doubtful accounts based on past collection experience and estimated loss on uncollectible accounts.

### Inventories

The Company maintains perpetual records, which are adjusted through physical counts. The methods of valuation of inventories are as follows:

	<u>Retail business segment</u>	<u>Food business segment</u>
Merchandise and finished goods	Retail method	Gross average method
Goods in transit	Specific identification method	Specific identification method
Others	FIFO	Gross average method

Inventories as of December 31, 2005 consist of the following:

<u>Account</u>	<u>Korean won</u>		<u>Translation into</u>
	<u>2004</u>	<u>2005</u>	<u>U.S. dollar</u>
	(In millions)		(Note 2)
			<u>2005</u>
			(In thousands)
Merchandise, net	₩ 824,323	₩ 777,378	\$ 767,402
Finished goods	882	1,694	1,672
Materials	2,428	2,663	2,629
Supplies	605	388	383
Materials in transit	571	592	585
Lots	58,197	-	-
Unfinished housing	19,936	-	-
Finished housing, net	-	5,824	5,749
	<u>₩ 906,942</u>	<u>₩ 788,539</u>	<u>\$ 778,420</u>

## Investments in Securities other than those Accounted for Using the Equity Method

### a. Classification of Securities

At acquisition, the Company classifies securities into one of the three categories; trading, held-to-maturity or available-for-sale. Trading securities are those that were acquired principally to generate profits from short-term fluctuations in prices. Held-to-maturity securities are those with fixed or determinable payments and fixed maturity that the Company has the positive intent and ability to hold to maturity. Available-for-sale securities are those not classified as either held-to-maturity or trading securities. Trading securities are classified as current assets, whereas available-for-sale and held-to-maturity securities are classified as non-current assets, except for those whose maturity dates or whose likelihood of being disposed of are within one year from balance sheet date, which are classified as current assets.

### b. Valuation of Securities

Securities are recognized initially at cost, which includes the market price of the consideration given to acquire them and incidental expenses. If the market price of the consideration is not reliably determinable, the market prices of the securities purchased are used as the basis for measurement. If neither the market prices of the consideration given nor those of the acquired securities are available, the acquisition cost is measured at the best estimates of its fair value.

After initial recognition, held-to-maturity securities are stated at amortized cost. The difference between their acquisition costs and face values of held-to-maturity securities is amortized over the remaining term of the securities by applying the effective interest method and added to or subtracted from the acquisition costs and interest income of the remaining period. Trading securities are valued at fair value, with unrealized gains or losses included in current operations. Available-for-sales securities are also valued at fair value, with unrealized gains or losses included in capital adjustments, until the securities are sold or if the securities are determined to be impaired and the lump-sum cumulative amount of capital adjustments are included in current operations.

However, available-for-sales securities that are not traded in an active market and whose fair values cannot be reliably estimated are accounted for at their acquisition costs. For those securities that are traded in an active market, fair values refer to those quoted market prices, which are measured as the closing price at the balance sheet date. The fair value of non-marketable securities are measured at the discounted future cash flows by using the discount rate that appropriately reflects the credit rating of issuing entity assessed by a publicly reliable independent credit rating agency. If application of such measurement method is not feasible, estimates of the fair values may be made using a reasonable valuation model or quoted market prices of similar debt securities issued by entities conducting similar business in similar industries.

Securities are evaluated at each balance sheet date to determine whether there is any objective evidence of impairment loss. When any such evidence exists, unless there is a clear counter-evidence that recognition of impairment is unnecessary, the Company estimates the recoverable amount of the impaired security and recognizes any impairment loss in current operations. The amount of impairment loss of the held-to-maturity security or non-marketable equity security is measured as the difference between the recoverable amount and the carrying amount. The recoverable amount of held-to maturity security is the present value of expected future cash flows discounted at the securities' original effective interest rate. For available-for-sale debt or equity security, the amount of impairment loss to be recognized in the current period is determined by subtracting the amount of impairment loss of debt or equity security already recognized in prior period from the amount of amortized cost in excess of the recoverable amount for debt security or the amount of the acquisition cost in excess of the fair value for equity security.

If the realizable value subsequently recovers, in case of a security stated at fair value, the increase in value is recorded in current operations, up to the amount of the previously recognized impairment loss, while for the security stated at amortized cost or acquisition cost, the increase in value is recorded in current operation, so that its recovered value does not exceed what its amortized cost would be as of the recovery date if there had been no impairment loss.

### Investment Securities Accounted for Using the Equity Method

Equity securities held for investment in companies in which the Company is able to exercise significant influence over the operating and financial policies of the investees are accounted for using the equity method. The Company's share in the net income or net loss of investees is reflected in current operations. Changes in the retained earnings, capital surplus or other capital accounts of investees are accounted for as an adjustment to retained earnings or to capital adjustments.

The differences between the cost of the investment and the investor's share of the net fair value of the investee's identifiable assets and liabilities at the date of acquisition is amortized over 10 years using strait-line method or expenses as incurred.

The Company's portion of profits and losses resulting from inter-company (not subsidiary company) transactions that are recognized in assets, such as inventories and fixed assets, are eliminated and charged to equity securities accounted for using the equity method. However, if the investee is a consolidated subsidiary, unrealized profits and losses are eliminated in full.

The Company uses the foreign exchange rate at balance sheet date when translating balance sheet account (except for capital account) of foreign subsidiaries and uses the average foreign exchange rate of current year when translating income account. Differences between the capital amount and the net amount, by deducting liabilities from assets, are accounted for as capital adjustments.

### Property, Plant and Equipment and Related Depreciation

The cost of property, plant and equipment includes purchase costs or manufacturing costs, incidental costs directly related to prepare the property, plant and equipment for use, and when an asset is acquired by means of capital contributions in kind, donations or other forms of non-reciprocal transfers, the cost is recorded at its fair value. Routine maintenance and repairs are expensed as incurred. Expenditures that result in the enhancement of the value or extension of the useful lives of the facilities involved are treated as additions to property, plant and equipment.

Depreciation is computed using the declining-balance method (straight-line method for buildings, structures, and machinery) based on the estimated useful lives of the assets as follows:

	<u>Useful lives (years)</u>
Buildings	10 – 30
Structures	10 – 30
Machinery	4 – 30
Vehicles	4
Equipment decorations	4
Other equipments	4

The interest cost on short-term borrowings or long-term debts in connection with the purchase, manufacture or construction of property, plant and equipment is expensed as incurred.

### Intangibles

An intangible asset is measured at its acquisition cost, comprised of the purchase price and any other directly attributable expenditure on preparing the asset for its intended use. Intangible assets are stated at cost, net of accumulated amortization. Subsequent expenditures on intangible assets after the purchases or completions, which enable the assets to generate future economic benefits and can be measured and attributed to the assets reliably, are treated as additions to intangible assets.

The copyright on a film is transferred from advanced payment, the production cost paid to a film producing company and cost of abroad film import, to intangible asset. The copyright transferred to intangible assets is stated at cost for the period of related revenue recognition. In addition, impairment loss on intangible assets is recognized when the realization of related revenue is uncertain.

Goodwill generated from M&A is amortized on a straight-line method over the estimated useful lives within 20 years. Impairment loss on goodwill is recognized when goodwill's recoverable amount declines below its carrying amount and its amounts is material.

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

	<u>Useful lives (years)</u>
Goodwill	10
Industrial property rights	5
Rights to use a water supply facility	10
Rights to use a electricity supply facility	10
Rights to use a gas supply facility	10
Rights to use a facility	20
Copy rights	For duration of related revenue to be realized
Others	5

#### Discount on Debentures

Discount on debentures, which is the difference between the issued amount and the face value of debentures, is presented as a deduction from the face value of debentures and amortized over the redemption period of the debentures using the effective interest rate method. Amortization of discount is recognized as interest expense on the debentures.

#### Gift Certificates

Gift certificates are recognized as a liability when these are sold. Gift certificates sold are recognized as sales upon redemption.

#### Provisions

A provision is recognized only when:

- (a) an entity has a present obligation (legal or constructive) as a result of a past event;
- (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- (c) a reliable estimate can be made.

When a loss on construction is expected based on cost estimates, the expected loss is charged to current operations in the period identified and is included in the balance sheet as a provision for construction losses.

The Company also recognizes provision for mileage to provide free service based on purchase amount by mileage cardholders or credit card usage.

### Accrued Severance Indemnities

Employees and directors with more than one year of service are entitled to receive a lump-sum payment upon termination of their service with the Company, based on their length of service and rate of pay at the time of termination, as stipulated in the Company's employment regulations. The severance indemnities that would be payable assuming all eligible employees were to resign amount to ₩92,548 million and ₩75,708 million as of December 31, 2005 and 2004, respectively. Actual payment of severance indemnities amounted to ₩13,575 million and ₩34,700 million for the years ended December 31, 2005 and 2004, respectively.

Accrued severance indemnities are approximately 61% (₩56,579 million) and 60% (₩45,584 million) funded as of December 31, 2005 and 2004, respectively, through an individual severance insurance plan. Individual severance insurance deposits, in which the beneficiary is a respective employee, are presented as deduction from accrued severance indemnities.

