

**LOTTE SHOPPING CO., LTD.**

Non-Consolidated Financial Statements

December 31, 2006

(With Independent Auditors' Report Thereon)

## **Independent Auditors' Report**

Based on a report originally issued in Korean

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

We have audited the accompanying non-consolidated balance sheet of Lotte Shopping Co., Ltd. (the "Company") as of December 31, 2006, and the related non-consolidated statements of income, appropriation of retained earnings and cash flows for the year then ended. These non-consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these non-consolidated financial statements based on our audit. The accompanying non-consolidated financial statements of the Company as of December 31, 2005, were audited by other auditors, whose report thereon dated February 15, 2006, expressed an unqualified opinion on those statements.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the non-consolidated financial statements referred to above present fairly, in all material respects, the financial position of Lotte Shopping Co., Ltd. as of December 31, 2006, and the results of its operations, the appropriation of its retained earnings, and its cash flows for the year then ended in conformity with accounting principles generally accepted in the Republic of Korea.

The accompanying non-consolidated financial statements as of and for the year ended December 31, 2006 have been translated into United States dollars solely for the convenience of the reader. We have audited the translation and, in our opinion, the non-consolidated financial statements expressed in Korean Won have been translated into dollars on the basis set forth in note 2 to the non-consolidated financial statements.

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

As discussed in note 1(b) to the non-consolidated financial statements, accounting principles and auditing standards and their application in practice vary among countries. The accompanying non-consolidated financial statements are not intended to present the financial position, results of operations 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 non-consolidated financial statements are for use by those knowledgeable in Korean accounting principles and auditing standards and their application in practice.

As discussed in note 1(a) to the non-consolidated financial statements, the Company was listed on the Korea Exchange and London Stock Exchange in February 2006.

As discussed in note 35 to the non-consolidated financial statements, on August 2, 2006 the board of directors of the Company passed a resolution to acquire an additional 49.8 percent equity interest (3,982,796 shares) in Woori Home Shopping & Television, in which the Company already owned a 3.25 percent interest. The decision was made to enter on the television home-shopping business by the acquisition of a home-shopping network in Korea. For this acquisition the Company paid ₩124 billion in advance. The acquisition was approved by the Korean Fair Trade Commission on November 29, 2006 and by the Korean Broadcasting Commission on December 27, 2006, after which the Company paid the balance of ₩293 billion on January 2, 2007. The Company presently holds a 50.58 percent interest (4,406,796 shares) and intends to purchase an additional 2.45 percent interest (196,000 shares) subsequently.

KPMG Samjong Accounting Corp.  
Seoul, Korea  
February 14, 2007

This report is effective as of February 14, 2007, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying non-consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

LOTTE SHOPPING CO., LTD.

**Notes to Non-Consolidated Financial Statements**

December 31, 2006 and 2005

(1) Summary of Significant Accounting Policies and Basis of Presenting Financial Statements

(a) Organization and Description of Business

Lotte Shopping Co., Ltd. (the "Company") was established on July 2, 1970 in the Republic of Korea to engage in retail operations through department stores, discount stores and supermarkets. In addition to the retail operations, the Company's businesses include, among other things, a chain of multiplex movie theaters operating under the brand name Lotte Cinema, and a food manufacturing division. The Company was listed on the Korea Exchange and London Stock Exchange through an initial public offering in February 2006.

The stockholders of the Company as of December 31, 2006 are as follows:

<u>Stockholder</u>	<u>Number of shares</u>	<u>Ownership (%)</u>
Shin Dong Bin	4,237,627	14.6%
Shin Dong Ju	4,235,883	14.6%
Shin Kyuk Ho	353,577	1.2%
Shin Young Ja	226,962	0.8%
Hotel Lotte Co., Ltd.	2,697,201	9.3%
Korea Fuji Film Co., Ltd.	2,474,543	8.5%
Lotte Confectionery Co., Ltd.	2,474,543	8.5%
Lotte Data Communication Company	1,515,653	5.2%
Lotte Chilsung Beverage Co., Ltd.	1,237,272	4.3%
Lotte Engineering & Construction Co., Ltd.	300,019	1.0%
Hotel Lotte Pusan Co., Ltd.	246,720	0.8%
Others	9,043,374	31.2%
Total	<u>29,043,374</u>	<u>100.0%</u>

(b) Basis of Presenting Financial Statements

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

## LOTTE SHOPPING CO., LTD.

**Notes to Non-Consolidated Financial Statements, Continued**

December 31, 2006 and 2005

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

The accompanying non-consolidated financial statements include only the accounts of the Company, and do not consolidate the accounts of any of its subsidiaries. Instead, these subsidiaries are accounted for under the equity method of accounting (note 5).

Effective January 1, 2006, the Company adopted Statements of Korea Accounting Standards ("SKAS") No. 18 (*Joint Venture Investments*), No. 19 (*Leases*), and No. 20 (*Related Party Disclosures*). Except for the additional disclosures required by SKAS No. 20, the adoption of these standards did not have any impact on the accompanying non-consolidated financial statements.

(c) Revenue Recognition

The Company recognizes revenue from the sale of goods when the goods are delivered. Revenues from the sale of apartments in lots are recognized using the percentage-of-completion method, measured principally by the percentage of costs incurred to total estimated contract costs. Revenue other than the sale of goods and apartments in lots is recognized when the Company's revenue-earning activities have been substantially completed, the amount of revenue can be measured reliably, and it is probable that the economic benefits associated with the transaction will flow to the Company.

According to SKAS No. 4, *Revenue Recognition*, 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, on a gross basis and records relevant inventories and accounts payable in the accompanying non-consolidated balance sheet.

The Company recognizes sales of conditionally supplied merchandise which can be returned at any time on a net basis, after deducting the cost of such merchandise, which is not included in cost of sales.

(d) Allowance for Doubtful Accounts

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

## LOTTE SHOPPING CO., LTD.

**Notes to Non-Consolidated Financial Statements, Continued**

December 31, 2006 and 2005

(1) Summary of Significant Accounting Policies and Basis of Presenting Financial Statements, Continued(e) Inventories

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

	<u>Retail business segment</u>	<u>Food and Sale of apartments business segment</u>
Merchandise and finished goods	Retail method	Gross average method
Materials-in-transit	Specific identification method	Specific identification method
Others	First-in, first-out method	Gross average method

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

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

(f) Investments in Securities(i) Classification of Securities

At acquisition, the Company classifies securities into one of the three categories; trading, held-to-maturity or available-for-sale and such determination is reassessed at each balance sheet date. 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.

## LOTTE SHOPPING CO., LTD.

**Notes to Non-Consolidated Financial Statements, Continued**

December 31, 2006 and 2005

(1) Summary of Significant Accounting Policies and Basis of Presenting Financial Statements, Continued(f) Investments in Securities, Continued(ii) 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.

## LOTTE SHOPPING CO., LTD.

**Notes to Non-Consolidated Financial Statements, Continued**

December 31, 2006 and 2005

(1) Summary of Significant Accounting Policies and Basis of Presenting Financial Statements, Continued(f) Investments in Securities, Continued

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.

(g) Investment Securities under the Equity Method of Accounting

Investments in affiliated companies of which the Company owns 20% or more of the voting stock or over which the Company has significant management control are stated at an amount as determined using the equity method. Under the equity method of accounting, the Company's initial investment is recognized at cost and is subsequently increased or decreased to reflect the changes in Company's share of the net assets of investee. The Company's share of the profit or loss of the investee is recognized in the Company's profit or loss and other changes in the investee's equity are recognized directly in the corresponding equity account of the Company. If the Company holds other investments such as preferred stock or loans issued by the investee, the Company's share of loss of the investee continues to be recorded until such other investments are reduced to zero.

Any excess in the Company's acquisition cost over the Company's share of the net fair value of the investee's identifiable net assets is considered as goodwill and amortized by the straight-line method over the estimated useful life. The amortization of such goodwill is recorded against the equity in income (losses) of affiliates. When events or circumstances indicate that carrying amount may not be recoverable, the Company reviews goodwill for any impairment.

Assets and liabilities of foreign-based companies accounted for using the equity method are translated at current rate of exchange at the balance sheet date while profit and loss items in the statement of income are translated at average rate and capital account at historical rate. The translation gains and losses arising from collective translation of the foreign currency financial statements of foreign-based companies are offset and the balance is accumulated as capital adjustment.

The Company holds other investments such as preferred stock or loans issued by the investee, the Company's share of loss of the investee continue to be recorded until such other investments are reduced to zero.

Under the equity method of accounting, unrealized gains and losses on transactions with an investee are eliminated to the extent of the investor's interest in the investee.

Investments in affiliated companies are reduced when dividends are declared by shareholders' meeting of the respective affiliated companies.

## LOTTE SHOPPING CO., LTD.

**Notes to Non-Consolidated Financial Statements, Continued**

December 31, 2006 and 2005

(1) Summary of Significant Accounting Policies and Basis of Presenting Financial Statements, Continued(h) Joint Venture Investments

Prior to 2006, the Company recorded its underlying interests (assets, liabilities, revenues and expenses) in such joint ventures based on the terms of the related agreement.

Effective January 1, 2006, the Company adopted SKAS No. 18, "Interests in Joint Ventures". In respect of jointly controlled operations, the Company includes, in its non-consolidated financial statements, the assets that it controls and the liabilities and expenses it has incurred, plus its share of the income from the joint operation. For its interest in jointly controlled assets, the Company recognizes, in the non-consolidated financial statements, its share of the assets it jointly controls, the liabilities jointly incurred and net income, plus the liabilities and expenses it has solely incurred, if any. In addition, the Company accounts for its interest in a jointly controlled entity on the equity method of accounting.

As the Company's previous policy is similar to the new standard, the adoption of this standard did not have any impact on the accompanying non-consolidated financial statements.

(i) Property, Plant and Equipment

Property, plant and equipment are stated at cost, except in the case of revaluation made in accordance with the old Asset Revaluation Law on July 1, 1998. However, assets acquired through exchange, investment in kind or donation, are recorded at their fair value.

Significant additions or improvements extending useful lives of assets are capitalized. However, normal maintenance and repairs are charged to expense as incurred.

Depreciation is computed by the straight-line method for buildings, structures and machinery and by the declining-balance method for vehicles, equipment decorations and other equipment based on the useful lives of the respective assets as follows:

	<u>Useful lives (years)</u>
Buildings	10 – 30
Structures	10 – 30
Machinery	4 – 30
Vehicles	4
Decorating equipment	4
Other equipment	4

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

## LOTTE SHOPPING CO., LTD.

**Notes to Non-Consolidated Financial Statements, Continued**

December 31, 2006 and 2005

(1) Summary of Significant Accounting Policies and Basis of Presenting Financial Statements, Continued(i) Property, Plant and Equipment, Continued

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

(j) Intangible assets

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 their 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 the production cost paid to a film producing company and importing cost of a foreign film. The copyright on a film is stated at cost for the period of related revenue recognition. In addition, impairment loss on intangible assets is recognized when the realization of the revenue is uncertain.

