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New Commitments

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Financial Statements



STEPPING OUT

Message Lotte Shopping is on the move again.
Over the past 10 years, our dedication and passion
have made us the No. 1 retailer. Today, they're guiding us once again as
we confidently step into the world to bring consumers in Russia, China,
Vietnam, and beyond our unique brand of value and satisfaction.

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New Channels

2 STEPPING OUT



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Ceo's Message

STEPPING OUT

Lotte Shopping is on the move again. Over the past four years, our dedication and passion have made us Korea's No. 1 retailer. And they're guiding us once again as we confidently step into the world, bringing consumers in Russia, China, Vietnam, and beyond our unique blend of value and satisfaction.

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New Channels

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Going Global

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New Value

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New Commitments

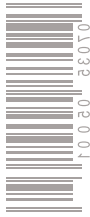
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Financial Statements



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STEPPING OUT

At Lotte Shopping, we're on the move again. Over the past four decades, our dedication and passion have made us Korea's No. 1 retailer. Today, they're making us once again as we confidently step out into the world to bring our customers in Russia, China, Vietnam, and beyond our unique brand of value and satisfaction.

STEPPING OUT

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STEPPING OUT

At Lotte Shopping, we're on the move again. Over the past four decades, our dedication and passion have made us Korea's No. 1 retailer. Today, they're guiding us once again as we confidently step out into the world to bring consumers in Russia, China, Vietnam, and beyond our unique brand of value and satisfaction.





RAVISHING RUSSIA

When the doors to Lotte Plaza in Moscow opened on September 2, 2007, we stepped into the next chapter in our retail history. This eight-floor luxury and premium shopper's paradise in the heart of the capital is now ravishing Muscovites with merchandise and service fit for a tsar. And that's just a taste of the things we have in store as we step out into global markets.





COURTING CHINA

While everyone—including ourselves—expected our next international step to be the opening of our second overseas department store in Beijing’s trendy Wangfujing shopping district just before the 2008 Olympics, another opportunity presented itself. In December 2007, we courted and acquired local discounter Makro, giving us an instant discount retail presence in the nation’s fastest growing markets. And our courtship of China is just beginning.





VALUING VIETNAM

Our third international step will be in one of Southeast Asia's fastest growing markets. We're right on schedule to open our first discount store in downtown Ho Chi Minh City in the second half of 2008. In the coming years, we aim to become a local discount leader, serving all major metropolitan markets. And that's just the beginning of the world of value we have planned for Vietnam as we explore the full range of retail opportunities.



IMAGINING INDIA

Our next overseas step will most likely be in the land of the Taj Mahal. While India's retail sector is currently closed to foreign direct investment, we continue to actively source and network locally as we prepare for future opportunities both here and beyond. And the best is yet to come as we take our next step toward becoming one of the world's favorite retailers.





CONDENSED
NON-CONSOLIDATED
BALANCE SHEETS

in KRW billions

	2007	2006	2005
ASSETS	11,958	11,872	8,391
CURRENT ASSETS	2,153	3,465	1,390
NON-CURRENT ASSETS	9,804	8,407	7,002
LIABILITIES	3,774	4,356	5,155
CURRENT LIABILITIES	3,293	3,378	3,528
LONG-TERM LIABILITIES	481	978	1,627
SHAREHOLDERS' EQUITY	8,184	7,516	3,236
CAPITAL STOCK	145	145	100
CAPITAL SURPLUS	4,651	4,651	1,147
RETAINED EARNINGS	3,289	2,635	1,907
CAPITAL ADJUSTMENTS	99	84	82