### Derivative Instruments

All derivative instruments are accounted for at fair value with the valuation gain or loss recorded as an asset or liability according to derivative instruments contract. If the derivative instrument is not part of a transaction qualifying as a hedge, the adjustment to fair value is reflected in current operations. The accounting for derivative transactions that are part of a qualified hedge based both on the purpose of the transaction and on meeting the specified criteria for hedge accounting differs depending on whether the transaction is a fair value hedge or a cash flow hedge. Fair value hedge accounting is applied to a derivative instrument designated as hedging the exposure to changes in the fair value of an asset or a liability or a firm commitment (hedged item) that is attributable to a particular risk.

### Accounting for Foreign Currency Transactions and Translation

The Company and its domestic subsidiaries maintain their accounts in Korean won. Transactions in foreign currencies are recorded in Korean won based on the prevailing rates of exchange on the transaction dates. Monetary accounts with balances denominated in foreign currencies are recorded and reported in the accompanying financial statements at the exchange rates prevailing at the balance sheet dates. The balances have been translated using the Seoul Money Brokerage Services, Ltd. Basic Rate, which was ₩1,013.00 and ₩1,043.80 to US\$1.00 at December 31, 2005 and 2004, respectively, and translation gains or losses are reflected in current operations.

### Income Tax Expense and Deferred Income Tax Assets (Liabilities)

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profits. Deferred tax liabilities are generally recognized for all taxable temporary differences with some exceptions and deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized. Deferred income tax assets (liabilities) are recorded as current assets (liabilities) and non-current assets (liabilities) in the balance sheets. Income tax expense is determined by adding or deducting the total income tax and surtaxes to be paid for the current period and the changes in deferred income tax assets or liabilities. In addition, current tax and deferred tax is charged or credited directly to equity if the tax relates to items that are credited or charged directly to equity in the same or different period.

3. RESTRICTED FINANCIAL INSTRUMENTS:

Restricted deposits included in short-term and long-term financial instruments as of December 31, 2004 and 2005 are as follows:

Account	Bank	Korean won		Translation into U.S. dollar (Note 2)
		2004	2005	2005
		(in millions)		(In thousands)
Short-term financial instruments				
Guarantee deposits of contracts	Busan Bank and others	₩ 1,355	₩ 1,584	\$ 1,564
Long-term financial instruments				
Guarantee deposits for checking accounts	Chohung Bank and others	36	41	40
		₩ 1,391	₩ 1,625	\$ 1,604

Restricted financial instruments related to short-term financial instruments are provided as collateral to Busan Metropolitan City and others for rental guarantee deposits in 2005 and 2004.

4. INVENTORIES:

(1) Loss on inventory shrinkage for the years ended December 31, 2004 and 2005 consist of the following:

Account	Korean won		Translation into U.S. dollar (Note 2)	
	2004	2005	2005	
		(In millions)		(In thousands)
Merchandise	₩ 5,707	₩ 5,656	\$ 5,583	

(2) Loss on decline in value of inventories for the year ended December 31, 2005 consists of the following:

Companies	Korean won			Translation into U.S. dollar (Note 2)
	Acquisition cost	Net realizable value	Loss	Loss
		(In millions)		(In thousands)
Finished housing	₩ 6,519	₩ 5,824	₩ 695	\$ 686

5. AVAILABLE-FOR-SALE SECURITIES:

(1) Available-for-sale securities as of December 31, 2004 and 2005 consist of the following:

<Available-for-sale securities classified under current assets>

Description	Korean won		Translation into
	2004	2005	U.S. dollar (Note 2)
	(In millions)		2005
			(In thousands)
Government and public bonds	<u>₩ 2</u>	<u>₩ 3</u>	<u>\$ 3</u>

<Available-for-sale securities classified under non-current assets>

Description	Korean won		Translation into
	2004	2005	U.S. dollar (Note 2)
	(In millions)		2005
			(In thousands)
Marketable equity securities	<u>₩ 37,339</u>	<u>₩ 62,786</u>	<u>\$ 61,980</u>
Unmarketable equity securities	83,683	6,894	6,805
Government and public bonds	39	8,253	8,148
	<u>₩ 121,061</u>	<u>₩ 77,933</u>	<u>\$ 76,933</u>

(2) Equity securities as of December 31, 2005 and 2004 consist of the following:

< As of December 31, 2005 >

Companies	Percentage of ownership (%)	Korean won			Translation into U.S. dollar (Note 2)
		Acquisition cost	Market value or net asset value	Book value	Book value
			(In millions)		(In thousands)
<b>(Marketable equity securities )</b>					
Busan Bank	2.65	₩ 18,041	₩ 51,573	₩ 51,573	\$ 50,911
Shinhan Financial Group	0.09	1,584	11,152	11,152	11,009
Eyesvision Corporation	0.13	491	49	49	49
Korea Investment Corporation	0.15	<u>100</u>	<u>12</u>	<u>12</u>	<u>11</u>
		<u>20,216</u>	<u>62,786</u>	<u>62,786</u>	<u>61,980</u>
<b>(Unmarketable equity securities)</b>					
Lotte Industry Co., Ltd.	8.92	1,638	12,247	1,638	1,617
Onsetel Co., Ltd.	0.18	939	38	-	-
Lotte Giants (*1 & 2)	30.00	30	-	30	30
Herald Media Inc.	0.13	60	-	-	-
Hankyung Economic Daily	0.01	31	13	31	31
Agentrics (Formerly WWRE)	4.77	13,729	1,040	866	854
V Bank Consulting (*3)	1.87	13	-	-	-
FRL Korea (*2)	49.00	2,940	2,507	2,940	2,902
Incheon United Football Club (*3)	0.01	2	-	-	-
Serom Sungwon	1.62	3,730	1,561	-	-
I Venture Media Investment Union	7.00	700	645	700	691
Lotteshopping Luth (*2)	100.00	684	671	684	675
Korea Foods Industry Association	0.98	<u>5</u>	<u>24</u>	<u>5</u>	<u>5</u>
		<u>24,501</u>	<u>18,746</u>	<u>6,894</u>	<u>6,805</u>
		<u>₩ 44,717</u>	<u>₩ 81,532</u>	<u>₩ 69,680</u>	<u>\$ 68,785</u>



< As of December 31, 2004 >

Companies	Percentage of ownership (%)	Korean won			Translation into U.S. dollar (Note 2)
		Acquisition cost	Net asset value	Book value	Book value
(Marketable equity securities )		(In millions)			(In thousands)
Busan Bank	2.65	₩ 18,041	₩ 30,944	₩ 30,944	\$ 30,547
Shinhan Financial Group	0.09	1,584	6,357	6,357	6,275
Eyesvision Corporation	0.13	491	15	15	15
Korea Investment Corporation	0.15	100	23	23	23
Sub total		20,216	37,339	37,339	36,860
(Unmarketable equity securities)					
Lotte Eng. & Machinery (*4)	13.71	2,069	8,231	2,069	2,043
Lotte Industry Co., Ltd.	8.92	1,638	3,188	1,638	1,617
L & L Limited (*4)	17.69	13,155	10,118	13,155	12,986
Onsetel Co., Ltd.	0.18	939	398	-	-
Lotte Trading Co., Ltd. (*4)	6.75	343	2,100	343	339
Lotte Giants (*1 & 2)	30.00	30	-	30	30
Herald Media Inc.	0.13	60	-	-	-
Hankyung Economic Daily	0.01	31	9	31	31
Lotte Aluminum Co., Ltd. (*4)	5.08	23,038	19,861	23,038	22,742
WWRE	5.65	12,863	-	-	-
V Bank Consulting	1.87	13	1	13	12
Lotteria Co., Ltd. (*4)	19.94	39,719	2,404	39,719	39,209
FRL Korea (*2)	49.00	2,940	2,940	2,940	2,902
I Venture Media Investment Union	7.00	700	700	700	691
Incheon United Football Club	0.01	2	1	2	2
Serom Sungwon	1.62	3,730	1,365	-	-
Korea Foods Industry Association	0.98	5	25	5	5
		101,275	51,341	83,683	82,609
		₩ 121,491	₩ 88,680	₩ 121,022	\$ 119,469

(\*1) Investments in Lotte Giants, which has capital deficit, were not adjusted to net asset value as the decline in value was determined to be temporary.

(\*2) The percentage of ownership on FRL Korea and Lotte Giants is over 20% but the Company excluded FRL Korea and Lotte Giants from investment securities accounted for using the equity method since amount of change in investment is not significant from using the equity method.

(\*3) Loss on impairment of available-for-sale securities amounting to ₩15 million for the year ended December 31, 2005 in non-operating expenses were recognized because Company's management expects that the net equity value won't recover in the future.

(\*4) Investments in Lotte Eng. & Machinery, L & L Limited, Lotte Trading Co., Ltd., Lotte Aluminum Co., Ltd. and Lotteria Co., Ltd., which are classified as available-for-sale securities, are accounted for using the equity method from 2005.

For available-for-sales securities that are traded in an active market, fair values refer to those quoted market prices, which are measured as the closing price at the balance sheet date. However, available-for-sales securities that are not traded in an active market and whose fair values cannot be reliably estimated are shown at their net realizable value based on unaudited on financial statements.