The Company accounts for acquisitions of businesses assuming that the transaction occurs as of the closest date of the most recent quarter end (deemed acquisition date). Goodwill, which represents the excess of the acquisition cost over the fair value of net identifiable assets acquired, is amortized on a straight-line basis over the estimated useful life. The impairment loss on the 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 over 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
Copyrights	Duration of related revenue to be realized
Others	5

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

## LOTTE SHOPPING CO., LTD.

**Notes to Non-Consolidated Financial Statements, Continued**

December 31, 2006 and 2005

(1) Summary of Significant Accounting Policies and Basis of Presenting Financial Statements, Continued(k) Leases

Prior to 2006, the Company accounted for and classified its lease transactions as either an operating or capital lease, depending on the terms of the lease under Standard Accounting for Lease of Korea. When a lease was substantially noncancellable and met one or more of the criteria listed below, the present value of future minimum lease payments was reflected as an obligation under capital lease.

- Ownership of the leased property shall be transferred to the lessee at the end of the lease term without additional payment or for a contract price.
- The lease has a bargain purchase option.
- The lease term is equal to 75% or more of the estimated economic useful life of the leased property.
- The present value at the beginning of the lease term of the minimum lease payments equals or exceeds 90% of the fair value of the leased property.

Otherwise, the lease was classified as an operating lease with lease payments expensed as incurred.

Effective January 1, 2006, the Company adopted SKAS No. 19 "Leases". Under this standard, the above capital lease criteria have been amended. Specifically, the premise of substantially noncancellable lease has been removed and the criterion for a bargain purchase option has been modified to include also a reasonable certainty, at the inception of the lease, that the option will be exercised. In addition, if the leased property is specialized to the extent that only the lessee can use it without any major modification, it would be considered a capital lease. The adoption of this standard had no impact on the accompanying non-consolidated financial statements.

(l) Discount on Debentures

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

(m) Retirement and Severance Benefits

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 Company's estimated liability under the plan which would be payable if all employees left on the balance sheet date is accrued in the accompanying balance sheets. A portion of the liability is covered by an employees' severance pay insurance where the employees have a vested interest in the deposit with the insurance company. The deposit for severance benefit insurance is, therefore, reflected in the accompanying balance sheets as a deduction from the liability for retirement and severance benefits.

## LOTTE SHOPPING CO., LTD.

**Notes to Non-Consolidated Financial Statements, Continued**

December 31, 2006 and 2005

(1) Summary of Significant Accounting Policies and Basis of Presenting Financial Statements, Continued(n) Foreign Currency 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 on the balance sheet dates. The balances have been translated using the Seoul Money Brokerage Services, Ltd. Basic Rate, which was ₩929.6 and ₩1,013.0 to US\$1 on December 31, 2006 and 2005, respectively, and translation gains or losses are reflected in current operations.

(o) Derivatives

All derivative instruments are accounted for at fair value as an asset or liability according to derivative contracts. If the derivative instrument is not part of a transaction qualifying as a hedge, the adjustment to the 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 transactions 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. The unrealized gain or loss on valuation of derivative is recognized in current operations.

Cash flow hedge accounting is applied to a derivative instrument designated as hedging the exposure to changes in the cash flows of a forecasted transaction, the hedge-effective portion of the derivative's gain or loss is deferred as a capital adjustment, a component of stockholder's equity. The deferred gain or loss will be adjusted to the related asset or liability resulted from the forecasted transaction, or adjusted to income when the forecasted transaction affects income statement. The ineffective portion of the gain or loss is charged or credited to current results of operations.

(p) Provisions and Contingent Liabilities

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

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

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.

## LOTTE SHOPPING CO., LTD.

**Notes to Non-Consolidated Financial Statements, Continued**

December 31, 2006 and 2005

(1) Summary of Significant Accounting Policies and Basis of Presenting Financial Statements, Continued(p) Provisions and Contingent Liabilities, Continued

The Company also recognizes a provision for bonus cards that provide free gift or service based on the credit card usage.

(q) Liability for Gift Certificates

Gift certificates are recognized as liabilities when they are sold and as sales when they are redeemed.

(r) Income Taxes

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

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

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

The deferred taxes are recognized on the temporary differences related to unrealized gains and losses on investment securities that are reported as a separate component of capital adjustments.

(s) Prior Period Adjustments

Prior period adjustments resulting from other than fundamental errors are charged or credited to net income for the current period. The fundamental errors are defined as errors with such a significant effect on the financial statements for one or more prior periods that those financial statements can no longer be considered to have been reliable at the date of their issue. The prior period adjustments resulting from the fundamental errors are charged or credited to the beginning balance of retained earnings, and the financial statements of the prior year are restated.

(t) Ordinary and Net Income Per Share

Ordinary income per share and net income per share are computed by dividing ordinary income (after deduction for tax effect) and net income, respectively, by the weighted average number of common shares outstanding during the year.

## LOTTE SHOPPING CO., LTD.

**Notes to Non-Consolidated Financial Statements, Continued**

December 31, 2006 and 2005

(1) Summary of Significant Accounting Policies and Basis of Presenting Financial Statements, Continued(u) Use of Estimates

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

(2) Basis of Translating the Non-consolidated Financial Statements

The non-consolidated financial statements are expressed in Korean Won and, solely for the convenience of the reader, have been translated into U.S. dollars at the rate of ₩929.6 to US\$1, the basic exchange rate on December 31, 2006. This translation should not be construed as a representation that any or all of the amounts shown could be converted into U.S. dollars at this or any other rate.

(3) Restricted Deposits

Restricted deposits included in short-term and long-term financial instruments as of December 31, 2006 and 2005 are as follows:

Account	Bank	Korean Won (millions)		U.S. dollars (thousands) (note 2)
		2006	2005	2006
Short-term financial instruments:				
Guarantee deposits of contracts	Busan Bank	1,806	1,584	1,943
Long-term financial instruments:				
Guarantee deposits for checking accounts	Shinhan Bank and others	33	41	35
Total		<u>1,839</u>	<u>1,625</u>	<u>1,978</u>

In addition, short-term financial instruments are provided as collateral to Busan Metropolitan City and others for leasehold deposits in 2006 and 2005.

## LOTTE SHOPPING CO., LTD.

**Notes to Non-Consolidated Financial Statements, Continued**

December 31, 2006 and 2005

(4) Inventories

(a) Inventories as of December 31, 2006 and 2005 are as follows:

Description	Korean Won (millions)		U.S. dollars (thousands) (note 2)
	2006	2005	2006
Merchandise	906,761	777,378	975,431
Finished goods	1,867	1,694	2,008
Raw materials	2,569	2,663	2,764
Supplies	937	388	1,008
Materials-in-transit	1,310	592	1,409
Plots of land	30,418	-	32,722
Finished housing, net	-	5,824	-
Unfinished housing	2,275	-	2,447
Total	946,137	788,539	1,017,789

(b) Loss on inventory shrinkage for the year ended December 31, 2006 is ₩8,881 million.

(5) Investment in Securities

Investments in securities as of December 31, 2006 and 2005 are as follows:

(a) Available-for-sale securities

## (i) Equity securities

Description	Owned shares	Korean Won (millions)			
		2006	2005	2006	2005
		Cost	Fair value	Book value	Book value
Marketable securities (*1):					
Busan Bank (*2)	3,892,318	₩ 18,041	45,151	45,151	51,573
Shinhan Financial Group	271,662	1,584	12,904	12,904	11,152
Eyesvision Corporation	1,688	491	53	53	49
Korea Investment Corporation	25,000	100	32	32	12
Subtotal		20,216	58,140	58,140	62,786

## LOTTE SHOPPING CO., LTD.

## Notes to Non-Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(5) Investment in Securities, Continued(a) Available-for-sale securities, continued

Description	Owned shares	Korean Won (millions)		
		2006		2005
		Cost	Book value	Book value
Non-marketable securities (*3):				
Lotte Trading Co., Ltd. (formerly Lotte Industry Co., Ltd.) (*4, 5)	-	-	-	1,638
Onsetel Co., Ltd.	8,712	939	-	-
Lotte Giants (*5)	6,000	30	30	30
Herald Media Inc.	12,000	60	-	-
Hankyung Economic Daily	1,722	31	31	31
Agentrics (formerly WWRE)	4,768,731	13,729	866	866
V Bank Consulting	2,500	13	-	-
FRL Korea Co., Ltd. (*5)	-	-	-	2,940
Incheon United Football Club	400	2	-	-
Serom Sungwon	74,597	3,730	-	-
I Venture Media Investment Union	14	700	700	700
So Big 5 Contents Investment Union	18	1,800	1,800	-
Lotteshopping Luth (*5)	-	7,137	7,137	684
Korea Foods Industry Association	-	5	5	5
Woori Home Shopping & Television	260,000	28,600	28,600	-
M-ciety Development Co., Ltd	392,000	1,960	1,960	-
M-ciety Co., Ltd	2,940	15	15	-
Incheon PF	20,000	100	100	-
Lakepark AMC	14,340	72	72	-
Lotte Vietnam Shopping Co., Ltd. (*5)	-	3,749	3,749	-
Subtotal		62,672	45,065	6,894
Total		₩ 82,888	103,205	69,680

(\*1) The equity securities above are stated at fair value and the differences between acquisition cost and market value are recorded as unrealized gains on valuation of available-for-sale securities in capital adjustments.

(\*2) As of December 31, 2006, the Company has pledged 1,030,000 shares of equity securities of Busan Bank to Kyung-nam province as a performance guarantee for the construction of a large retail complex. The Company has also pledged 960,351 shares of equity securities of Busan Bank to Busan Metropolitan City as a construction performance guarantee.

(\*3) The equity securities above are stated at acquisition cost except when recoverable amount is lower than acquisition cost and an objective evidence of impairment loss exists.

## LOTTE SHOPPING CO., LTD.

**Notes to Non-Consolidated Financial Statements, Continued**

December 31, 2006 and 2005

(5) Investment in Securities, Continued(a) Available-for-sale securities, continued

(\*4) As of November 30, 2006, Lotte Trading Co., Ltd. was merged into Lotte Industry Co., Ltd., which changed its name to Lotte Trading Co., Ltd. The Company accounts for its investment in Lotte Trading Co., Ltd. using the equity method due to its significant management control.

(\*5) As described in note 1(g), Investment in affiliates in which the Company owns 20% or more of the voting stock are stated at amounts as determined using the equity method. However, if the difference between the amount evaluated using the equity method and cost is considered to be immaterial, the Company can record the investment at cost.