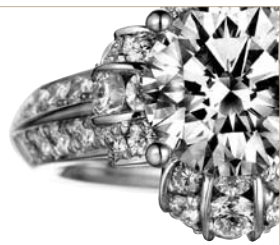


CONDENSED
NON-CONSOLIDATED
INCOME STATEMENTS

in KRW billions

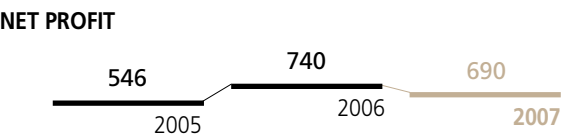
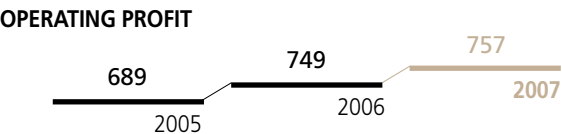
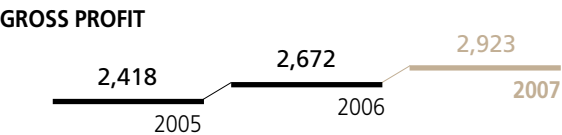
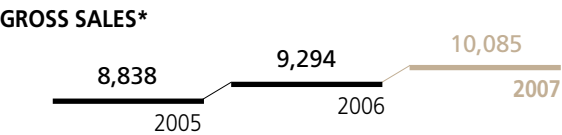
	2007	2006	2005
GROSS SALES*	10,085	9,294	8,838
NET SALES	9,768	9,056	8,607
GROSS PROFIT	2,923	2,672	2,418
SG & A EXPENSES	2,167	1,923	1,729
OPERATING PROFIT	757	749	689
NON-OPERATING PROFIT	305	431	201
NON-OPERATING EXPENSES	107	194	161
PROFIT BEFORE TAX	955	986	729
NET PROFIT	690	740	546

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



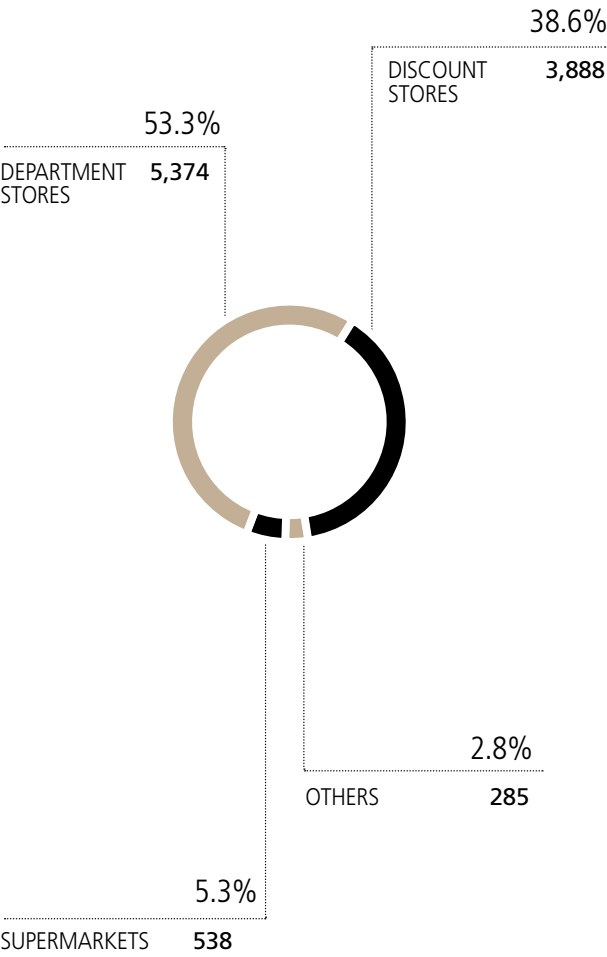
KEY OPERATING
RESULTS

in KRW billions



GROSS SALES BREAKDOWN
BY BUSINESS DIVISION

in KRW billions





STEP BY STEP



● JANUARY

We become Korea's first retailer to become an official participant in the United Nations Global Compact.

Step by step, we're transforming ourselves from Korea's top retailer into one of the world's best.

Dear Lotte Shopping stakeholder,

Our second year as a publicly traded firm represented a major step forward in our evolution as a global retailer. As the flagship company of Korea's premier retail group, we've built a reputation for giving our customers the best products and service in the business. Today, we're focused on delivering the same kind of value to our shareholders as we begin the next phase with that will transform us from Korea's top retailer into one of the world's favorites.

The Year in Review

Our ambitious expansion strategy continued to drive growth despite continuing sluggishness in the Korean retail sector. Gross sales rose 8.5% to KRW 10.1 trillion as we continued to diversify our domestic and international business interests and expand our nationwide retail networks. New store openings helped operating profit edge up nearly 1% to KRW 756.7 billion. Net profit before tax was KRW 954.8 billion, a 3.2% decrease we attribute primarily to significantly lower equity-method gains from our Lotte Card affiliate following a substantial one-time statutory increase in provisions for bad debts.