The Company performed additional procedures to obtain reliance on the financial statements not audited by an external auditor. Accordingly, it is possible that some differences may arise in the value of equity securities accounted for using the equity method if audited financial statements were used. Management believes that the ultimate differences will not have a material adverse effect on the financial statement of the Company.

(3) Accumulative unrealized holding gains (losses) for the years ended December 31, 2005 and 2004 are as follows:

<For the year ended December 31, 2005>

Description	Korean won			End of the year	Translation into
	Beginning of the year	Increase	Realized		U.S. dollar
			(In millions)		(Note 2)
					End of the year
					(In thousands)
Equity securities (*)	<u>₩ 17,123</u>	<u>₩ 25,446</u>	<u>₩ -</u>	<u>₩ 42,569</u>	<u>\$ 42,023</u>

<For the year ended December 31, 2004>

Description	Korean won			End of the year	Translation into
	Beginning of the year	Increase	Realized		U.S. dollar
			(In millions)		(Note 2)
					End of the year
					(In thousands)
Equity securities(*)	<u>₩ 10,985</u>	<u>₩ 6,138</u>	<u>₩ -</u>	<u>₩ 17,123</u>	<u>\$ 16,903</u>

(\*)Before deferred tax is charged or credited

(4) Government and public bonds as of December 31, 2004 and 2005 consist of the following:

Description	Korean won		Translation into
	2004	2005	U.S. dollar (Note 2)
	(In millions)		2005
			(In thousands)
Under 1 year	<u>₩ 2</u>	<u>₩ 3</u>	<u>\$ 3</u>
Over 1 year and 5 years	<u>39</u>	<u>8,220</u>	<u>8,115</u>
Over 5 years and 10 years	<u>-</u>	<u>33</u>	<u>33</u>
Total	<u>₩ 41</u>	<u>₩ 8,256</u>	<u>\$ 8,151</u>

(5) The interest income of government and public bonds as of December 31, 2004 and 2005 are as follows:

Description	Korean won		Translation into U.S. dollar (Note 2)
	2004	2005	2005
	(In millions)		(In thousands)
Interest income	<u>₩ 102</u>	<u>₩ 3</u>	<u>\$ 3</u>

(6) As of December 31, 2005, the Company has pledged equity securities stated at fair value of Busan Bank (1,030,000 shares) to Kyung-nam province as performance guarantee for the construction of a large retail complex and equity securities stated at fair value of Busan Bank (681,261 shares) and Shinhan Bank (117,201 shares) to Busan Metropolitan City as construction performance guarantee.

#### 6. INVESTMENT SECURITIES ACCOUNTED FOR USING THE EQUITY METHOD:

(1) Investment securities accounted for using the equity method as of December 31, 2005 and 2004 consist of the following:

< As of December 31, 2005 >

Companies	Percentage of ownership (%)	Korean won			Translation into U.S. dollar (Note 2)
		Acquisition cost	Net asset value	Book value	Book value
		(In millions)			(In thousands)
Lotte Station Building Co., Ltd.	25.00	₩ 4,500	₩ 97,113	₩ 97,267	\$ 96,019
Daehong Communications Inc.	30.00	6,277	38,317	38,321	37,829
Lotte.Com Inc	34.39	8,000	2,024	2,076	2,048
Lotte Boulangerie Co., Ltd.	90.91	10,001	1,628	1,628	1,607
FoodStar Inc.	39.76	33,994	7,452	7,453	7,358
Lotte Midopa Co., Ltd.	79.01	257,379	249,706	296,822	293,013
Lotte Card Co., Ltd.	92.54	432,907	530,813	565,120	557,868
Lotte Capital Co., Ltd.	20.55	67,573	24,651	24,651	24,335
Nexus Media Contents Investment Union	20.00	2,000	1,813	1,813	1,790
KTB Media Investment Union	30.00	1,500	1,470	1,470	1,451
Isu Entertainment Investment Union	37.50	3,000	3,003	3,003	2,964
L & L Limited (*)	17.69	13,155	9,799	11,043	10,900
Lotte Eng. & Machinery (*)	13.71	2,069	9,520	9,520	9,398
Lotte Trading Co., Ltd. (*)	6.75	343	2,146	2,146	2,119
Lotte Aluminum Co., Ltd. (*)	5.08	23,038	20,611	27,468	27,116
Lotteria Co., Ltd. (*)	19.94	39,719	36,036	45,898	45,309
Total		<u>₩ 905,455</u>	<u>₩ 1,036,102</u>	<u>₩ 1,135,699</u>	<u>\$ 1,121,124</u>

(\*) The percentage of ownership of Lotte Eng. & Machinery, L & L Limited, Lotte Trading Co., Ltd., Lotte Aluminum Co., Ltd. and Lotteria Co., Ltd. is under 20% but the Company included these in using the equity method since the Company is able to exercise significant influence over the operating.

< As of December 31, 2004 >

Companies	Percentage of ownership (%)	Korean won			Translation into U.S. dollar (Note 2)
		Acquisition cost	Net asset value	Book value	Book value
		(In millions)			(In thousands)
Lotte Station Building Co., Ltd.	25.00	₩ 4,500	₩ 83,619	₩ 83,619	\$ 82,546
Daehong Communications Inc.	30.00	6,277	23,881	23,881	23,575
Lotte.Com Inc	34.39	8,000	1,437	1,437	1,418
Lotte Boulangerie Co., Ltd.	90.91	10,001	1,976	1,976	1,950
FoodStar Inc.	39.76	33,994	8,879	8,879	8,765
Lotte Midopa Co., Ltd.	79.01	257,379	228,220	282,000	278,382
Lotte Card Co., Ltd.	92.54	432,907	406,472	445,096	439,385
Lotte Capital Co., Ltd.	20.55	67,573	19,599	19,599	19,347
Nexus Media Contents Investment Union	20.00	2,000	2,014	2,014	1,988
Total		₩ 822,631	₩ 776,097	₩ 868,501	\$ 857,356

(2) The result of valuation using the equity method for the years ended December 31, 2005 and 2004 are as follows:

<For the year ended December 31, 2005 >

Companies	Korean won				Translation into U.S. dollar (Note 2)
	Beginning of the year	Valuation gain/loss using equity method	Other increase/decrease (*1)	End of the year	
		(In millions)			(In thousands)
Lotte Station Building Co., Ltd.	₩ 83,619	₩ 14,368	₩ (720)	₩ 97,267	\$ 96,019
Daehong Communications Inc.	23,881	4,154	10,286	38,321	37,829
Lotte.Com Inc	1,437	639	-	2,076	2,048
Lotte Boulangerie Co., Ltd.	1,976	(348)	-	1,628	1,607
FoodStar Inc.	8,879	(1,426)	-	7,453	7,358
Lotte Midopa Co., Ltd.	282,000	14,822	-	296,822	293,013
Lotte Card Co., Ltd.	445,096	118,823	1,201	565,120	557,868
Lotte Capital Co., Ltd.	19,599	5,052	-	24,651	24,335
Nexus Media Contents Investment Union (*3)	2,014	(201)	-	1,813	1,790
KTB Media Investment Union	-	(30)	1,500	1,470	1,451
Isu Entertainment Investment Union (*3)	-	3	3,000	3,003	2,964
L & L Limited (*2 & 3)	13,155	(165)	(1,947)	11,043	10,900
Lotte Eng. & Machinery (*2 & 3)	2,069	1,381	6,070	9,520	9,398
Lotte Trading Co., Ltd. (*2 & 3)	343	47	1,756	2,146	2,119
Lotte Aluminum Co., Ltd. (*2 & 3)	23,038	523	3,907	27,468	27,116
Lotteria Co., Ltd. (*2 & 3)	39,719	(2,479)	8,658	45,898	45,309
Total	₩ 946,825	₩ 155,163	₩ 33,711	₩ 1,135,699	\$ 1,121,124

(\*1) Other increases (decreases) consist of acquisition of ₩4,500 million, dividend of ₩726 million, change in capital adjustment of ₩19,585 million and gains from prior period adjustments of ₩10,351 million.

(\*2) Income from investments in Lotte Eng. & Machinery, L & L Limited, Lotte Trading Co., Ltd., Lotte Aluminum Co., Ltd. and Lotteria Co., Ltd., which are accounted for using the equity method for the first time in 2005, was included in gains from prior period adjustments.

(\*3) The Company performed additional procedures to obtain reliance on the financial statements not audited by an external auditor. Accordingly, it is possible that some differences may arise in the value of equity securities accounted for using the equity method if audited financial statements were used. Management believes that the ultimate differences will not have a material adverse effect on the financial statement of the Company.