## (ii) Debt securities

	Korean Won (millions)		U.S. dollars (thousands) (note 2)
	2006	2005	2006
Current assets:			
Government and public bonds (note 6)	₩ 2	3	\$ 3
Non-current assets:			
Government and public bonds	12,137	8,253	13,056
Total	₩ 12,139	8,256	\$ 13,059

## (iii) Changes in unrealized holding gains (losses)

Changes in unrealized gains (losses) for the years ended December 31, 2006 and 2005 are summarized as follows:

	Korean Won (millions)		U.S. dollars (thousands) (note 2)
	2006	2005	2006
Net balance at beginning of year	₩ 30,863	17,123	\$ 33,200
Unrealized gains (losses) on valuation of securities, net of tax	(4,131)	13,740	(4,443)
Net balance at end of year	₩ 26,732	30,863	\$ 28,757

## LOTTE SHOPPING CO., LTD.

## Notes to Non-Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(5) Investment in Securities, Continued(b) Investments in affiliates

(i) Investments in affiliated companies accounted for using the equity method as of December 31, 2006 and 2005 are as follows:

Affiliate	Owned shares	Percentage of ownership	2006		
			Cost	Net asset value	Balance at December 31, 2006
Lotte Station Building Co., Ltd.	900,000	25.00%	₩ 4,500	110,429	110,429
Daehong Communications Co., Ltd.	12,000	30.00%	6,277	49,905	49,909
Lotte.Com Inc.	1,600,000	34.39%	8,000	5,324	5,400
Lotte Boulangerie Co., Ltd.	2,000,183	90.91%	10,001	7,120	7,120
Foodstar Inc.	5,582,896	39.76%	33,994	9,438	9,438
Lotte Midopa Co., Ltd. (*2)	51,475,843	79.01%	257,379	298,511	338,918
Lotte Card Co., Ltd.	69,995,159	92.54%	432,907	683,483	713,057
Lotte Capital Co., Ltd.	6,434,128	20.55%	67,573	34,325	34,325
FRL Korea Co., Ltd.	1,176,000	49.00%	5,880	5,333	5,333
Lakepark Co, Ltd.	382,400	23.90%	1,912	1,893	1,893
Nexus Media Contents Investment Union	20	20.00%	2,000	1,856	1,856
KTB Media Investment Union	15	30.00%	1,500	1,160	1,160
Isu Entertainment Investment Union	30	37.50%	3,000	2,903	2,903
Lotte RUS Ltd. (formerly L&L Ltd.) (*1)	64,457	17.69%	13,154	10,478	11,556
Lotte Engineering & Machinery Manufacturing Co., Ltd. (*1)	393,283	13.71%	2,069	11,241	11,241
Lotte Trading Co., Ltd. (formerly Lotte Industry Co., Ltd.) (*1)	53,393	8.77%	43,777	30,458	43,777
Lotte Aluminium Co., Ltd. (*1)	48,391	5.08%	23,038	27,323	33,200
Lotteria Co., Ltd. (*1)	74,000	19.94%	39,720	44,101	52,320
Total			₩ 956,681	1,335,281	1,433,835

## LOTTE SHOPPING CO., LTD.

## Notes to Non-Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(5) Investment in Securities, Continued(b) Investments in affiliates, continued

Affiliate	Owned shares	Percentage of ownership	2005		
			Cost	Net asset value	Balance at December 31, 2005
Lotte Station Building Co., Ltd.	900,000	25.00%	₩ 4,500	97,113	97,268
Daehong Communications Co., Ltd.	12,000	30.00%	6,277	38,317	38,321
Lotte.Com Inc.	1,600,000	34.39%	8,000	2,024	2,075
Lotte Boulangerie Co., Ltd.	2,000,183	90.91%	10,001	1,628	1,628
Foodstar Inc.	5,582,896	39.76%	33,994	7,452	7,453
Lotte Midopa Co., Ltd. (*2)	51,475,843	79.01%	257,379	249,706	296,823
Lotte Card Co., Ltd.	69,995,159	92.54%	432,907	530,813	565,120
Lotte Capital Co., Ltd.	6,434,128	20.55%	67,573	24,651	24,651
Nexus Media Contents Investment Union	20	20.00%	2,000	1,813	1,813
KTB Media Investment Union	15	30.00%	1,500	1,470	1,470
Isu Entertainment Investment Union	30	37.50%	3,000	3,003	3,003
L&L Ltd. (*1)	64,457	17.69%	13,155	9,799	11,042
Lotte Engineering & Machinery Manufacturing Co., Ltd. (*1)	393,283	13.71%	2,069	9,520	9,520
Lotte Trading Co., Ltd. (*1)	89,735	6.75%	343	2,146	2,146
Lotte Aluminium Co., Ltd. (*1)	48,391	5.08%	23,038	20,611	27,468
Lotteria Co., Ltd. (*1)	74,000	19.94%	39,719	36,036	45,898
Total			₩ 905,455	1,036,102	1,135,699

(\*1) The ownership percentages of Lotte Engineering & Machinery Manufacturing Co., Ltd., Lotte RUS Co., Ltd. (formerly, L&L Ltd.), Lotte Trading Co., Ltd., Lotte Aluminium Co., Ltd. and Lotteria Co., Ltd. are under 20%; however, since the Company is able to exercise significant influence over the operations, the Company applies the equity method of accounting to these investments.

(\*2) The quoted market values of Lotte Midopa Co., Ltd. based on the closing price on Korea Stock Exchange are ₩844,204 million and ₩1,449,045 million as of December 31, 2006 and 2005, respectively.

## LOTTE SHOPPING CO., LTD.

## Notes to Non-Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(5) Investment in Securities, Continued(b) Investments in affiliates, continued

(ii) Details of the difference between the acquisition cost and the Company's share of the investee's identifiable net assets as of December 31, 2006 and 2005 are as follows:

Affiliate	2006				Balance at December 31, 2006
	Korean Won (millions)				
	Beginning balance	Increase	Amortization		
Lotte Midopa Co., Ltd.	₩ 47,055	₩ -	₩ (6,725)	₩	40,331
Lotte Card Co., Ltd.	33,744	-	(4,880)	₩	28,865
Lotte RUS Ltd. (formerly L&L Ltd.)	1,243	-	(165)		1,078
Lotte Trading Co., Ltd. (formerly Lotte Industry Co., Ltd.)	-	13,319	-		13,319
Lotte Aluminium Co., Ltd.	6,857	-	(980)		5,877
Lotteria Co., Ltd.	9,863	-	(1,643)		8,217
Total	₩ 98,762	₩ 13,319	₩ (14,393)	₩	97,687

  

Affiliate	2005				Balance at December 31, 2005
	Korean Won (millions)				
	Beginning balance	Increase (decrease)	Amortization		
Lotte Midopa Co., Ltd.	₩ 53,780	₩ -	₩ (6,725)	₩	47,055
Lotte Card Co., Ltd.	38,625	-	(4,880)	₩	33,745
L&L Ltd.	-	2,595	(1,352)		1,243
Daehong Communications Co., Ltd.	-	(1,758)	1,758		-
Lotte Aluminium Co., Ltd.	-	8,087	(1,230)		6,857
Lotteria Co., Ltd.	-	16,437	(6,575)		9,862
Total	₩ 92,405	₩ 25,361	₩ (19,004)	₩	98,762

(iii) Eliminated net unrealized losses from intercompany transactions as of December 31, 2006 and 2005 are ₩867 million and ₩835 million, respectively.

## LOTTE SHOPPING CO., LTD.

## Notes to Non-Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(5) Investment in Securities, Continued(b) Investments in affiliates, continued

(iv) A rollforward of investments in affiliates using the equity method for the years ended December 31, 2006 and 2005 are as follows:

Affiliate	Percentage of ownership	2006					Balance at December 31, 2006
		Korean Won (millions)					
		Beginning balance	Adjustment to			Other	
Net income (loss)	Capital adjustment						
Lotte Station Building Co., Ltd.	25.00%	₩ 97,268	13,979	(8)	(810)	110,429	
Daehong Communications Co., Ltd.	30.00%	38,321	11,526	67	(5)	49,909	
Lotte.Com Inc.	34.39%	2,075	3,325	-	-	5,400	
Lotte Boulangerie Co., Ltd.	90.91%	1,628	(4,062)	(46)	9,600	7,120	
Foodstar Inc. (*3)	39.76%	7,453	(1,225)	-	3,210	9,438	
Lotte Midopa Co., Ltd.	79.01%	296,823	42,095	-	-	338,918	
Lotte Card Co., Ltd.	92.54%	565,120	142,574	5,363	-	713,057	
Lotte Capital Co., Ltd.	20.55%	24,651	9,674	-	-	34,325	
FRL Korea Co., Ltd.	49.00%	-	(530)	(18)	5,880	5,332	
Lakepark Co., Ltd.	23.90%	-	(19)	-	1,912	1,893	
Nexus Media Contents Investment Union	20.00%	1,813	43	-	-	1,856	
KTB Media Investment Union	30.00%	1,470	(310)	-	-	1,160	
Isu Entertainment Investment Union	37.50%	3,003	(100)	-	-	2,903	
Lotte RUS Ltd. (formerly L&L Ltd.)	17.69%	11,042	498	16	-	11,556	
Lotte Engineering & Machinery Manufacturing Co., Ltd.	13.71%	9,520	1,702	16	3	11,241	
Lotte Trading Co., Ltd. (formerly Lotte Industry Co., Ltd.) (*1,2)	8.77%	-	-	-	43,777	43,777	
Lotte Trading Co., Ltd. (*1)	6.75%	2,146	168	4	(2,318)	-	
Lotte Aluminium Co., Ltd.	5.08%	27,468	3,490	2,241	1	33,200	
Lotteria Co., Ltd.	19.94%	45,898	5,535	562	326	52,321	
Total		₩ 1,135,699	228,363	8,197	61,576	1,433,835	

(\*1) As described in note 5(a), as of November 30, 2006, Lotte Trading Co., Ltd. was merged into Lotte Industry Co., Ltd., which changed its name to Lotte Trading Co., Ltd.

(\*2) As the Company is able to exercise significant influence from December 29, 2006, the Company accounts for its investment using the equity method. Unrealized gain of ₩39,821 million on the fair-value valuation of the associate's shares held until the date on which significant influence becomes exercisable, shall be included in the current year that includes the applicable date of the equity method.