Our flagship department store business opened its 24th department store in the Centum City development in Busan—Korea's second-largest city—as well as our second and third Young Plaza fashion specialty stores in Cheungju and Daegu. We also marked a milestone in our global expansion plans with the opening of Lotte Plaza in central Moscow, our—and the Korean industry's—first overseas department store.

Our discount store business opened six new Lotte Marts in 2007, bringing its nationwide network to 56 stores. Our growing private brand lineup continued to drive profitability, rising from 10.6% to 12.2% of sales. In December, we seized a golden opportunity to enter the Chinese market by acquiring a controlling interest in the Makro discount chain that currently operates eight stores in Beijing and Tianjin. We also opened Asia's largest distribution center in Osan late in the year to serve Lotte Mart stores across the Seoul metropolitan region, paving the way for future gains in both logistics efficiency and profitability.





Our supermarket business continued grow by leaps and bounds, adding 27 new Lotte Supers during the year through acquisitions and planned expansion to bring the chain to 79 locations nationwide. This was our first full year of supermarket profitability, and we are on track to reach No. 1 in both stores and profitability in the near future.

Expansion also continued to be a key focus of our newer businesses. Our cinema multiplex business opened 8 Lotte Cinemas with 66 screens, expanding the chain total to 40 locations with 309 screens. Our doughnut business added nine new Krispy Kreme stores, expanding the chain to 26 locations nationwide. And our toy store business successfully opened its first Toys "R" Us store in December, giving us a foothold in a business we believe has the potential to be Korea's first retail category killer.

The Year Ahead

The outlook for 2008 indicates that challenging times are ahead for the global retail sector. Slowing economies in the US and Europe, unstable financial markets, record-high oil prices, and rising consumer prices all have the potential to dampen consumption in the markets we operate in. But while the road ahead may appear daunting, we are confident we have the right combination of businesses, quality people, clear vision, and a loyal customer base to create new opportunities and growth at home and abroad.

In Korea, we'll continue to aggressively drive growth through strategic expansion in both existing and new businesses. We'll open our Star City department store in Seoul's Gwangjin district, further reinforcing our position as the dominant player in the capital region. We plan to open seven discount stores and 15 new supermarkets as we continue to bolster our presence in major metropolitan markets across Korea. We'll also continue to expand our new businesses, adding around 10 multiplexes and four new doughnut shops. Our shopping mall business will open premium outlet malls in Gwangju and Gimhae this year, adding yet another promising retail channel to our portfolio. We'll also be opening our first Zara casual fashion stores in downtown Seoul.

Overseas, our global retail strategy will rapidly gain momentum in the coming year, particularly in China. As we open our second overseas department store this summer in Beijing, we'll also be getting to know local consumers better through our recently-acquired Makro discount chain. The world's eyes will be on Beijing this summer for the Olympic Games, and we believe these two businesses will be a great opportunity to introduce the Lotte brand to the world. We are also excited about our entry into Vietnam with the upcoming fall opening of our first discount store in Ho Chi Minh City.

As you can see, we have big plans at Lotte. We're rightly proud of the remarkable accomplishments of the past three decades that have made us the king of Korean retail. But we're not stopping there. In our pursuit of sustainable growth, we are now channeling the creativity and drive that have made us what we are today to boldly step out into global markets. And as we do, we'll never forget our promises to you.

To our shareholders, we promise to uphold the highest standards of governance and transparency as we strive to deliver the best investment proposition in the industry.

To our customers, we promise to deliver the best products and service the world has to offer as we create new shopping experiences that will shape the future of retail.

To our communities, we promise to be a responsible corporate citizen as we help make our local communities cleaner, greener, more hopeful places to live.

To our partners, we promise to work together to build win-win relationships to create synergy that will take us further together than we could ever go alone.

Thank you again for your interest in Lotte Shopping. We appreciate your support, and we hope you'll join us for the exciting next step in our quest to be one of the world's leading retailers.

Chief Executive Officer **Lee Chulwoo**

DEDICATED TO EXCELLENCE IN GOVERNANCE



The Lotte Shopping board is currently composed of 11 directors, 6 of which are outside directors. At the 2007 shareholder's meeting held on March 7, 2008, outside directors Oh Jeonghwan and Kang Yoonkoo, Ph.D. were replaced by Kang Jeonwoong, Jwa Sunghee, and Kim Seho. Inside director Shin Youngja also joined the board at the same time. This represents a net addition of one inside and one outside director to the board.