<For the year ended December 31, 2004>

Companies	Korean won				Translation into U.S. dollar (Note 2)
	Beginning of the year	Valuation gain/loss using equity method	Other increase/decrease (*1)	End of the year	
	(In millions)				(In thousands)
Lotte Station Building Co., Ltd.	₩ 74,995	₩ 9,344	₩ (720)	₩ 83,619	\$ 82,546
Daehong Communications Inc.	20,332	2,509	1,040	23,881	23,575
Lotte.Com Inc	2,013	(593)	17	1,437	1,418
Lotte Boulangerie Co., Ltd.	1,671	305	-	1,976	1,950
FoodStar Inc.	7,666	(8,080)	9,293	8,879	8,765
Lotte Midopa Co., Ltd.	267,096	14,904	-	282,000	278,382
Lotte Card Co., Ltd.	408,009	41,743	(4,656)	445,096	439,385
Lotte Capital Co., Ltd.	18,517	(12,093)	13,175	19,599	19,347
Nexus Media Contents Investment Union	2,004	10	-	2,014	1,790
Total	<u>₩ 802,303</u>	<u>₩ 48,049</u>	<u>₩ 18,149</u>	<u>₩ 868,501</u>	<u>\$ 857,356</u>

(3) Differences between the initial purchase price and the Company's initial proportionate ownership of the net book value of the investees are amortized as follows:

<For the year ended December 31, 2005>

Companies	Korean won				Translation into U.S. dollar (Note 2)
	Beginning of the year	Increase	Amortization	End of the year	
	(In millions)				(In thousands)
Lotte Midopa Co., Ltd.	₩ 53,780	₩ -	₩ (6,724)	₩ 47,056	\$ 46,452
Lotte Card Co., Ltd.	38,624	-	(4,880)	33,744	33,311
L & L Limited	-	2,595	(1,352)	1,243	1,227
Daehong Communications Inc.	-	(1,758)	1,758	-	-
Lotte Aluminum Co., Ltd.	-	8,087	(1,230)	6,857	6,769
Lotteria Co., Ltd.	-	16,437	(6,575)	9,862	9,736
Total	<u>₩ 92,404</u>	<u>₩ 25,361</u>	<u>₩ (19,003)</u>	<u>₩ 98,762</u>	<u>\$ 97,495</u>

<For the year ended December 31, 2004>

Companies	Korean won				Translation into U.S. dollar (Note 2)
	Beginning of the year	Increase	Amortization	End of the year	
	(In millions)				(In thousands)
Lotte Midopa Co., Ltd.	₩ 60,505	₩ -	₩ (6,725)	₩ 53,780	\$ 53,090
Lotte Card Co., Ltd.	43,780	-	(5,156)	38,624	38,129
FoodStar Inc.	-	6,650	(6,650)	-	-
Total	₩ 104,285	₩ 6,650	₩ (18,531)	₩ 92,404	\$ 91,219

(4) Significant unrealized profits (losses) that occurred in transactions with investees as of December 31, 2005 are as follows:

<As of December 31, 2005>

Companies	Korean won				Translation into U.S. dollar (Note 2)
	Allowance for doubtful accounts	Investments	Tangible (Intangible) Assets	Total	
	(In millions)				(In thousands)
Lotte Station Building Co., Ltd.	₩ 154	₩ -	₩ -	₩ 154	\$ 152
Daehong Communications Inc.	4	-	-	4	4
Lotte.Com Inc	51	-	-	51	51
FoodStar Inc.	1	-	-	1	1
Lotte Midopa Co., Ltd.	61	-	-	61	61
Lotte Card Co., Ltd.	563	-	-	563	555
Total	₩ 834	₩ -	₩ -	₩ 834	\$ 824

(5) Lotte Midopa Co., Ltd. is listed in Korea Stock Exchange, of which the securities owned by the Company were valued using the equity method. Its' market value was ₩1,449,045 million on December 31, 2005.

(6) The adjustments between unaudited financial statements and financial statements, which the Company used for equity method, are as follows:

Companies	Expected closing date	Korean won			Translation into U.S. dollar (Note 2)
		Before adjustment	Adjustment(*)	After adjustment	
		(In millions)			(In thousands)
Daehong Communications Inc	Dec 31, 2005	₩ 29,847	₩ 8,470	₩ 38,317	\$ 37,825
Lotte Eng. & Machinery	Dec 31, 2005	9,386	134	9,520	9,398
Lotte Aluminum Co., Ltd.	Dec 31, 2005	20,128	483	20,611	20,347
Lotteria Co., Ltd.	Dec 31, 2005	26,292	9,744	36,036	35,573

(\*) The Company adjusted the effect of net asset value due to rotational investment (investment between companies within the Lotte group) in equity method.

(7) Condensed financial information of the affiliates as of and for the year ended December 31, 2005 is as follows:

Affiliated company	Korean Won			
	Assets	Liabilities	Sales	Net income (loss)
	(In millions)			
Lotte Station Building Co., Ltd.	₩ 589,351	₩ 200,898	₩ 612,757	₩ 56,863
Daehong Communications Inc.	228,059	128,570	127,028	9,226
Lotte.Com Inc	40,583	34,700	44,760	1,702
Lotte Boulangerie Co., Ltd.	12,978	11,188	30,299	(382)
FoodStar Inc.	80,636	61,893	93,049	(3,588)
Lotte Midopa Co., Ltd.	513,895	197,865	277,142	27,192
Lotte Card Co., Ltd.	2,652,777	2,079,143	525,283	133,073
Lotte Capital Co., Ltd.	962,500	842,525	123,093	24,590
Nexus Media Contents Investment Union	9,065	-	545	(463)
KTB Media Investment Union	5,072	173	-	(101)
Isu Entertainment Investment Union	8,008	-	13	8
L & L Limited (*)	173,553	118,169	27	4
Lotte Eng. & Machinery (*)	264,421	195,951	319,394	13,939
Lotte Trading Co., Ltd. (*)	749,825	718,013	818,946	700
Lotte Aluminum Co., Ltd. (*)	653,741	257,324	569,302	6,638
Lotteria Co., Ltd. (*)	192,703	60,840	220,690	7,262
Total	₩ 7,137,167	₩ 4,907,252	₩ 3,762,328	₩ 276,663

(\*) This is before adjustment of the effect resulting from rotational investment (investment between companies within the Lotte group) in equity method.

#### 7. INSURED ASSETS:

Assets insured as of December 31, 2004 and 2005 are as follows:

Type of insurance	Covered assets	Korean won		Translation into
		2004	2005	U.S. dollar
		(In millions)		(Note 2)
				2005
				(In thousands)
Burglary insurance	Cash	₩ 31,005	₩ 31,867	\$ 31,458
Fire insurance	Merchandise, buildings and tools	3,171,536	4,150,377	4,097,114
Damage insurance	Machinery and equipment	60,455	67,697	66,828
Liability for damage	Facilities and products	271,700	340,822	336,448
Others	Other utilities	24,041	23,238	22,940
		₩ 3,558,737	₩ 4,614,001	\$ 4,554,788

In addition, the Company also carries general insurance policies for vehicles.

#### 8. PUBLISHED VALUE OF LAND OWNED:

The published value of the Company-owned land totals ₩3,389,104 million (1,214,102 sq. meter) and ₩2,958,051 million (1,062,771 sq. meter) as of December 31, 2005 and 2004, respectively, in terms of land prices officially announced by the Korean government.

9. PROPERTY, PLANT AND EQUIPMENT:

(1) Property, plant and equipment as of December 31, 2004 and 2005 consist of the following:

Description	Korean won		Translation into U.S. dollar (Note 2)
	2004	2005	2005
	(In millions)		(In thousands)
Buildings and structures	₩ 2,439,003	₩ 2,884,164	\$ 2,847,151
Machinery	15,053	23,369	23,069
Vehicles	1,749	1,773	1,750
Furniture and equipment	136,939	147,370	145,479
Other	438,946	587,319	579,781
	3,031,690	3,643,995	3,597,230
Less: Accumulated depreciation	(848,546)	(1,067,598)	(1,053,897)
	2,183,144	2,576,397	2,543,333
Land	2,437,479	2,587,174	2,553,972
Construction in progress	276,806	179,011	176,714
	₩ 4,897,429	₩ 5,342,582	\$ 5,274,019

(2) Changes in property, plant and equipment for the years ended December 31, 2005 and 2004 consist of the following:

< For the year ended December 31, 2005 >

Description	Korean won						End of year
	Beginning of year	Acquisition	Transfer	Disposal	Depreciation		
	(In millions)						
Land	₩ 2,437,479	₩ 157,086	₩ 336	₩ 7,727	₩ -	₩ 2,587,174	
Buildings and structures	2,028,896	53,690	393,169	1,578	100,763	2,373,414	
Machinery	6,975	3,513	3,633	4	2,511	11,606	
Vehicles	539	283	1	93	300	430	
Furniture and equipment	126,669	81,095	74,049	1,016	107,995	172,802	
Other	20,065	1,626	11,368	642	14,272	18,145	
Construction in progress	276,806	386,655	(484,450)	-	-	179,011	
	₩ 4,897,429	₩ 683,948	₩ (*) (1,894)	₩ 11,060	₩ 225,841	₩ 5,342,582	

(\*) Construction in progress is transferred to intangible assets and unfinished housing.



< For the year ended December 31, 2004 >

Description	Korean won (In millions)					End of year
	Beginning of year	Acquisition	Transfer	Disposal	Depreciation	
Land	₩2,324,247	₩ 113,375	₩ (50)	₩ 93	₩ -	₩2,437,479
Buildings and structures	1,860,089	58,972	221,821	22,852	89,134	2,028,896
Machinery	6,928	669	528	111	1,039	6,975
Vehicles	409	511	-	-	381	539
Furniture and equipment	91,013	83,688	40,881	1,772	87,141	126,669
Other	29,977	9,487	856	46	20,209	20,065
Construction in progress	209,792	336,990	(269,976)	-	-	276,806
	<u>₩4,522,455</u>	<u>₩ 603,692</u>	<u>₩(*) (5,940)</u>	<u>₩24,874</u>	<u>₩ 197,904</u>	<u>₩4,897,429</u>

(\*) Construction in progress is transferred to intangible assets and unfinished housing.