## LOTTE SHOPPING CO., LTD.

## Notes to Non-Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(5) Investment in Securities, Continued(b) Investments in affiliates, continued

Affiliate	Percentage of ownership	2005					Balance at December 31, 2005
		Korean Won (millions)					
		Beginning balance	Adjustment to			Other	
Net income (loss)	Capital adjustments						
Lotte Station Building Co., Ltd.	25.00%	₩ 83,620	14,368	-	(720)	97,268	
Daehong Communications Co., Ltd.	30.00%	23,881	4,154	8,142	2,144	38,321	
Lotte.Com Inc.	34.39%	1,437	638	-	-	2,075	
Lotte Boulangerie Co., Ltd.	90.91%	1,976	(348)	-	-	1,628	
Foodstar Inc.	39.76%	8,879	(1,426)	-	-	7,453	
Lotte Midopa Co., Ltd.	79.01%	282,001	14,822	-	-	296,823	
Lotte Card Co., Ltd.	92.54%	445,097	118,822	1,201	-	565,120	
Lotte Capital Co., Ltd.	20.55%	19,599	5,052	-	-	24,651	
Nexus Media Contents Investment Union	20.00%	2,014	(201)	-	-	1,813	
KTB Media Investment Union	30.00%	-	(30)	-	1,500	1,470	
Isu Entertainment Investment Union	37.50%	-	3	-	3,000	3,003	
L&L Ltd.	17.69%	13,154	(163)	(1,414)	(535)	11,042	
Lotte Engineering & Machinery Manufacturing Co., Ltd.	13.71%	2,069	1,381	1,793	4,277	9,520	
Lotte Trading Co., Ltd.	6.75%	343	47	(1)	1,757	2,146	
Lotte Aluminium Co., Ltd.	5.08%	23,038	523	675	3,232	27,468	
Lotteria Co., Ltd.	19.94%	39,719	(2,479)	9,189	(531)	45,898	
Total		₩ 946,827	155,163	19,585	14,124	1,135,699	

## LOTTE SHOPPING CO., LTD.

**Notes to Non-Consolidated Financial Statements, Continued**

December 31, 2006 and 2005

(5) Investment in Securities, Continued(b) Investments in affiliates, continued

(v) Summarized financial information of affiliates as of and for the year ended December 31, 2006 is as follows:

Affiliate	2006			
	Korean Won (millions)			
	Total assets	Total liabilities	Sales	Net income (loss)
Lotte Station Building Co., Ltd.	₩ 649,003	207,288	630,266	56,539
Daehong Communications Co., Ltd.	268,776	151,738	144,359	9,600
Lotte.Com Inc.	61,866	46,387	64,251	9,596
Lotte Boulangerie Co., Ltd.	36,236	28,607	33,894	(4,111)
Foodstar Inc.	95,758	72,021	10,685	2,767
Lotte Midopa Co., Ltd.	522,858	145,060	319,187	61,768
Lotte Card Co., Ltd.	3,092,301	2,353,681	697,887	160,593
Lotte Capital Co., Ltd.	1,239,998	1,072,944	131,791	36,933
FRL Korea Co., Ltd.	15,782	4,899	13,908	1,280
Lakepark Co., Ltd.	7,922	-	-	78
Nexus Media Contents Investment Union	9,282	-	423	217
KTB Media Investment Union	4,123	254	117	(1,031)
Isu Entertainment Investment Union	7,740	-	223	(268)
Lotte RUS Ltd. (formerly L&L Ltd.)	207,303	148,080	21	3,748
Lotte Engineering & Machinery Manufacturing Co., Ltd.	328,132	248,618	384,832	12,993
Lotte Trading Co., Ltd. (formerly Lotte Industry Co., Ltd.)	1,005,624	658,285	45,103	(2,512)
Lotte Aluminium Co., Ltd.	796,184	343,069	589,782	25,938
Lotteria Co., Ltd.	218,456	78,292	218,406	6,198
Total	₩ <u>8,567,344</u>	<u>5,559,223</u>	<u>3,285,135</u>	<u>380,326</u>

The Company used unaudited financial statements as of December 31, 2006 of the affiliated companies when applying the equity method of accounting.

## LOTTE SHOPPING CO., LTD.

**Notes to Non-Consolidated Financial Statements, Continued**

December 31, 2006 and 2005

(5) Investment in Securities, Continued(b) Investments in affiliates, continued

(vi) Adjustments to the net asset value of affiliates as of December 31, 2006 are as follows:

Affiliate	Korean Won (millions)		
	Before adjustment	Adjustment (*)	After adjustment
Daehong Communication Co., Ltd.	₩ 35,111	14,794	49,905
Lotte Engineering & Machinery Manufacturing Co., Ltd.	10,900	341	11,241
Lotte Aluminium Co., Ltd.	23,007	4,316	27,323
Lotteria Co., Ltd.	27,947	16,155	44,102

(\*) The Company adjusted the effect of net asset value due to direct and indirect investments among companies within the Lotte group.

(6) Other Current Assets

Other current assets as of December 31, 2006 and 2005 are as follows:

	Korean Won (millions)		U.S. dollars (thousands) (note 2)
	2006	2005	2006
Accrued interest income	₩ 8,181	326	\$ 8,801
Available-for-sale securities (note 5)	2	3	3
Short-term loans	1,386	-	1,491
Prepaid expenses	10,960	9,297	11,790
Derivative asset (note 19)	-	-	-
Current deferred income tax assets (note 27)	15,876	8,335	17,078
Total	₩ 36,405	17,961	\$ 39,163

## LOTTE SHOPPING CO., LTD.

**Notes to Non-Consolidated Financial Statements, Continued**

December 31, 2006 and 2005

(7) Joint Venture Investments

Details of joint venture investments as of December 31, 2006 are as follows:

<u>Joint venture investment</u>	<u>Ownership (%)</u>	<u>Equity holder</u>	<u>Principal business</u>
Lotte Academy	35.0%	Lotte Confectionery, etc.	Training service
Kookge Building	6.0%	Honam Petro Chemical, etc.	Building leasing services

(8) Transactions and Balances with Related Companies

(a) Details of parent and subsidiary relationships as of December 31, 2006 are as follows:

<u>Parent</u>	<u>Ownership (%)</u>	<u>Control relationship</u>
Hotel Lotte Co., Ltd.	9.3%	Included in Lotte group
Korea Fuji Film Co., Ltd.	8.5%	Included in Lotte group
Lotte Confectionery Co., Ltd.	8.5%	Included in Lotte group
Lotte Data Communication Company	5.2%	Included in Lotte group
Lotte Chilsung Beverage Co., Ltd.	4.3%	Included in Lotte group
Lotte Engineering & Construction Co., Ltd.	1.0%	Included in Lotte group
Hotel Lotte Pusan Co., Ltd.	0.8%	Included in Lotte group
<u>Controlled subsidiary (*)</u>	<u>Ownership (%)</u>	<u>Principal business</u>
Lotte Midopa Co., Ltd.	79.0%	Department stores
Lotte Boulangerie Co., Ltd.	93.3%	Bakery
Lotte.Com Inc.	34.4%	Internet shopping
Lotte Card Co., Ltd.	92.5%	Credit card and lending

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

## LOTTE SHOPPING CO., LTD.

## Notes to Non-Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(8) Transactions and Balances with Related Companies, Continued

(b) Significant transactions which occurred in the normal course of business with related companies for the years ended December 31, 2006 and 2005 are summarized as follows:

Related company	2006			
	Korean Won (millions)			
	Revenue transactions	Expense and other transactions		
	Sales and other revenue	Purchases of goods	Fees and commissions	Other
Hotel Lotte Co., Ltd.	₩ 10,493	2	61,462	253
Lotte Confectionery Co., Ltd.	24,136	46,211	434	-
Lotte Data Communication Company	688	-	43,652	9,983
Lotte Chilsung Beverage Co., Ltd.	7,579	18,335	534	-
Lotte Engineering & Construction Co., Ltd.	517	-	2,302	395,352
Hotel Lotte Pusan Co., Ltd.	9,289	-	15,140	-
Lotte Midopa Co., Ltd. (*)	7,017	92	7,288	-
Lotte.Com Inc.	237	-	21,391	172
Lotte Card Co., Ltd.	2,891	-	105,870	-
Lotte Station Building Co., Ltd. (*)	14,249	202	4,008	-
Lotte Trading Co., Ltd.	1,789	124,577	352	1,064
Daehong Communications Co., Ltd.	4,547	-	20,160	295
Lotte Aluminium Co., Ltd.	767	9,123	8,165	711
Lotte Engineering & Machinery Manufacturing Co., Ltd.	5	-	3,717	1,410
Lotteria Co., Ltd.	5,363	-	18	-
Lotte Samkang Co., Ltd.	6,443	9,872	2,509	-
Lotte Ham & Milk Co., Ltd.	6,171	43,013	670	-
Others	13,286	31,007	46,639	361
Total	₩ 115,467	282,434	344,311	409,601

## LOTTE SHOPPING CO., LTD.

## Notes to Non-Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(8) Transactions and Balances with Related Companies, Continued

Related company	2005			
	Korean Won (millions)			
	Revenue transactions	Expense and other transactions		
	Sales and other revenue	Purchases of goods	Fees and commissions	Other
Hotel Lotte Co., Ltd.	₩ 10,775	172	59,371	-
Lotte Confectionery Co., Ltd.	22,499	42,741	264	33
Lotte Data Communication Company	617	-	24,553	17,549
Lotte Chilsung Beverage Co., Ltd.	7,077	20,515	523	311
Lotte Engineering & Construction Co., Ltd.	759	-	24	499,615
Hotel Lotte Pusan Co., Ltd.	3,258	-	9,847	226
Lotte Midopa Co., Ltd. (*)	5,004	-	3,652	2,109
Lotte.Com Inc.	38	-	13,824	1
Lotte Card Co., Ltd.	1,001	-	94,506	-
Lotte Station Building Co., Ltd. (*)	12,960	-	2,023	-
Lotte Trading Co., Ltd.	1,309	121,779	136	1,225
Daehong Communications Co., Ltd.	1,582	-	26,300	272
Lotte Aluminium Co., Ltd.	505	9,487	3,368	1,271
Lotte Engineering & Machinery Manufacturing Co., Ltd.	6	-	433	2,146
Lotteria Co., Ltd.	5,283	-	26	-
Lotte Samkang Co., Ltd.	6,754	7,968	922	-
Lotte Ham & Milk Co., Ltd.	3,923	41,312	249	8
Others	9,025	17,508	37,206	341
Total	₩ 92,375	261,482	277,227	525,107

(\*) As described in note 29(c), the Company has entered into contracts with Midopa Co., Ltd. and Lotte Station Building Co., Ltd., both Lotte Group affiliated companies, to provide management services.