The board currently operates two committees. The Audit Committee is composed of three outside directors and met six times in 2007. The Outside Director Nominating Committee is composed of two directors, one inside and one outside, and met once in 2007. The board met a total of 13 times in 2007.

1 SHIN KYUKHO
Chairman, Lotte Group

3 LEE INWON
CEO, Corporate Headquarters
Lotte Shopping

5 SHIN YOUNGJA
President, Lotte Shopping

7 YOON SAIREE
Attorney at Law, Yulchon

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

11 KANG JEONWOONG
Former Lotte Group Executive

2 SHIN DONGBIN
Vice Chairman, Lotte Group

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

6 KIM SEHO
Former Vice-Minister, Ministry of
Construction & Transportation

8 PARK MOOIK
CEO, Gallup Korea Research
Institute

10 JWA SUNGHEE
President, Gyeonggi Research
Institute





BREAKING NEW GROUND

In retail, there's no status quo. You're either gaining ground or losing it. At Lotte Shopping, we're constantly reading the trends and looking over the horizon to see where our next step should be. The following three businesses exemplify our forward-looking strategy and share the potential to take our growth and profitability to the next level.





NEW CHANNELS



MADE IN LOTTE SHOPPING

BREAKING NEW GROUND

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NEW CHANNELS

LOTTE YOUNG PLAZA
Korea's Young Fashion Channel

LOTTE HOME SHOPPING
Korea's TV & More Channel

TOYS "R" US
Korea's Killer Toy Channel

LOTTE YOUNG PLAZA



A DEPARTMENT STORE WITH AN ATTITUDE

When it comes to fashion, one store does not fit all. Geared toward trendy teens and twenty-somethings, our Young Plaza fashion specialty stores are just as dynamic as their youthful clientele. After three years of polishing the format in Seoul, we began a gradual national rollout in 2007 with the opening of our second store in Cheongju in February and our third in Daegu in August. And the youth fashion revolution has only just begun.



PARK YOUNGHO, General manager
With TV, Internet, catalog, and mobile shopping channels,
we're now positioned to reach consumers anytime, anywhere...



LOTTE HOME SHOPPING



TUNING IN TO THE FUTURE OF RETAIL

We got a new name and look in 2007 as we completed our rebranding from Woori Home Shopping to Lotte Home Shopping. But this was no mere cosmetic change. We're now able to offer viewers and browsers Lotte Shopping's unrivaled selection of quality merchandise, including many exclusives found nowhere else. And the shopping just keeps getting better and better.

TOYS “R” US



**MORE
FUN
IN
STORE**

Santa came a little early for us this year. Just a little over two weeks before Christmas 2007, we opened our first Toys “R” Us store on the B1 level of Lotte Mart in Seoul’s Guro district. Our first foray into “category killer” retail got off to an incredible start, ringing up the global chain’s second-best sales performance during its debut Christmas season. And the fun’s just getting started.



KIM JONGHYUN, Merchandiser
Adults have plenty of stores for them. That’s why we’re so excited to be rolling out a chain of stores for kids of all ages...



DELIVERING NEW VALUE

In retail, there's no guarantee that today's customers will be tomorrow's.
At Lotte Shopping, we've created a diversified, synergistic portfolio of businesses that's unparalleled in both breadth and depth in Korean retail.
It's a strong, profitable portfolio that consistently delivers value and satisfaction to millions of consumers of all stripes each and every day of the year.



Business Divisions

- DEPARTMENT STORES
- DISCOUNT STORES
- SUPERMARKETS
- CINEMAS
- KRISPY KREME DOUGHNUTS
- FOOD MANUFACTURING
- SHOPPING MALLS & OUTLETS
- GLOBAL FASHION

Subsidiaries

- LOTTE CARD
- LOTTE HOME SHOPPING
- LOTTE.COM



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- GLOBAL FASHION



Subsidiaries

- LOTTE CARD
- LOTTE HOME SHOPPING
- LOTTE.COM

Lotte has been Korea's premier destination for discerning shoppers since 1979. Known for superior service and the industry's widest assortment of merchandise from the world's top brands, we are today the nation's leading high-end retailer with 42% of market and a nationwide chain of 24 stores, three of which we manage under contract.