10. INTANGIBLES:

(1) Intangibles as of December 31, 2004 and 2005 consist of the following:

Description	Korean won		Translation into U.S. dollar (Note 2)
	2004	2005	2005
	(In millions)		(In thousands)
Goodwill	₩ 12,973	₩ 14,935	\$ 14,744
Industrial property rights	183	188	186
Rights to use a water supply facility	1,665	2,768	2,732
Rights to use a electricity supply facility	1,852	2,214	2,186
Rights to use a gas supply facility	1,098	1,130	1,115
Rights to use a facility	10,991	10,134	10,004
Copy right	-	2,408	2,377
Others	2,714	3,070	3,030
	<u>₩ 31,476</u>	<u>₩ 36,847</u>	<u>\$ 36,374</u>

(2) Changes in intangibles for the years ended December 31, 2005 and 2004 consist of the following:

< For the year ended December 31, 2005 >

Description	Korean won (In millions)					
	Beginning of year	Acquisition	Transfer	Disposal	Amortization	End of year
Goodwill (*)	₩ 12,973	₩ 3,753	₩ -	₩ -	₩ 1,791	₩ 14,935
Industrial property rights	183	70	-	-	65	188
Rights to use a water supply facility	1,665	19	1,408	-	324	2,768
Rights to use a electricity supply facility	1,852	49	606	14	279	2,214
Rights to use a gas supply facility	1,098	16	159	-	143	1,130
Rights to use a facility	10,991	-	-	-	857	10,134
Copyright on movie	-	-	2,408	-	-	2,408
Others	2,714	1,324	-	-	968	3,070
	<u>₩ 31,476</u>	<u>₩ 5,231</u>	<u>₩ 4,581</u>	<u>₩ 14</u>	<u>₩ 4,427</u>	<u>₩ 36,847</u>

(\*) Goodwill is incurred in the acquisition of Hanwha stores and Home mart.

< For the year ended December 31, 2004 >

Description	Korean won (In millions)					
	Beginning of year	Acquisition	Transfer	Disposal	Amortization	End of year
Goodwill (*)	₩ -	₩ 14,153	₩ -	₩ -	₩ 1,180	₩ 12,973
Industrial property rights	126	118	-	-	61	183
Rights to use a water supply facility	1,570	-	270	-	175	1,665
Rights to use a electricity supply facility	1,615	-	471	-	234	1,852
Rights to use a gas supply facility	835	-	356	-	93	1,098
Rights to use a facility	11,848	-	-	-	857	10,991
Others	917	2,247	-	-	450	2,714
	<u>₩ 16,911</u>	<u>₩ 16,518</u>	<u>₩ 1,097</u>	<u>₩ -</u>	<u>₩ 3,050</u>	<u>₩ 31,476</u>

(\*) Goodwill is incurred in the acquisition of Hanwha stores.

For the years ended December 31, 2005 and 2004, amortization of ₩ 4,427 million and ₩ 3,050 million, respectively, are recorded in selling and administrative expenses.

11. BORROWINGS:

(1) Short-term borrowings as of December 31, 2004 and 2005 are as follows:

Type	Creditor	Rate (%) 2005	Korean won		Translation into U.S. dollar (Note 2)
			2004	2005	2005
			(In millions)		(In thousands)
Bank overdraft	Chohung Bank and others	6.35-6.90	₩ 1,735	₩ 31	\$ 31
Finance notes	Woori Bank and others	3.92	20,000	69,000	68,115
General	Hana Bank and others	4.20-4.64	495,000	515,000	508,390
			₩ 516,735	₩ 584,031	\$ 576,536

(2) Long-term borrowings as of December 31, 2004 and 2005 are as follows:

Type	Lender	Rate (%) 2005	Korean won		Translation into U.S. dollar (Note 2)
			2004	2005	2005
			(In millions)		(In thousands)
Foreign currency loans	ABN AMRO Bank	Libor+0.75%	₩ 41,752	₩ -	\$ -
Foreign currency loans	Kookmin Bank	Libor+0.75%	73,066	70,910	70,000
			114,818	70,910	70,000
	Less: Current maturities		41,752	-	-
			₩ 73,066	₩ 70,910	\$ 70,000

Long-term borrowings will be redeemed in 2007.

12. DEBENTURES:

(1) The debentures as of December 31, 2004 and 2005 are as follows:

Privately	Issuance date	Maturity date	Annual interest rate (%)	Korean won		Translation into
				2004	2005	U.S. dollar (Note 2) 2005
				(In millions)		(In thousands)
34 <sup>th</sup> placed	May. 3, 2002	May. 3, 2005	6.00	₩ 200,000	₩ -	\$ -
35 <sup>th</sup> placed	Sep. 12, 2002	Sep. 12, 2005	5.00	200,000	-	-
36 <sup>th</sup> placed	Feb. 26, 2002	Feb. 26, 2006	4.00	200,000	200,000	197,433
37 <sup>th</sup> placed	Sep. 19, 2003	Sep. 19, 2006	4.00	250,000	250,000	246,792
38 <sup>th</sup> placed	Oct. 20, 2003	Oct. 20, 2006	4.00	250,000	250,000	246,792
39 <sup>th</sup> placed	Jan. 29, 2004	Jan. 29, 2007	5.00	170,000	170,000	167,818
40 <sup>th</sup> placed	Mar. 4, 2004	Mar. 4, 2007	5.00	250,000	250,000	246,792
41 <sup>st</sup> placed	Apr. 9, 2004	Apr. 9, 2008	5.00	200,000	200,000	197,433
42 <sup>nd</sup> placed	Jun. 23, 2004	Jun. 23, 2007	4.00	210,000	210,000	207,305
Debentures in foreign currency	Jun. 25, 2004	Jun. 25, 2007	0.75	31,314	30,390	30,000
44 <sup>th</sup> placed	May. 3, 2005	May. 3, 2008	3.95	-	250,000	246,792
45 <sup>th</sup> placed	Sep. 12, 2005	Sep. 12, 2008	4.71	-	100,000	98,717
				1,961,314	1,910,390	1,885,874
Less: Discount on debentures issued				(21,203)	(10,987)	(10,845)
				1,940,111	1,899,403	1,875,029
Less: Current portion of debentures, net of discount				(398,272)	(696,908)	(687,965)
				₩ 1,541,839	₩ 1,202,495	\$ 1,187,064

The debentures will be redeemed on the maturity date.

13. SHAREHOLDERS' EQUITY:

(1) Capital stock

Capital stock as of December 31, 2005 and 2004 consists of the following:

Description	Authorized	Issued	Par value	Amount (In millions)
FY 2005	60,000,000 shares	20,000,000 shares	₩ 5,000	₩ 100,000
FY 2004	40,000,000 shares	20,000,000 shares	₩ 5,000	₩ 100,000

(2) Capital surplus

Capital surplus as of December 31, 2004 and 2005 consists of the following:

	Korean won		Translation into
	2004	2005	U.S. dollar (Note 2)
	(In millions)		2005 (In thousands)
Paid-in capital in excess of par value	₩ 100,900	₩ 100,900	\$ 99,605
Gain on capital reduction	1,793	1,793	1,770
Other capital surplus	1,043,985	1,043,985	1,030,588
	₩ 1,146,678	₩ 1,146,678	\$ 1,131,963

Gains on capital reduction

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

Gains on merger

On December 31, 1994, Lotte Food Co., Ltd. and CheongBon Industry Co., Ltd. were merged with the Company, which resulted in a gain on merger of ₩1 million recorded as a capital surplus. SongGok Trading Co., Ltd. was merged with the Company on December 31, 1997, which resulted in a gain on merger of ₩15,273 million recorded as a capital surplus.

Revaluation of property, plant and equipment

The Company revalued its property, plant and equipment based on the Assets Revaluation Law of Korea as of July 1, 1998, resulting in a revaluation gain of ₩1,028,713 million, net of asset revaluation tax, transfers to capital stock and offset against foreign currency translation loss carried over from prior years.

(3) Retained earnings

Retained earnings as of December 31, 2004 and 2005 consist of the following:

Accounts	Korean won		Translation into
	2004	2005	U.S. dollar (Note 2)
	(In millions)		2005 (In thousands)
Appropriated:			
Legal reserve	₩ 15,572	₩ 16,572	\$ 16,359
Reserve for business rationalization	10,552	10,552	10,416
Reserve for improvement of financial structure	5	5	5
Reserve for corporation development	134,000	134,000	132,280
Reserve for social investment	431	80	78
Voluntary reserve	899,500	1,189,500	1,174,235
	1,060,060	1,350,709	1,333,373
Before appropriations	310,730	556,298	549,161
	₩ 1,370,790	₩ 1,907,007	\$ 1,882,534

The Korean Commercial Code requires the Company to appropriate, as a legal reserve, a minimum of 10 percent of annual cash dividends declared, until such reserve equals 50 percent of its paid-in capital. This reserve is not available for cash dividends but may be used to reduce any deficit or be transferred to capital stock. Pursuant to Korean tax laws, the Company is allowed to claim the amounts of appropriated retained earnings for financial structure improvement, corporation development and social investment as deductions in its income tax return for the current year. These reserves are not available for the payment of dividends until used for specified purposes or reversed.