## LOTTE SHOPPING CO., LTD.

## Notes to Non-Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(8) Transactions and Balances with Related Companies, Continued

(c) Account balances with related companies as of December 31, 2006 and 2005 are summarized as follows:

Related company	2006					
	Korean Won (millions)					
	Receivables			Payables		
	Trade accounts receivable	Other accounts receivable	Other	Trade accounts payable	Other accounts payable	Other
Hotel Lotte Co., Ltd.	₩ 96	645	22,248	1	1,201	14,664
Lotte Confectionery Co., Ltd.	224	376	-	7,685	39	413
Lotte Data Communication Company	-	60	8,774	129	10,081	2,938
Lotte Chilsung Beverage Co., Ltd.	2,470	73	-	1,733	119	28
Lotte Engineering & Construction Co., Ltd.	117	1	410	-	130,539	-
Hotel Lotte Pusan Co., Ltd.	56	5,122	300	-	747	928
Lotte Midopa Co., Ltd.	6,040	1,688	19,674	-	3,635	382
Lotte Card Co., Ltd.	70,461	489	-	-	107,566	8,365
Lotte Station Building Co., Ltd.	11,458	5,677	4,889	-	10,074	-
Lotte Trading Co., Ltd.	-	-	-	8,863	1,447	-
Daehong Communications Co., Ltd.	-	240	-	2,011	527	8,051
Lotteria Co., Ltd.	501	40	-	-	572	6,041
Lotte Ham & Milk Co., Ltd.	789	215	-	3,795	90	230
Others	7,949	2,794	1,242	5,230	14,048	6,787
Total	₩ 100,161	17,420	57,537	29,447	280,685	48,827

## LOTTE SHOPPING CO., LTD.

## Notes to Non-Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(8) Transactions and Balances with Related Companies, Continued

Related company	2005					
	Korean Won (millions)					
	Receivables			Payables		
	Trade accounts receivable	Other accounts receivable	Other	Trade accounts payable	Other accounts payable	Other
Hotel Lotte Co., Ltd.	₩ 336	326	20,313	1	853	12,131
Lotte Confectionery Co., Ltd.	6,132	307	-	5,950	68	371
Lotte Data Communication Company	-	112	180	-	7,124	986
Lotte Chilsung Beverage Co., Ltd.	2,332	79	-	1,926	163	3
Lotte Engineering & Construction Co., Ltd.	381	-	750	-	54,732	-
Hotel Lotte Pusan Co., Ltd.	4	29	-	-	476	759
Lotte Midopa Co., Ltd.	4,133	2,075	19,623	-	5,758	406
Lotte Card Co., Ltd.	42,353	-	-	-	14,354	19,543
Lotte Station Building Co., Ltd.	10,468	5,533	4,402	-	8,278	-
Lotte Trading Co., Ltd.	9	30	-	5,543	1,464	135
Daehong Communications Co., Ltd.	-	154	-	-	7,883	5,777
Lotteria Co., Ltd.	534	33	-	-	867	6,253
Lotte Ham & Milk Co., Ltd.	1,047	182	-	3,465	102	348
Others	6,427	2,508	2,783	4,030	7,307	5,827
Total	₩ 74,156	11,368	48,051	20,915	109,430	52,539

(d) The remuneration and provision for retirement and severance benefits of directors for the year ended December 31, 2006 are ₩7,629 million and ₩2,059 million, respectively.

(9) Property, Plant and Equipment

(a) The Company revalued its land and buildings in 1998 under the then Korean Assets Revaluation Law. As a result, the Company recorded a revaluation surplus of ₩1,028,713 million, net of asset revaluation tax, transfers to capital stock and offset against foreign currency translation loss carried over from prior years.

## LOTTE SHOPPING CO., LTD.

## Notes to Non-Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(9) Property, Plant and Equipment, Continued

(b) Changes in property, plant and equipment for the years ended December 31, 2006 and 2005 are as follows:

		2006					
		Korean Won (millions)					
		Book value as of January 1, 2006	Acquisitions	Disposals	Depreciation	Transfer	Book value as of December 31, 2006
Land	₩	2,587,174	120,868	(2,452)	-	(32,316)	2,673,274
Buildings		2,293,418	14,006	(24,822)	(112,284)	310,297	2,480,615
Structures		79,996	1,746	(851)	(3,784)	40,509	117,616
Machinery		11,606	1,505	(353)	(3,961)	4,223	13,020
Vehicles		429	427	(19)	(302)	(23)	512
Furniture and equipment		18,146	1,357	(238)	(11,920)	4,211	11,556
Other		172,802	83,440	(8,064)	(133,085)	80,887	195,980
Construction- in-progress		179,011	717,174	(3,883)	-	(273,767)	618,535
Total	₩	<u>5,342,582</u>	<u>940,523</u>	<u>(40,682)</u>	<u>(265,336)</u>	<u>134,021</u>	<u>6,111,108</u>

(\*) An advance payment of ₩169,471 million was transferred to tangible assets, and tangible assets of ₩35,450 million was transferred to plots of land, expenses and intangible assets, etc.

		2005					
		Korean Won (millions)					
		Book value as of January 1, 2005	Acquisitions	Disposals	Depreciation	Transfer	Book value as of December 31, 2005
Land	₩	2,437,479	157,086	(7,727)	-	336	2,587,174
Buildings		1,970,868	51,325	(1,557)	(97,922)	370,704	2,293,418
Structures		58,028	2,366	(21)	(2,842)	22,465	79,996
Machinery		6,975	3,513	(4)	(2,511)	3,633	11,606
Vehicles		539	283	(94)	(299)	-	429
Furniture and equipment		20,065	1,626	(642)	(14,272)	11,369	18,146
Other		126,669	81,094	(1,015)	(107,995)	74,049	172,802
Construction- in-progress		276,806	386,655	-	-	(484,450)	179,011
Total	₩	<u>4,897,429</u>	<u>683,948</u>	<u>(11,060)</u>	<u>(225,841)</u>	<u>(1,894)</u>	<u>5,342,582</u>

## LOTTE SHOPPING CO., LTD.

**Notes to Non-Consolidated Financial Statements, Continued**

December 31, 2006 and 2005

(9) Property, Plant and Equipment, Continued

- (c) The officially declared value and book value of land as of December 31, 2006 are as follows:

		Korean Won (millions)	
		2006	
		Book value	Declared value
Land	₩	<u>2,673,274</u>	<u>4,012,472</u>

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

- (d) Details of coverage under major insurance policies carried by the Company as of December 31, 2006 and 2005 are as follows:

Type of insurance	Covered assets	Korean Won (millions)		U.S. dollars (thousands)
		Amount covered		(note 2)
		2006	2005	Amount covered
				2006
Burglary insurance	Cash	₩ 33,105	31,867	\$ 35,612
Fire insurance	Merchandise, buildings and tools	4,568,779	4,150,377	4,914,779
Damage insurance	Machinery and equipment	77,103	67,697	82,942
Damage insurance	Facilities and products	367,716	340,822	395,564
Directors & Officers liability insurance	-	50,000	-	53,787
Others	Other utilities	30,235	23,238	32,525
Total		₩ <u>5,126,938</u>	<u>4,614,001</u>	\$ <u>5,515,209</u>

## LOTTE SHOPPING CO., LTD.

## Notes to Non-Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(10) Intangible Assets

Changes in intangible assets for the years ended December 31, 2006 and 2005 are as follows:

		2006				
		Korean Won (millions)				
		Book value as of January 1, 2006	Acquisition	Amortization	Others	Book value as of December 31, 2006
Goodwill	₩	14,936	-	(1,791)	-	13,145
Industrial property rights		188	138	(81)	-	245
Rights to use a water supply facility		2,768	-	(375)	746	3,139
Rights to use a electricity supply facility		2,214	-	(327)	965	2,852
Rights to use a gas supply facility		1,130	3	(157)	462	1,438
Rights to use a facility		10,134	-	(857)	-	9,277
Copyrights		2,408	10,406	(11,300)	-	1,514
Others		3,069	2,931	(950)	(1,068)	3,982
<b>Total</b>	<b>₩</b>	<b>36,847</b>	<b>13,478</b>	<b>(15,838)</b>	<b>1,105</b>	<b>35,592</b>
		2005				
		Korean Won (millions)				
		Book value as of January 1, 2005	Acquisition	Amortization	Others	Book value as of December 31, 2005
Goodwill	₩	12,973	3,753	(1,790)	-	14,936
Industrial property rights		183	71	(66)	-	188
Rights to use a water supply facility		1,665	1,427	(324)	-	2,768
Rights to use a electricity supply facility		1,852	655	(279)	(14)	2,214
Rights to use a gas supply facility		1,098	175	(143)	-	1,130
Rights to use a facility		10,991	-	(857)	-	10,134
Copyrights		-	-	-	2,408	2,408
Others		2,714	1,324	(969)	-	3,069
<b>Total</b>	<b>₩</b>	<b>31,476</b>	<b>7,405</b>	<b>(4,428)</b>	<b>2,394</b>	<b>36,847</b>

## LOTTE SHOPPING CO., LTD.

## Notes to Non-Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(11) Other Assets

Other assets as of December 31, 2006 and 2005 are as follows:

		Korean Won (millions)		U.S. dollars (thousands) (note 2)
		2006	2005	2006
Long-term financial instruments	₩	32	42	\$ 35
Long-term loans		1,930	1,930	2,077
Total	₩	1,962	1,972	\$ 2,112

(12) Assets and Liabilities Denominated in Foreign Currency

Assets and liabilities denominated in foreign currency as of December 31, 2006 and 2005 are summarized as follows:

		2006		2005	
		Foreign currency (thousands)	Won equivalent (millions)	Foreign currency (thousands)	Won equivalent (millions)
Assets:					
Cash and cash equivalents	\$	-	₩ -	620	628
Short-term financial instruments		630,078	585,721	-	-
Total	\$	630,078	₩ 585,721	620	628
Liabilities:					
Trade accounts receivable	\$	811	₩ 754	249	254
	EUR	58	70	-	-
Other accounts payable	\$	579	539	-	-
Accrued expenses	\$	478	443	-	-
Current portion of long-term borrowings	\$	70,000	65,072	-	-
Current portion of long-term debentures	\$	30,000	27,888	-	-
Long-term borrowings	\$	-	-	70,000	70,910
Debentures	\$	-	-	30,000	30,390
Total	\$	101,868	₩ 94,696	100,249	101,554
	EUR	58	70	-	-

## LOTTE SHOPPING CO., LTD.

## Notes to Non-Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(13) Other Current Liabilities

Other current liabilities as of December 31, 2006 and 2005 are as follows:

	Korean Won (millions)		U.S. dollars (thousands) (note 2)
	2006	2005	2006
Withholdings	₩ 7,252	5,056	\$ 7,801
Value-added tax withholdings	38,317	27,950	41,219
Guaranty money received	2,597	2,500	2,793
Investment withholdings	10,479	11,309	11,273
Total	₩ 58,645	46,815	\$ 63,086

(14) Borrowings

(a) Short-term borrowings as of December 31, 2006 and 2005 are summarized as follows:

Lender	Type of borrowings	Annual interest rate (%)	Korean Won (millions)	
			2006	2005
Shinhan Bank and others	Bank overdraft	6.36~7.15	₩ 1	31
Woori Bank and others	Financial notes	3.92	-	69,000
Kookmin Bank and others	General	4.20~4.64	-	515,000
Total			₩ 1	584,031