Korea's department store sector is relatively mature, with the top three chains controlling over 75% of the market. In 2007, we opened our third store in the nation's second-largest city. Our new Centum City store is the first high-end retailer in Busan's trendy, fast-growing Haeundae district. In 2008, we'll be opening our Star City store—our ninth Seoul location—as we continue a steady expansion strategy that will add a store a year through 2010.

While one-stop shopping for everything from groceries to electronics and high fashion is at the heart of our business philosophy, the latter area is where we really shine. Our merchandising draws on a broad range of fashion selections—from leading fashion houses to emerging designers. We continue to win new customers by signing exclusive “Lotte only” brands as we add our own premium brands and trendy new ones. We have been very successful at attracting and keeping quality customers with our constantly evolving VIP programs. Our stores are known for their customer-friendly layouts and stunning visual displays as well as their eclectic array of tenants—ranging from restaurants and medical clinics to hairdressers and jewelry shops—adding to their attractiveness as shopping destinations.

Our diversified retail strategy includes two other businesses. Our Avenuel luxury specialty store in downtown Seoul serves the ultra-high-end market, while our Young Plaza fashion specialty stores cater to fashion-conscious teens and twenty-somethings. We opened our second and third Young Plazas in Cheongju and Daegu in 2007.

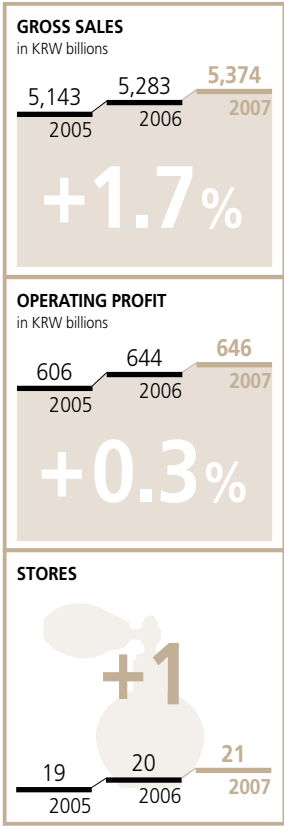
Our department store business went international in 2007 with the opening of our first overseas store in Moscow in September. In its short time in operation, Lotte Plaza has made a big impression on Muscovites with an unrivaled selection of high-end merchandise and an attention to customer service that's refreshingly new to the local service industry. We're now putting the final touches on our second overseas store in the heart of Beijing that's set to open in summer 2008.

2007 FINANCIAL HIGHLIGHTS

Gross sales rose a modest 1.7% to nearly KRW 5.4 trillion, closely tracking overall growth in the high-end retail segment. Operating profit held steady at KRW 646 billion despite the additional costs associated with multiple new store openings, giving us a solid 12% operating margin. One encouraging trend was that sales per customer increased 3.9% for the year, a good indicator that our best customers are shopping more frequently and buying more big-ticket items.

WWW.LOTTESHOPPING.COM

LOTTE
DEPARTMENT
STORES



• Figures exclude three department stores managed under contract.

Centum City Store
Haeundae, Busan



Centum City Store
Haeundae, Busan



Lotte Mart has been one of the Korean discount industry’s most innovative retailers since 1998. In the decade that has passed, we have built the industry’s third-largest chain with 56 stores nationwide as we have risen to the No. 3 spot with 15.2% of the market.

The discount store sector is Korea’s most dynamic and competitive retail sector, offering major opportunities for both top-and bottom-line growth. The top five discount chains control roughly 80% of the market. In 2007, we expanded our chain with six new stores in the cities of Gwangju, Gunsan, Jeju, Incheon, and Daejeon.

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

We have a number of initiatives underway to improve our cost structure and efficiency. Our private brand strategy continued make solid progress in 2007, rising two full percentage points to 12.2% of total sales as we moved steadily toward our 20% mid-term target. In November, we opened our Osan Distribution Center, Asia’s largest at 85,000 sqm. We estimate that the center will add at least 0.4 of a percentage point to our gross profit margin in 2008 and a full percentage point when full operation is attained within the next couple of years. We are also working with McKinsey on a lean-management program that will cover 23 stores by the end of 2008 and the entire chain by the end 2009.