(4) Capital adjustments

Capital adjustments as of December 31, 2004 and 2005 consist of the following:

	Korean won		Translation into U.S. dollar (Note 2)	
	2004	2005	2005	
	(In millions)		(In thousands)	
Gain on valuation of available-for-sale securities	₩ 17,123	₩ 30,863	\$	30,467
Gain (loss) on valuation of investments accounted for using the equity method	50,207	50,600		49,950
Gain on valuation of currency swap	3,003	706		697
	<u>₩ 70,333</u>	<u>₩ 82,169</u>	<u>\$</u>	<u>81,114</u>

14. DIVIDENDS:

Dividends and dividends to net income ratio for the years ended December 31, 2004 and 2005 are computed as follows:

	Korean won		Translation into U.S. dollar (Note 2)	
	2004	2005	2005	
	(In millions)		(In thousands)	
Outstanding shares	20,000,000 shares	20,000,000 shares	20,000,000 shares	
Par value (In Korean won)	₩ 5,000	₩ 5,000	\$	5
Capital stock	₩ 100,000	₩ 100,000	\$	98,717
Dividend rate	10%	15%		15%
Cash dividends	₩ 10,000	₩ 15,000	\$	14,808
Net income	₩ 302,482	₩ 546,217	\$	539,207
Pay-out ratio (*)	<u>3.31%</u>	<u>2.75%</u>		<u>2.75%</u>

(\*) Expected dividend divided by net income

15. ORDINARY INCOME AND NET INCOME PER SHARE:

Ordinary income and net income per share are computed by dividing ordinary income (after deduction for tax effect) and net income by the weighted average number of common shares (20,000,000 shares in 2004 and 2005) outstanding during the period. Calculations of ordinary income per share and net income per share are as follows:

	Korean won		Translation into
	2004	2005	U.S. dollars (Note 2)
	(In millions)		2005 (In thousands)
Net income	₩ 302,481	₩ 546,217	\$ 539,207
Extraordinary gain	-	-	-
Ordinary income	<u>302,481</u>	<u>546,217</u>	<u>539,207</u>
Ordinary income per share (In Korean won)	<u>15,124</u>	<u>27,311</u>	<u>26.96</u>
Net income per share (In Korean won)	<u>15,124</u>	<u>27,311</u>	<u>26.96</u>

16. PROVISION FOR MILEAGE:

The Company recognizes provision for mileage to provide free services to mileage card or credit card usage.

(1) The increase in provision for mileage for the year ended December 31, 2005 is as follows:

Description	Korean won	Translation into
	(In millions)	U.S. dollars (Note 2) (In thousands)
Beginning of year	₩ 15,654	\$ 15,453
Increase	<u>5,697</u>	<u>5,624</u>
End of year	<u>₩ 21,351</u>	<u>\$ 21,077</u>

The Company prepared its financial statement as of December 31, 2005 in accordance with SKAS No. 17, which is effective from January 1, 2005. As of December 31, 2004, provision for mileage of the Company amounting ₩15,654 million was included in accrued expenses.

17. REVENUE FROM SALE OF APARTMENTS:

(1) The Company sold 400 household apartments and 40 studio-apartments in lots, which are located in Sincheon-Dong, Songpa-Gu and constructed by Lotte Construction Co., Ltd. Also, the Company has completed the construction on November 22, 2005.

(2) Accumulated construction costs and accumulated sales recognized are as follows (Korean won in millions):

<u>Accumulated sales recognized</u>	<u>Accumulated construction costs</u>	<u>Accumulated losses</u>
₩ 355,848	₩ 379,897	₩ 24,049

(3) The Company accounted for account receivables on sales apartment of ₩ 83,114 million and ₩ 5,878 million as of December 31, 2005 and 2004, respectively.

- (4) The Company reversed provision for construction losses amounting to ₩ 6,162 million as of December 31, 2004 due to completion of construction and accounted the reversed provision for construction losses as deduction in the cost of sales.
- (5) The Company assumes liabilities for possible defectiveness in association with Lotte Construction Co., Ltd.

18. FOREIGN CURRENCY DENOMINATED LIABILITIES:

The following is a summary of the assets and liabilities denominated in foreign currencies as of December 31, 2004 and 2005:

Accounts	2004		2005	
	Foreign currencies (In thousands)	Korean won (In millions)	Foreign currencies (In thousands)	Korean won (In millions)
<b>Assets:</b>				
Cash and cash equivalents	USD 50	₩ 52	USD 620	₩ 628
	JPY 1,549	16		-
		<u>₩ 68</u>		<u>₩ 628</u>
<b>Liabilities:</b>				
Trade account payable	-	-	USD 249	₩ 254
Current portion of long-term borrowings	USD 40,000	₩ 41,752	-	-
Long-term borrowings	USD 70,000	73,066	USD 70,000	70,910
Debentures	USD 30,000	31,314	USD 30,000	30,390
		<u>₩ 146,132</u>		<u>₩ 101,554</u>

19. DERIVATIVES:

- (1) The Company entered into currency derivative instrument contract with Standard Chartered Bank and Kookmin Bank related to swap to hedge the exposure to changes in foreign exchange and interest rate risks of long-term borrowings (USD 70,000 thousand) and debentures (USD 30,000 thousand) from Kookmin Bank as of December 31, 2005. Contract terms of derivative financial instruments are as follows:

Contract Amount	Foreign exchange rate	Variable interest rate	Fixed interest rate	Maturity date	Bank
(As of December 31, 2005)					
USD 50,000 thousand	1,186.7	3LIBOR+0.75%	4.66%	2007.6.25	Kokmin Bank
USD 50,000 thousand	1,186.7	3LIBOR+0.75%	4.66%	2007.6.25	SCB
(As of December 31, 2004)					
USD 50,000 thousand	1,186.7	3LIBOR+0.75%	4.66%	2007.6.25	Kokmin Bank
USD 50,000 thousand	1,186.7	3LIBOR+0.75%	4.66%	2007.6.25	SCB
USD 40,000 thousand	1,193.9	6LIBOR+0.75%	4.49%	2005.6.27	ABN MRO

The Company accounted for the loss on valuation of currency swap of ₩ 3,080 million and ₩ 20,450 million regarding the changes of the exchange rate in non-operating expenses for the year ended December 31, 2005 and 2004, respectively.



- (2) Also, the Company entered into currency derivative instrument contact with ABN AMRO Bank in 2003, but has been terminated. As a result, the Company accounted for the loss on transaction of currency swap of ₩1,256 million for the year ended December 31, 2005.
- (3) The expected maximum period in which the Company is exposed in the fluctuation of cash flow is within 18 months from balance sheet date.

20. INCOME TAX EXPENSE AND DEFERRED INCOME TAX ASSETS (LIABILITIES):

- (1) Income tax expense for the years ended December 31, 2004 and 2005 is computed as follows:

	Korean won		Translation into
	2004	2005	U.S. dollar (Note 2)
	(In millions)		2005
			(In thousands)
Income tax currently payable	₩ 109,753	₩ 148,249	\$ 146,347
Changes in deferred income taxes due to:			
Temporary differences	2,032	65,480	64,639
Addition to shareholders' equity	-	(31,167)	(30,767)
Income tax expense	<u>₩ 111,785</u>	<u>₩ 182,562</u>	<u>\$ 180,219</u>

- (2) Tax reconciling items between pre-tax accounting income and taxable income for the years ended December 31, 2004 and 2005 are as follows:

	Korean won		Translation into
	2004	2005	U.S. dollar (Note 2)
	(In millions)		2005
			(In thousands)
Income before income tax	₩ 414,267	₩ 728,779	\$ 719,426
Changes in deferred income taxes due to:			
Permanent differences	(279)	115,194	113,716
Temporary differences	(6,749)	(260,658)	(257,224)
Taxable income	<u>₩ 407,239</u>	<u>₩ 583,315</u>	<u>\$ 575,918</u>

- (3) The changes in accumulated temporary differences for the years ended December 31, 2004 and 2005, and deferred income tax assets (liabilities) as of December 31, 2005 are computed as follows:

	Korean won		Translation into
	2004	2005	U.S. dollar (Note 2)
	(In millions)		2005 (In thousands)
Beginning of the year, net	₩ (752,482)	₩ (759,231)	\$ (749,488)
Changes in the current year, net	(6,749)	(260,658)	(257,224)
End of the year, net	(759,231)	(1,019,889)	(1,006,712)
Exclusion from temporary differences due to uncertainty of realization (*)	728,988	728,988	719,633
	<u>(30,243)</u>	<u>(290,901)</u>	<u>(287,079)</u>
Statutory tax rate(**)	27.5%	27.5%	27.5%
Deferred income tax liabilities, net (**)	₩ <u>(8,317)</u>	₩ <u>(73,797)</u>	\$ <u>(72,850)</u>

- (\*) The Company did not recognize deferred income tax liabilities related to the gain of revaluation of land since there is no plan to dispose the land in the near future.