(b) Long-term borrowings as of December 31, 2006 and 2005 are summarized as follows:

Lender	Maturity	Annual interest rate (%)	Foreign currency	Korean Won (millions)	
				2006	2005
Kookmin Bank	Jun 25, 2007	Libor+0.75	USD 70,000,000	₩ 65,072	70,910
Subtotal				65,072	70,910
Less current portion				(65,072)	-
				₩ -	70,910

## LOTTE SHOPPING CO., LTD.

**Notes to Non-Consolidated Financial Statements, Continued**

December 31, 2006 and 2005

(15) Debentures

(a) Debentures as of December 31, 2006 and 2005 are summarized as follows:

Description	Maturity	Interest rate (%)	Korean Won (millions)	
			2006	2005
36th placed	Feb 26, 2006	4.00	₩ -	200,000
37th placed	Sep 19, 2006	4.00	-	250,000
38th placed	Oct 20, 2006	4.00	-	250,000
39th placed	Jan 29, 2007	5.00	170,000	170,000
40th placed	Mar 04, 2007	5.00	250,000	250,000
41st placed	Apr 09, 2008	5.00	200,000	200,000
42nd placed	Jun 23, 2007	4.00	210,000	210,000
43rd placed	Jun 25, 2007	Libor+0.75	27,888	30,390
44th placed	May 03, 2008	3.95	250,000	250,000
45th placed	Sep 12, 2008	4.71	100,000	100,000
Subtotal			1,207,888	1,910,390
Less:				
Discount on debentures issued			(2,852)	(10,987)
Total book value			1,205,036	1,899,403
Less:				
Current portion of debentures, net of discount			(656,721)	(696,908)
			₩ <u>548,315</u>	<u>1,202,495</u>

(b) Aggregate maturities of debentures as of December 31, 2006 are as follows:

Period	Korean Won (millions)
2007.1.1~2007.12.31	₩ 657,888
2008.1.1~2009.12.31	<u>550,000</u>
	₩ <u>1,207,888</u>

## LOTTE SHOPPING CO., LTD.

**Notes to Non-Consolidated Financial Statements, Continued**

December 31, 2006 and 2005

(16) Leases

- (a) The Company leases facilities including stores and distribution centers from third parties. Under the terms of the lease arrangements, the Company generally is required to deposit a lump-sum amount as key money and pay a monthly rent for the duration of the lease, which typically ranges from one year to 20 years. Lump-sum amounts as of December 31, 2006 are ₩335,654 million.
- (b) Future minimum lease payments under operating leases as of December 31, 2006 are as follows:

Period	Korean Won (millions)		U.S. dollars (thousands) (note 2)	
2007.1.1~2007.12.31	₩	37,497	\$	40,337
2008.1.1~2011.12.31		110,543		118,915
2012 and thereafter		133,852		143,989
Total	₩	281,892	\$	303,241

- (c) The Company leases some land and buildings of the Company to third parties under the terms of the lease arrangements as of December 31, 2006. The Company receives lump-sum rental deposits of ₩252,801 million and rental income of ₩297,880 million for the year ended December 31, 2006.

(17) Retirement and Severance Benefits

Changes in retirement and severance benefits for the years ended December 31, 2006 and 2005 are summarized as follows:

	Korean Won (millions)		U.S. dollars (thousands) (note 2)		
	2006	2005	2006		
Estimated severance accrual at beginning of year	₩	92,548	75,708	\$	99,557
Provision		31,267	28,831		33,635
Payments		(11,531)	(13,575)		(12,405)
Transfer of severance benefits from affiliated companies		1,817	1,584		1,955
Estimated severance accrual at end of year		114,101	92,548		122,742
Transfer to National Pension Fund		(51)	(81)		(55)
Deposit for severance benefit insurance		(68,619)	(56,579)		(73,816)
Net balance of end of year	₩	45,431	35,888	\$	48,871

## LOTTE SHOPPING CO., LTD.

**Notes to Non-Consolidated Financial Statements, Continued**

December 31, 2006 and 2005

(17) Accrued Retirement and Severance Benefits, Continued

In 1999, the Company converted group severance benefit insurance into a new severance benefit insurance with Samsung Life Insurance Co., etc. Under the new insurance contract, payments of the Company's retirement and severance benefit liability to employees are guaranteed to the extent of deposit held by the insurance company. The deposit at the insurance company is presented as a reduction of the retirement and severance benefits liability.

(18) Accrual for Bonus Cards

The Company recognizes an accrual for bonus cards which provide free services for credit card usage. The increase in the accrual for bonus cards for the years ended December 31, 2006 and 2005 are summarized as follows:

		Korean Won (millions)		U.S. dollars (thousands) (note 2)
		2006	2005	2006
Beginning of year	₩	21,351	15,654	\$ 22,967
Increase		7,806	8,207	8,397
Decrease		(5,873)	(2,510)	(6,316)
End of year	₩	<u>23,284</u>	<u>21,351</u>	<u>\$ 25,048</u>

(19) Derivatives

- (a) The Company entered into currency and interest swap contracts with SC First Bank and Kookmin Bank to hedge the exposure to the changes in foreign exchange rates and interest rates related to long-term borrowings (USD 70,000 thousand) and debentures (USD 30,000 thousand) from Kookmin Bank. The expected maximum period in which the Company is exposed in the fluctuation of cash flow is within 12 months from the balance sheet date. Contract terms of the currency and interest swap contracts are as follows:

<u>Contract amount</u>	<u>Foreign exchange rate</u>	<u>Variable interest rate</u>	<u>Fixed interest rate</u>	<u>Maturity date</u>	<u>Bank</u>
USD 50,000,000	1,186.7	3M Libor+0.75%	4.66%	2007.6.25	Kookmin Bank
USD 50,000,000	1,186.7	3M Libor+0.75%	4.66%	2007.6.25	SC First Bank

- (b) The loss on valuation of derivative instruments is ₩8,340 million for the years ended December 31, 2006.

## LOTTE SHOPPING CO., LTD.

**Notes to Non-Consolidated Financial Statements, Continued**

December 31, 2006 and 2005

(20) Stockholders' Equity

Changes in stockholder's equity for the years ended December 31, 2006 and 2005 are as follows:

	Number of shares issued	Korean Won (millions)			
		Common stock	Capital surplus	Retained earnings	Capital adjustment
Balance of January 1, 2005	20,000,000	₩ 100,000	1,146,678	1,370,790	70,333
Net income	-	-	-	546,217	-
Other	-	-	-	(10,000)	11,836
Balance at December 31, 2005	20,000,000	100,000	1,146,678	1,907,007	82,169
Issuance of common stock (*)	9,043,374	45,217	3,580,364	-	-
Issue costs	-	-	(76,147)	-	-
Net income	-	-	-	739,844	-
Other	-	-	-	(11,459)	2,180
Balance at December 31, 2006	<u>29,043,374</u>	<u>₩ 145,217</u>	<u>4,650,895</u>	<u>2,635,392</u>	<u>84,349</u>

(\*) The Company issued 1,714,286 shares of common stock at ₩400,000 per share (total proceeds of ₩685,714 million) on the Korea Exchange on February 9, 2006, and issued 6,857,143 shares on the London Stock Exchange on February 8, 2006 in the form of Global Depository Shares ("GDS"). In addition, the Company issued 471,945 shares by surplus allocation option on March 16, 2006. Then total 146,581,760 shares of GDS at USD 20.67 per share (total proceeds of ₩2,939,867 million) were issued. The difference between the total proceeds and the aggregate par value of the common stock of ₩45,217 million was recorded as paid-in capital in excess of par value within capital surplus.

(21) Capital Stock and Capital Surplus

(a) Pursuant to its amended Articles of Incorporation, the Company's authorized capital stock is 60,000,000 shares, which consists of common shares and preferred shares each with a par value ₩5,000 per share. The Company is authorized to issue non-voting preferred shares of up to one-fourth of the Company's total issued and outstanding capital stock. Holders of preferred shares may, upon a resolution of the board of directors at the time of the issuance of the preferred shares, be entitled to receive dividends prior to the holders of common shares. The preferred shares will be automatically converted to common shares at a maturity within ten years of issuance as determined by the Company's board of directors. However, if the holders of preferred shares do not receive the minimum dividends as prescribed, then the maturity will be extended to the time when all such dividend amount is paid to the holders of preferred shares. As of December 31, 2006, the Company has not issued any preferred stock and 29,043,374 shares of common stock were issued and outstanding.

## LOTTE SHOPPING CO., LTD.

**Notes to Non-Consolidated Financial Statements, Continued**

December 31, 2006 and 2005

(21) Capital Stock and Capital Surplus, Continued

(b) Capital surplus as of December 31, 2006 and 2005 consists of the following:

	<u>Korean Won (millions)</u>		<u>U.S. dollars</u>
	<u>2006</u>	<u>2005</u>	<u>(thousands)</u> <u>(note 2)</u> <u>2006</u>
Paid-in capital in excess of par value (note 20)	₩ 3,605,117	100,900	\$ 3,814,131
Gain on capital reduction	1,793	1,793	1,897
Other capital surplus	<u>1,043,985</u>	<u>1,043,985</u>	<u>1,104,513</u>
	<u>₩ 4,650,895</u>	<u>1,146,678</u>	<u>\$ 4,920,541</u>

Gain on capital reduction

The Company retired 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.

Gain on merger

In 1997, SongGok Trading Co., Ltd. merged with the Company resulting in a gain on merger of ₩15,272 million recorded within other capital surplus.

Assets revaluation

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

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

## LOTTE SHOPPING CO., LTD.

**Notes to Non-Consolidated Financial Statements, Continued**

December 31, 2006 and 2005

(22) Retained Earnings

Retained earnings as of December 31, 2006 and 2005 are summarized as follows:

Accounts	Korean Won (millions)		U.S. dollars (thousands) (note 2)
	2006	2005	2006
Appropriated:			
Legal reserve	₩ 18,072	16,572	\$ 19,441
Reserve for business rationalization	10,552	10,552	11,351
Reserve for corporate development	134,000	134,000	144,148
Reserve for social overhead capital investment	-	80	-
Reserve for improvement of financial structure	5	5	5
Discretionary reserve	1,719,500	1,189,500	1,849,720
	1,882,129	1,350,709	2,024,665
Unappropriated	753,263	556,298	810,309
	₩ 2,635,392	1,907,007	\$ 2,834,974

(a) Legal reserve

The Korean Commercial Code requires the Company to appropriate as legal reserve an amount equal to at least 10% of cash dividends for each accounting period until the reserve equals 50% of stated capital. This reserve is not available for cash dividends but may be used to reduce any deficit or be transferred to capital stock. Pursuant to Korean tax laws, the Company is allowed to claim the amounts of appropriated retained earnings for financial structure improvement, corporate development and social overhead capital 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.

(b) Reserve for business rationalization

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

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

(c) Reserve for corporate development

Under the Corporation Tax Law, the Company appropriated into a reserve for corporate development. Such reserves are not available for the payment of dividends until used for specified purposes or reversed. However, effective December 31, 2001, the tax law no longer provides for such reserve.

## LOTTE SHOPPING CO., LTD.

**Notes to Non-Consolidated Financial Statements, Continued**

December 31, 2006 and 2005

(23) Capital Adjustments

Details of capital adjustments as of December 31, 2006 and 2005 are as follows:

Account	Korean Won (millions)		U.S. dollars (thousands) (note 2)
	2006	2005	2006
Unrealized gain on valuation of available-for-sale securities	₩ 26,732	30,863	\$ 28,756
Unrealized gain on investments under the equity method, net	57,374	50,600	61,718
Unrealized gain on valuation of derivative instruments	243	706	261
	₩ <u>84,349</u>	<u>82,169</u>	\$ <u>90,736</u>

(24) Sale of Apartments

(a) Housing lotting-out construction contracts as of and for the years ended December 31, 2006 and 2005 are as follows:

	Korean Won (millions)		U.S. dollars (thousands) (note 2)
	2006	2005	2006
Beginning of year	₩ 6,154	168,850	\$ 6,620
Increase (decrease)	114,923	4,142	123,626
Revenue recognized in current year	(13,997)	(166,838)	(15,057)
End of year	₩ <u>107,080</u>	<u>6,154</u>	\$ <u>115,189</u>

(b) Accumulated revenue and cost on housing lotting-out construction contracts as of December 31, 2006 are summarized as follows:

Project	Korean Won (millions)		U.S. dollars (thousands) (note 2)	
	Cumulative revenue	Cumulative cost	Cumulative revenue	Cumulative cost
Beome-Dong project	₩ <u>8,707</u>	<u>6,942</u>	\$ <u>9,366</u>	<u>7,468</u>

## LOTTE SHOPPING CO., LTD.

## Notes to Non-Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(25) Sales and Cost of Sales

Details of sales and cost of sales for the years ended December 31, 2006 and 2005 are as follows:

	Korean Won (millions)		U.S. dollars (thousand) (note 2)
	2006	2005	2006
<b>Sales</b>			
Sales of merchandise	₩ 8,529,487	8,023,179	\$ 9,175,437
Specific sales	303,806	291,435	326,813
Sales of products	48,888	32,060	52,591
Sales of apartment	13,997	166,838	15,057
Ancillary property operating revenue	114,284	93,648	122,939
Other operating revenue	436,244	356,079	469,282
Deduction:			
Cost of specific sales	(238,303)	(230,458)	(256,350)
Sales allowance	(152,523)	(125,677)	(164,074)
	<u>9,055,880</u>	<u>8,607,104</u>	<u>9,741,695</u>
<b>Cost of sales</b>			
Cost of merchandise sold:			
Beginning inventory of merchandise	777,378	824,323	836,250
Purchases of merchandise for the year	6,411,017	5,896,027	6,896,532
Transfer to other accounts	(4)	(6)	(4)
Ending inventory of merchandise	(906,761)	(777,378)	(975,431)
	<u>6,281,630</u>	<u>5,942,966</u>	<u>6,757,347</u>
Cost of products sold:			
Beginning inventory of products	1,694	882	1,822
Cost of products manufactured for the year	32,245	26,148	34,687
Transfer to other accounts	(1,444)	(14)	(1,554)
Ending inventory of products	(1,867)	(1,694)	(2,008)
	<u>30,628</u>	<u>25,322</u>	<u>32,947</u>
Cost of sales of apartment	12,316	175,164	13,249
Ancillary property operating cost	58,966	45,804	63,432
	<u>71,282</u>	<u>220,968</u>	<u>76,681</u>
	<u>6,383,540</u>	<u>6,189,256</u>	<u>6,866,975</u>
Gross profit	₩ <u>2,672,340</u>	<u>2,417,848</u>	\$ <u>2,874,720</u>

## LOTTE SHOPPING CO., LTD.

**Notes to Non-Consolidated Financial Statements, Continued**

December 31, 2006 and 2005

(26) Selling and Administrative Expenses

Details of selling and administrative expenses for the years ended December 31, 2006 and 2005 are as follows:

	Korean Won (millions)		U.S. dollars (thousand) (note 2)
	2006	2005	2006
Salaries	₩ 368,960	330,561	\$ 396,902
Provision for retirement and severance benefits	30,978	28,688	33,324
Other employee benefits	57,559	52,135	61,918
Expenses for education	4,426	3,960	4,761
Travel	10,403	8,704	11,191
Service contract expenses	238,039	206,918	256,066
Advertising	128,790	128,769	138,543
Sales promotion and commissions	230,569	230,694	248,030
Supplies	26,308	28,438	28,300
Communications	7,578	6,666	8,152
Utilities	98,148	86,144	105,581
Maintenance	16,263	17,023	17,495
Commissions and fees	228,376	188,729	245,671
Insurance	5,293	4,697	5,693
Transportation	3,116	2,535	3,352
Depreciation	262,735	222,479	282,632
Amortization of intangible assets	4,538	4,427	4,882
Taxes and dues	79,814	68,274	85,858
Bad debts	297	182	320
Rent	91,316	81,529	98,231
Others	29,462	27,476	31,695
	₩ <u>1,922,968</u>	<u>1,729,028</u>	\$ <u>2,068,597</u>

(27) Income Taxes

- (a) The Company is subject to a number of income taxes based on taxable income which result in the following normal tax rates:

<u>Taxable income</u>	<u>Tax rate</u>
Up to ₩100 million	14.3%
Over ₩100 million	27.5%

## LOTTE SHOPPING CO., LTD.

**Notes to Non-Consolidated Financial Statements, Continued**

December 31, 2006 and 2005

(27) Income Taxes, Continued

The components of income tax expense for the years ended December 31, 2006 and 2005 are summarized as follows:

	Korean Won (millions)		U.S. dollars (thousands) (note 2)
	2006	2005	2006
Current income tax expense	₩ 202,650	148,249	\$ 217,997
Deferred income tax expense	43,130	65,480	46,396
Income taxes directly charged to equity	319	(31,167)	343
Income taxes	₩ <u>246,099</u>	<u>182,562</u>	\$ <u>264,736</u>

- (b) The provision for income taxes calculated using the normal tax rates differs from the actual provision for the years ended December 31, 2006 and 2005 for the following reasons:

	Korean Won (millions)	
	2006	2005
Provision for income taxes at normal tax rates	₩ 271,121	200,401
Tax effects of permanent differences, net	3,790	511
Investment tax credit	(920)	(11,018)
Decrease in deferred income tax liabilities resulting from equity in income of affiliates (*)	(31,842)	(1,185)
Decrease in deferred income tax assets resulting from others, net	3,950	(6,147)
Actual provision for income taxes	₩ <u>246,099</u>	<u>182,562</u>

- (\*) Under the Corporate Income Tax Act Article 18 paragraph 2, a certain portion of dividend income is not taxable. Therefore, certain portions of equity in net income of affiliates are considered permanent differences in the calculation of deferred tax assets (liabilities). Effective January 1, 2005, non-taxable dividend income is excluded from equity in income of affiliates in the calculation of deferred income tax liabilities resulting from equity in income of affiliates.

The effective tax rates, after adjustments for certain differences between amounts reported for financial accounting and income tax purposes, were approximately 25.0% and 25.1% for the years ended December 31, 2006 and 2005, respectively.

## LOTTE SHOPPING CO., LTD.

**Notes to Non-Consolidated Financial Statements, Continued**

December 31, 2006 and 2005

(27) Income Taxes, Continued

- (c) The tax effects of temporary differences that result in significant portions of the deferred tax assets and liabilities as of December 31, 2006 and 2005 are presented below:

	Korean Won (millions)		U.S. dollars (thousands) (note 2)
	2006	2005	2006
Deferred tax assets:			
Allowance for doubtful accounts	₩ 1,513	1,102	\$ 1,627
Impairment losses on available-for-sale securities	1,305	4,842	1,403
Accrued expenses (bonus cards)	6,403	5,871	6,888
Accrued expenses (bonuses)	3,135	2,250	3,372
Available-for-sale securities	24	24	26
Loss on valuation of derivative instruments	7,070	4,777	7,606
Negative capital adjustment due to use of equity method	-	389	-
Others	980	412	1,054
Total deferred tax assets	<u>20,430</u>	<u>19,667</u>	<u>21,976</u>
Deferred tax liabilities:			
Depreciation	4,120	4,120	4,432
Accrued interest income	2,250	90	2,420
Disallowed financing costs capitalized	18,031	18,638	19,397
Land	1,111	1,136	1,195
Equity method securities	80,135	37,923	86,203
Loss on valuation of available-for-sale securities	10,140	11,707	10,908
Capital adjustment due to use of equity method	20,617	19,582	22,178
Loss on valuation of derivative instruments	92	268	99
Total deferred tax liabilities	<u>136,496</u>	<u>93,464</u>	<u>146,832</u>
Net deferred tax liabilities	₩ <u>(116,066)</u>	<u>(73,797)</u>	\$ <u>(124,856)</u>

- (d) The Company did not recognize deferred tax assets in the amount of ₩3,587 million and ₩20,799 million arising from the taxable temporary differences associated with the impairment losses on available-for-sale securities and equity method securities as of December 31, 2006, respectively, since the temporary differences are not expected to reverse in the foreseeable future. Also, the Company did not recognize deferred tax liabilities in the amount of ₩200,472 million arising from the taxable temporary differences associated with revaluation of land as of December 31, 2006, since it is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

## LOTTE SHOPPING CO., LTD.

## Notes to Non-Consolidated Financial Statements, Continued

December 31, 2006 and 2005

(27) Income Taxes, Continued

(e) As of December 31, 2006, details of aggregate deferred tax assets (liabilities) are as follows:

	Temporary differences at December 31, 2006	Korean Won (millions)	
		Deferred tax assets (liabilities)	
		Current	Non-current
<b>Assets:</b>			
Allowance for doubtful receivable	₩ 5,500	1,513	-
Impairment losses on investment securities	17,607	-	1,305
Accrued expenses (bonus cards)	23,284	6,403	-
Accrued expenses (bonus)	11,399	3,135	-
Available-for-sale securities	87	-	24
Gains on valuation of derivative instruments	25,710	7,070	
Negative capital adjustment due to use of equity method	1,414	-	-
Others	3,562	5	975
	<u>88,563</u>	<u>18,126</u>	<u>2,304</u>
<b>Liabilities:</b>			
Depreciation	14,983	-	4,120
Accrued interest income	8,181	2,250	-
Interest on construction period	65,569	-	18,031
Land	4,038	-	1,111
Equity method investment securities	431,360	-	80,135
Land (reserve for advanced depreciation)	728,988	-	-
Loss on valuation of available-for-sale securities	36,872	-	10,140
Capital adjustment due to use of equity method	79,404	-	20,617
Loss on valuation of derivative instruments	335	-	92
	<u>1,369,730</u>	<u>2,250</u>	<u>134,246</u>
Deferred income tax assets (liabilities)	₩ <u>(1,281,167)</u>	<u>15,876</u>	<u>(131,942)</u>