- (\*\*) Deferred tax assets are recognized only when it is probable the tax benefits from temporary differences will be realized in the future and calculated using the expected tax rate (27.5%) in the period when the tax benefits will be realized.

- (4) Deferred income tax assets (liabilities) were recorded as current assets amounting to ₩ 8,335 million and non-current liabilities amounting to ₩ 82,132 million in the balance sheets.

- (5) The Company prepared its financial statements as of December 31, 2005 in accordance with SKAS No. 16, which is effective from January 1, 2005. SKAS No.16 requires the temporary difference relating to items in equity, which will result in taxable and deductible amounts in future years to be directly charged to the related equity items. This accounting change has no effect on net income. As of December 31, 2005, significant balances related to the tax effects are as follows:

Description	Korea won			Translation into
	Before tax effect	Tax effect	Book value	U.S. dollars (Note 2)
	(In millions)			(In thousands)
Gain on valuation of available-for-sale securities	₩ 42,569	₩ (11,706)	₩ 30,863	\$ 30,467
Gain on valuation of investments securities accounted for using the equity method	71,207	(19,582)	51,625	50,962
Loss on valuation of investment securities accounted for using the equity method	(1,414)	389	(1,025)	(1,012)
Loss on valuation of currency swap	974	(268)	706	697
	<u>₩ 113,336</u>	<u>₩ (31,167)</u>	<u>₩ 82,169</u>	<u>\$ 81,114</u>

(6) The Company's effective tax rate is 25.05% and 26.98% for the years ended December 31, 2005 and 2004, respectively.

21. RELATED PARTY TRANSACTIONS:

(1) For the years ended December 31, 2004 and 2005, significant transactions with related parties are as follows:

a. Revenue transactions

Company	Korean won		Translation into
	2004	2005	U.S. dollar (Note 2)
	(In millions)		2005
			(In thousands)
Lotte Confectionery Co.,	₩ 22,679	₩ 22,499	\$ 22,210
Hotel Lotte Co., Ltd.	11,599	10,775	10,636
Lotte Station Bldg. Co., Ltd.	10,798	12,960	12,794
Lotte Midopa Co., Ltd.	4,280	5,004	4,939
Lotte Chilsung Beverage Co., Ltd.	8,600	7,077	6,986
Lotte Samkang Co., Ltd.	6,775	6,754	6,667
Lotteria Co., Ltd.	5,749	5,283	5,216
Hotel Lotte Pusan Co., Ltd.	3,396	3,258	3,216
Lotte Ham & Milk Co., Ltd.	3,356	3,923	3,873
Lotte.Com Inc.	20	38	38
Others	9,216	14,804	14,614
	<u>₩ 86,468</u>	<u>₩ 92,375</u>	<u>\$ 91,189</u>

b. Expense transactions

Company	Korean won		Translation into
	2004	2005	U.S. dollar (Note 2)
	(In millions)		2005
			(In thousands)
Lotte Construction Co., Ltd.	₩ 327,615	₩ 499,640	\$ 493,228
Lotte Trading Co., Ltd.	74,130	123,140	121,560
Lotte Data Communication Company	66,389	42,102	41,561
Hotel Lotte Co., Ltd.	56,952	59,542	58,778
Lotte Confectionery Co., Ltd.	32,897	43,039	42,487
Lotte Ham & Milk Co., Ltd.	32,499	41,569	41,035
Daehong Communications Inc.	32,038	26,571	26,230
Lotte Midopa Co., Ltd.	1,320	5,761	5,687
Lotte Chilsung Beverage Co., Ltd.	17,279	21,350	21,076
Lotte Aluminum Co., Ltd.	15,011	14,127	13,946
Hotel Lotte Pusan Co., Ltd.	9,215	10,073	9,943
Lotte.Com Inc.	7,826	13,825	13,647
Lotte Eng. & Machinery Mfg. Co., Ltd.	2,850	2,579	2,546
Lotte Card Co., Ltd.	79,679	94,506	93,294
Others	53,110	65,993	65,146
	<u>₩ 808,810</u>	<u>₩ 1,063,817</u>	<u>\$ 1,050,164</u>

(2) As of December 31, 2004 and 2005, significant balances related to the transactions are as follows:

Company	Korean won				Translation into U.S. dollar (Note 2)	
	2004		2005		2005	
	Receivables	Payables	Receivables	Payables	Receivables	Payables
	(In millions)				(In thousands)	
Lotte Construction Co., Ltd.	₩ 1,137	₩ 90,870	₩ 1,131	₩ 54,732	\$ 1,117	\$ 54,030
Hotel Lotte Co., Ltd.	21,232	10,133	20,975	12,985	20,706	12,818
Lotte Station Bldg. Co., Ltd.	15,312	3,859	20,403	8,279	20,142	8,172
Lotte Midopa Co., Ltd.	22,430	1,443	25,831	6,164	25,499	6,085
Lotte Chilsung Beverage Co., Ltd.	2,644	1,611	2,411	2,092	2,381	2,066
Lotte Ham & Milk Co., Ltd.	1,057	3,297	1,228	3,914	1,213	3,864
Lotte Data Communication Company	3,093	12,591	292	8,110	288	8,006
Lotte Confectionery Co., Ltd.	6,889	4,137	6,439	6,388	6,356	6,306
Hotel Lotte Pusan Co., Ltd.	73	1,102	33	1,235	33	1,219
Daehong Communications Inc.	66	13,064	154	13,660	152	13,485
Lotteria Co., Ltd.	787	5,926	567	7,120	560	7,029
Lotte Card Co., Ltd.	70,572	9,722	42,353	33,897	41,810	33,462
Others	5,209	17,391	11,757	24,306	11,606	23,994
	<u>₩ 150,501</u>	<u>₩ 175,146</u>	<u>₩ 133,574</u>	<u>₩ 182,882</u>	<u>\$ 131,863</u>	<u>\$ 180,536</u>

## 22. COMMITMENTS AND CONTINGENCIES:

(1) As of December 31, 2005, the Company's contract with financial institution are as follows:

Limit		Korean won		Translation into U.S. dollar (Note 2)	
		2005		2005	
		(In millions of Korean won, In thousands of US\$)		(In thousands)	
Over drafts	Chohung Bank and others	₩	70,000	\$	69,102
Buyer's credit	Chohung Bank and others	₩	1,230,000		1,214,215
General loan	Chohung Bank and others	₩	250,000		246,792
L/C	Chohung Bank and others	\$	10,500		10,500
		₩	1,550,000		
		\$	<u>10,500</u>	\$	<u>1,540,609</u>

(2) One blank note and one blank check are pledged as collateral for note and lease transaction and other. Also, the Company is guaranteed for fulfilment of a contract amounting to ₩ 22,783 million from Seoul Guarantee Insurance.

(3) The Company has entered into a contract with Lotte Midopa and Lotte Station Building Co., Ltd. for providing management service until 2005 and 2006, respectively. The Company receives annual management fee equivalent to 10 percent of ordinary income before deduction of depreciation charges.

- (4) On July 16, 2003, the Company entered into a contract with Lotte Midopa Co., Ltd. for the lease of Young Plaza, which is located in Namdaemun Street, Jung-gu, until October 31, 2023 and accounted guarantee deposits amounting to ₩17,500 million. Also, the Company has paid monthly rent of ₩346 million to Lotte Midopa Co., Ltd.
- (5) The Company was investigated for tax affairs by the National Tax Service and can not predict reasonably the effect on the financial statements as of the auditor's report date.

23. PENDING LITIGATIONS:

As of December 31, 2005, the Company is the plaintiff in 12 lawsuits claiming for damages of ₩32,642 million and the defendant in 17 lawsuits claiming for damages of ₩4,863 million. Management believes that the ultimate resolution of these litigations will not have a material adverse effect on the financial position or operations of the Company; accordingly, the Company has not accrued any liability for possible losses in the accompanying financial statements.

24. CONDENSED FINANCIAL INFORMATION FOR THE FOURTH QUARTER PERIOD:

Non-audited condensed financial information for the fourth quarter periods ended December 31, 2005 and 2004 is as follows:

	<u>Korean won (In millions except EPS)</u>	
	<u>2005</u>	<u>2004</u>
Sales	₩ 2,448,522	₩ 2,064,603
Net income	178,813	76,572
Earnings per share (EPS)	8,941	3,829

25. ACQUISITION OF DIVISION:

- (1) On January 10, 2005, the Company took over 2 supermarkets from Home Mart Co., Ltd. to enhance the efficiency and competitiveness of the Supermarket division. The condensed financial information for the acquisition is as follows:

<u>Description</u>	<u>Korean won</u> (In millions)	<u>Translation into</u> <u>U.S. dollar (Note 2)</u> (In thousands)
Current assets	₩ 4,792	\$ 4,731
Non-current assets	1,600	1,579
Total assets	<u>6,392</u>	<u>6,310</u>
Current liabilities	-	-
Non-current liabilities	-	-
Total liabilities	<u>-</u>	<u>-</u>
Net equity value	6,392	6,310
Acquisition cost	10,145	10,015
Goodwill	<u>₩ 3,753</u>	<u>₩ 3,705</u>

(2) On March 12, 2004, the Company took over 25 supermarkets and 1 logistics center from Hanwha Stores Co., Ltd. to enhance the efficiency and competitiveness of the Supermarket division. The condensed financial information for the acquisition is as follows:

Description	Korean won		Translation into U.S. dollar (Note 2)	
	(In millions)		(In thousands)	
Current assets	₩	4,303	\$	4,145
Non-current assets		140,078		134,950
Total assets		144,381		139,095
Current liabilities		319		307
Non-current liabilities		2,709		2,610
Total liabilities		3,028		2,917
Net equity value		141,353		136,178
Acquisition cost		155,506		149,813
Goodwill	₩	14,153	\$	13,635

26. INFORMATION PERTAINING TO BUSINESS SEGMENT:

(1) The Company's major business divisions consist of retail, construction, foods manufacturing, cinema service, and supermarket.

(2) Financial information by business segment as of and for the years ended December 31, 2005 and 2004 is summarized as follows:

<December 31, 2005>

	Korean won			
	Sales	Operating	Tangible and	Depreciation
		income	intangible assets	
(In millions)				
Department stores	₩ 5,192,004	₩ 597,550	₩ 3,380,413	₩ 113,573
Discount stores	2,903,087	90,180	1,723,100	84,111
Others	512,013	1,090	275,916	32,584
Total	₩ 8,607,104	₩ 688,820	₩ 5,379,429	₩ 230,268

	Translation into U.S. dollar (Note 2)			
	Sales	Operating	Tangible and	Depreciation
		income	intangible assets	
(In millions)				
Department stores	\$ 5,125,374	\$ 589,881	\$ 3,337,031	\$ 112,115
Discount stores	2,865,831	89,023	1,700,987	83,032
Others	505,443	1,076	272,375	32,166
Total	\$ 8,496,648	\$ 679,980	\$ 5,310,393	\$ 227,313

<December 31, 2004>

Korean Won				
	Sales	Operating income	Tangible and intangible assets	Depreciation
(In millions)				
Department stores	₩ 4,894,896	₩ 508,182	₩ 3,275,727	₩ 115,897
Discount stores	2,328,753	30,103	1,416,584	60,976
Others	404,268	7,028	236,594	24,081
Total	<u>₩ 7,627,917</u>	<u>₩ 545,313</u>	<u>₩ 4,928,905</u>	<u>₩ 200,954</u>

Translation into U.S. dollar (Note 2)				
	Sales	Operating income	Tangible and intangible assets	Depreciation
(In millions)				
Department stores	\$ 4,832,079	\$ 501,660	\$ 3,233,689	\$ 114,410
Discount stores	2,298,868	29,717	1,398,405	60,193
Others	399,080	6,938	233,558	23,772
Total	<u>\$ 7,530,027</u>	<u>\$ 538,315</u>	<u>\$ 4,865,652</u>	<u>\$ 198,375</u>

27. GAIN (LOSS) ON PRIOR PERIOD ERROR CORRECTIONS:

The Company has applied equity method to investment securities of Lotte Eng. & Machinery Mfg. Co., Ltd., L&L Limited., Lotte Trading Co., Ltd., Lotte Aluminum Co., Ltd. and Lotteria Co., Ltd., which were previously classified as available for sale securities. The Company recognized effect on gain/loss of prior period as gain/loss on prior period error corrections.

Description	Cause of adjustment	Korean won	Translation into U. S. dollar (Note 2)
		2005	2005
		(In millions)	(In thousands)
Gain on prior period error corrections	Error on equity method	₩ 11,417	\$ 11,270
Loss on prior period error corrections	"	(1,066)	(1,052)
Total		<u>₩ 10,351</u>	<u>\$ 10,218</u>

28. EVENTS SUBSEQUENT TO BALANCE SHEET DATE:

The Company issued 1,714,286 shares (the issue price per share: ₩ 400,000, total issue amount: ₩ 685,714 million) through the Korea Stock Exchange on February 9, 2006, and issued 6,857,143 shares in the London Stock Exchange on February 8, 2006 as a form of Global Depository Shares ("GDS") at the same time. The Company vests the authority of surplus allocation option of additional underwriting of 1,028,571 shares (15% of shares listed in London Stock Exchange) to the overseas underwriters.

29. SALES AND COST OF SALES:

Details of sales and cost of sales for the years ended December 31, 2004 and 2005 are as follows:

Subsidiaries	Korean won		Translation into
	2004	2005	U.S. dollar (Note 2)
	(In millions)		2005 (In thousands)
<b>SALES</b>			
Total sales:			
Sales of merchandise	₩ 7,162,547	₩ 8,023,179	\$ 7,920,217
Specific sales	284,087	291,435	287,695
Sales of products	21,874	32,060	31,649
Sales of apartment	78,646	166,838	164,697
Ancillary property operating revenue	94,285	93,648	92,446
Other operating revenue	318,179	356,079	351,509
Deduction:			
Cost of specific sales	225,333	230,458	227,501
Sales allowance	<u>106,368</u>	<u>125,677</u>	<u>124,064</u>
	<u>7,627,917</u>	<u>8,607,104</u>	<u>8,496,648</u>
<b>COST OF SALES</b>			
Cost of merchandise sold:			
Beginning inventory of merchandise	97,169	824,322	813,744
Purchases of merchandise for the period	6,082,487	5,896,027	5,820,362
Transfer to other accounts	12	5	5
Ending inventory of merchandise	<u>824,322</u>	<u>777,378</u>	<u>767,402</u>
	<u>5,355,322</u>	<u>5,942,966</u>	<u>5,866,699</u>
Cost of products sold:			
Beginning inventory of products	723	883	871
Cost of products manufactured for the period	20,480	26,148	25,813
Transfer to other accounts	6	14	14
Ending inventory of products	<u>883</u>	<u>1,694</u>	<u>1,672</u>
	<u>20,314</u>	<u>25,323</u>	<u>24,998</u>
Cost from sales of apartment	<u>79,554</u>	<u>175,164</u>	<u>172,916</u>
Ancillary property operating costs	<u>45,129</u>	<u>45,803</u>	<u>45,215</u>
	<u>5,500,319</u>	<u>6,189,256</u>	<u>6,109,828</u>
<b>GROSS PROFIT</b>	<u>₩ 2,127,598</u>	<u>₩ 2,417,848</u>	<u>\$ 2,386,820</u>



30. SELLING AND ADMINISTRATIVE EXPENSES:

Details of selling and administrative expenses for the years ended December 31, 2004 and 2005 are as follows:

	Korean won		Translation into U. S. dollar (Note 2)	
	2004	2005	2005	
	(In millions)		(In thousands)	
Salaries and wages	₩ 290,855	₩ 330,561	\$	326,319
Provision for severance indemnities	28,783	28,688		28,320
Provision for doubtful accounts	963	182		180
Rent	72,731	81,529		80,483
Taxes and dues	59,226	68,274		67,398
Fringe benefits	47,718	52,135		51,466
Utilities	76,850	86,144		85,039
Service fees	177,611	206,918		204,262
Commissions and fees	154,531	188,729		186,307
Advertisements	135,351	128,769		127,117
Marketing and promotion	248,532	230,694		227,734
Maintenance fees	20,292	17,023		16,804
Depreciation	195,764	222,479		219,623
Amortization of intangible assets	3,050	4,427		4,370
Supplies	25,028	28,438		28,073
Others	45,000	54,038		53,334
Total	₩ 1,582,285	₩ 1,729,028	\$	1,706,839

## Internal Accounting Control System Review Report

English Translation of a Report Originally Issued in Korean

To Chief Executive Officer of  
Lotte Shopping Co., Ltd

We have reviewed the report of management's assessment of Lotte Shopping Co., Ltd (the "Company") internal accounting control system ("IACS") as of December 31, 2005. In accordance with Article 2-2 of the External Audit Law for Stock Companies (the "External Audit Law") of the Republic of Korea, the Company's management is responsible for assessing the design and operating effectiveness of its IACS. Our responsibility is to review management's assessment and issue a report based on our review.

We conducted our review in accordance with Article 2-3 of the External Audit Law and our review included inquiries of management and employees, inspection of related documents and examination of the operating effectiveness of the Company's IACS. We did not perform an audit of the Company's IACS and accordingly, we do not express an audit opinion.

As this report is based on Interim Guidelines on Auditors' Review and Report on Management's Assessment of IACS, issued by the Korean Audit Standard Committee on March 29, 2005, it applies only up to that period until the date the Final Standards for Management's Assessment of IACS and Final Standards for Auditors' Review and Report on Management Assessment of IACS becomes effective. A review performed based on the final standards may have different results and accordingly, the content of our report may be different.

Based on our review, no material weakness in the design and operating effectiveness of the Company's IACS under Article 2-2 of the External Audit Law as of December 31, 2005 has come to our attention.

This report applies to the Company's IACS in existence as of December 31, 2005 and we did not review the Company's IACS subsequent to December 31, 2005. This report has been prepared for Korean regulatory purposes, pursuant to the External Audit Law, and may not be appropriate for other purposes or for other users.

  
February 15, 2006

### Notice to Readers

This report is annexed in relation to the audit of the financial statements as of December 31, 2005 and the review of internal accounting control system pursuant to Article 2-3 of the Act on External Audit for Stock Companies of the Republic of Korea.

Audit • Tax • Consulting • Financial Advisory.

Member of  
Deloitte Touche Tohmatsu