(f) The deferred tax assets and liabilities that were directly charged or credited to capital adjustments as of December 31, 2006, are as follows:

	Korean Won (millions)		U.S. dollars (thousands) (note 2)	
	Temporary difference	Deferred tax liabilities	Temporary difference	Deferred tax liabilities
Unrealized gain on valuation of available-for-sale securities	₩ 36,872	10,140	\$ 39,665	10,908
Capital adjustment of equity securities	79,404	20,617	85,417	22,178
Capital adjustment of derivative instruments	335	92	360	99
	<u>₩ 116,610</u>	<u>30,849</u>	<u>\$ 125,441</u>	<u>33,185</u>

## LOTTE SHOPPING CO., LTD.

**Notes to Non-Consolidated Financial Statements, Continued**

December 31, 2006 and 2005

(28) Ordinary 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 outstanding during the years ended December 31, 2006 and 2005. The calculation of ordinary income per share and net income per share are as follows:

	Korean Won (millions, except per share amounts)		U.S. dollars (thousands, except per share amounts)
	2006	2005	2006
Net income	₩ 739,844	546,217	\$ 795,874
Extraordinary item	-	-	-
Ordinary income	739,844	546,217	795,874
Weighted-average number of common shares outstanding	28,025,851	20,000,000	28,025,851
Ordinary income per share in Won and U.S. dollars	₩ 26,399	27,311	\$ 28
Net income per share in Won and U.S. dollars	₩ 26,399	27,311	\$ 28

(29) Commitments and Contingencies

(a) As of December 31, 2006, the Company has credit facilities with financial institutions as follows:

	Total facility Korean Won (millions), U.S. dollars (thousands)	Amount used under facility Korean Won (millions), U.S. dollars (thousands)
Overdraft	₩ 65,000	₩ 1
Buyer's credit	₩ 1,120,000	₩ 206,392
General loan	₩ 200,000	₩ -
Letter of credit	\$ 39,000	\$ 2,260
	₩ 1,385,000	₩ 206,393
	\$ 39,000	\$ 2,260

(b) The Company has been provided guarantees amounting to ₩53,785 million by Seoul Guarantee Insurance Co., Ltd. for the performance of construction contracts and others.

## LOTTE SHOPPING CO., LTD.

**Notes to Non-Consolidated Financial Statements, Continued**

December 31, 2006 and 2005

(29) Commitments and Contingencies, Continued

- (c) The Company has entered into contracts with Lotte Midopa and Lotte Station Building Co., Ltd., both related parties of the Company, for providing management services. The Company receives an annual management fee equivalent to 10 percent of ordinary income before depreciation expense of related companies.
- (d) 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 Namdaemunno, Jung-gu, until October 31, 2023 and paid a guarantee deposit amounting to ₩17,500 million. Also, the Company pays monthly rents of ₩346 million from Lotte Midopa Co., Ltd. as of December 31, 2006.
- (e) As of December 31, 2006, the Company is the plaintiff in 10 lawsuits claiming damages totalling ₩822 million and the Company is the defendant in 8 lawsuits claiming damages totalling ₩3,128 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 non-consolidated financial statements.

(30) Dividends

(a) Details of dividends for the years ended December 31, 2006 and 2005 are as follows:

	Korean Won (millions)		U.S. dollars (thousands)	
	2006	2005	2006	
Dividend amount (Cash dividends)	₩ 36,304	15,000	\$	39,054
Net income	₩ 739,844	546,217	\$	795,874
Dividends as a percentage of net income	4.91%	2.75%		4.91%
Par value	₩ 145,217	100,000	\$	156,214
Dividends as a percentage of par value	25.0%	15.0%		25.0%

(b) Dividend yield ratio for the years ended December 31, 2006 and 2005 are as follows:

	Korean Won		U.S. dollars	
	2006	2005	2006	
Dividend per share	₩ 1,250	750	\$	1.34
Market price as of year end	386,000	-		415.23
Dividend yield ratio	0.32%	-		0.32%

## LOTTE SHOPPING CO., LTD.

**Notes to Non-Consolidated Financial Statements, Continued**

December 31, 2006 and 2005

(31) Added Value

The components of manufacturing costs and selling and general administrative expenses which are necessary in calculating added value at December 31, 2006 and 2005 are as follows:

	Korean Won (millions)		U.S. dollars
	2006	2005	(thousands) 2006
Salaries	₩ 372,766	414,177	\$ 400,996
Retirement allowance and severance benefits	31,267	28,831	33,635
Other employee benefits	58,018	52,135	62,412
Rent	91,490	81,769	98,419
Depreciation	265,336	225,841	285,430
Taxes and dues	79,860	68,312	85,908
	₩ <u>898,737</u>	<u>871,065</u>	\$ <u>966,800</u>

(32) Employee Welfare and Contributions to Society

For employee welfare, the Company maintains a refectory, an infirmary, athletic facilities, a scholarship fund, workmen's accident compensation insurance, unemployment insurance and medical insurance. The amounts of welfare spending for the years ended December 31, 2006 and 2005 are estimated at ₩58,018 million and ₩52,135 million, respectively.

The Company donated ₩3,833 million and ₩4,231 million to the Community Chest of Korea and others for the years ended December 31, 2006 and 2005, respectively.

(33) Acquisition of Business

On January 10, 2005, the Company acquired two supermarkets in cash from Home Mart Co., Ltd. to enhance the efficiency and competitiveness of the Supermarket division. The condensed financial information as of January 10, 2005 (deemed acquisition date) for the acquisition is as follows:

Description	Korean Won (millions)	U.S. dollars (thousands) (note 2)
Current assets	₩ 4,792	\$ 5,155
Non-current assets	1,600	1,721
Net assets purchased	6,392	6,876
		0
Acquisition cost	10,145	10,913
Goodwill	₩ <u>3,753</u>	\$ <u>4,037</u>

## LOTTE SHOPPING CO., LTD.

**Notes to Non-Consolidated Financial Statements, Continued**

December 31, 2006 and 2005

**(34) Segment Information**

- (a) The Company's major business segments consist of department store (retail), mart (retail) and other (construction, foods manufacturing, movie theaters and supermarkets).
- (b) Financial information by business segment for the years ended December 31, 2006 and 2005 is summarized as follows:

	Korean Won (millions)					
	2006			2005		
	Department store	Mart	Other	Department store	Mart	Other
Sales	₩ 5,149,611	3,336,924	569,345	5,192,004	2,903,087	512,014
Operating income	643,627	99,548	6,198	597,550	90,180	1,090
Depreciation and amortization	134,848	101,929	44,397	113,573	84,111	32,584
Property, plant and equipment	3,427,789	2,469,883	213,436	3,368,553	1,718,527	255,502
Intangible assets	11,564	9,328	14,700	11,859	4,573	20,415

	U.S. dollars (thousands) (note 2)					
	2006			2005		
	Department store	Mart	Other	Department store	Mart	Other
Sales	\$ 5,539,599	3,589,634	612,462	5,585,202	3,122,942	550,789
Operating income	692,369	107,087	6,667	642,803	97,010	1,172
Depreciation and amortization	145,060	109,648	47,760	122,174	90,481	35,052
Property, plant and equipment	3,687,381	2,656,931	229,600	3,623,825	1,848,758	274,864
Intangible assets	12,440	10,035	15,812	12,758	4,920	21,962

**(35) Subsequent Events**

On August 2, 2006 the board of directors of the Company passed a resolution to acquire an additional 49.8 percent equity interest (3,982,796 shares) in Woori Home Shopping & Television, in which the Company already owned a 3.25 percent interest. The decision was made to enter on the television home-shopping business by the acquisition of a home-shopping network in Korea.

For this acquisition the Company paid W124 billion in advance. The acquisition was approved by the Korean Fair Trade Commission on November 29, 2006 and by the Korean Broadcasting Commission on December 27, 2006, after which the Company paid the balance of W293 billion on January 2, 2007. The Company presently holds a 50.58 percent interest (4,406,796 shares) and intends to purchase an additional 2.45 percent interest (196,000 shares) subsequently.

## **Independent Accountants' Review Report on Internal Accounting Control System**

### English Translation of a Report Originally Issued in Korean

To the President of  
Lotte Shopping Co., Ltd.;

We have reviewed the accompanying Report on the Operations of Internal Accounting Control System ("IACS") of Lotte Shopping Co., Ltd. (the "Company") as of December 31, 2006. The Company's management is responsible for designing and maintaining effective IACS and for its assessment of the effectiveness of IACS. Our responsibility is to review management's assessment and issue a report based on our review. In the accompanying report of management's assessment of IACS, the Company's management stated: "Based on the assessment on the operations of the IACS, the Company's IACS has been effectively designed and is operating as of December 31, 2006, in all material respects, in accordance with the IACS Framework issued by the Internal Accounting Control System Operation Committee."

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

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

Based on our review, nothing has come to our attention that Report on the Operations of Internal Accounting Control System as of December 31, 2006 is not prepared in all material respects, in accordance with IACS Framework issued by the Internal Accounting Control System Operation Committee.

This report applies to the Company's IACS in existence as of December 31, 2006. We did not review the Company's IACS subsequent to December 31, 2006. 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 14, 2007

#### Notice to Readers

This report is annexed in relation to the audit of the non-consolidated financial statements as of December 31, 2006 and the review of internal accounting control system pursuant to Article 2-3 of the Act on External Audit for Stock Companies of the Republic of Korea.

## **Report on the Operations of Internal Accounting Control System**

To the Board of Directors and Internal Auditor (Audit Committee) of Lotte Shopping Co., Ltd.;

I, as the Internal Accounting Control Officer (“IACO”) of Lotte Shopping Co., Ltd. (the “Company”), have assessed the status of the design and operations of the Company’s internal accounting control system (“IACS”) for the year ended December 31, 2006.

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

Based on the assessment of the operations of the IACS, the Company’s IACS has been effectively designed and is operating as of December 31, 2006, in all material respects, in accordance with the IACS Framework issued by the Internal Accounting Control System Operation Committee.

Hyun Soo, Kim, Internal Accounting Control Officer

In Won, Lee, Chief Executive Officer or President

January 25, 2007