With the 2007 presidential and 2008 National Assembly elections now behind us, we see a more favorable environment for expansion going forward. Our growing logistics efficiencies will receive another boost in late 2008 when the 54,900-sqm Gimhae Distribution Center opens to serve stores across the southern half of the peninsula. This logistics infrastructure will pave the way for our economies of scale to reach critical mass in 2009 when we pass the 70-store milestone.

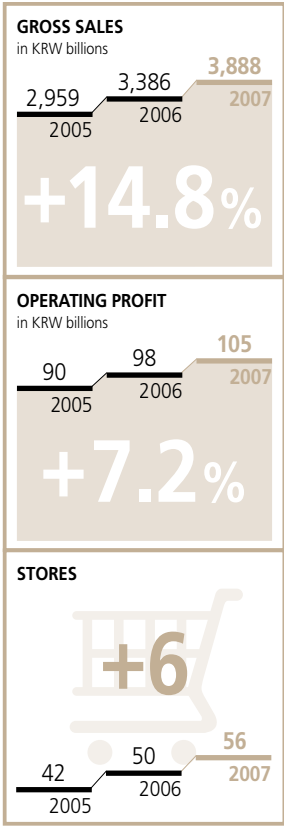
As preparations continued on schedule to open our first overseas discount store in Vietnam in the second half of 2008, we seized a golden opportunity to enter China’s discount store market. Our acquisition of the Makro discount chain in December 2007 gives us a chain of eight stores, including six in Beijing and two in Tianjin. We plan to open an additional store and relaunch the chain under the Lotte Mart name in 2008 as we prepare to accelerate expansion from 2009 onward.

2007 FINANCIAL HIGHLIGHTS

Gross sales grew a robust 14.8% to nearly KRW 3.9 trillion as we opened six new stores and grew same-store sales by 1%. Operating profit was up a solid 7.2% to KRW 105 billion, dampened slightly by a one-time labor cost adjustment in the fourth quarter and a reduction in leverage caused by delays in several new store openings.

WWW.LOTTEMART.COM

LOTTE MART



Lotte Mart
Guro, Seoul



Toys "R" Us
Lotte Mart
Guro, Seoul



Osan
Distribution Center

2007 FINANCIAL HIGHLIGHTS

Gross sales rose a strong 33% to KRW 537.8 billion as we added 27 stores to increase our chain size by 50% to 79 locations. We recorded our first full-year operating profit to date as we increased our market share among the top-four players from 27.9% to 33.0%. We expect to surpass the market leader in both stores and profitability in the near future.

WWW.LOTTESUPER.CO.KR

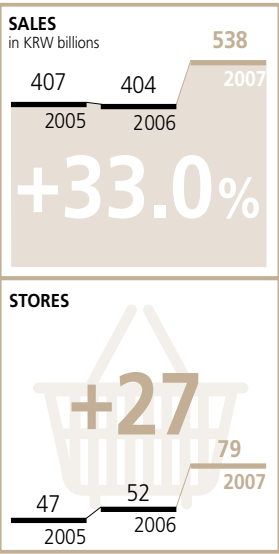
LOTTE SUPER

Lotte Super has been bringing one-stop shopping convenience to local neighborhoods across Korea since 2001. Over the past four years, we have tripled our store network to 79 stores nationwide through strategic acquisitions and expansion, putting us right on the heels of the current market leader.

Korea’s supermarket sector is highly fragmented, with small mom-and-pop stores accounting for nearly half of sales. Our strategy is to provide the convenience of a neighborhood market—nearby locations, phone ordering, and free delivery—with a superior selection of fresh produce, meat, poultry, and fish as well as packaged foods, daily necessities, and household products at reasonable prices.

In 2007, we increased the size of our chain by over 50% from 52 to 79 stores as we completed the framework for a nationwide chain with stores in all major population centers. We gained a key foothold in southwestern Korea by acquiring 14 Big-Mart stores in March. We also moved into the nation’s southeastern region through strategic core expansion. Our goal is to have over 100 stores in operation by the end of 2009.

We now have several initiatives underway that will help us improve profitability and deliver more value to our customers. Our private brand strategy continues to gain momentum as we steadily expand our selection of quality products. We are focusing on reducing costs and improving produce freshness by expanding direct and local sourcing. We are also moving closer to consumers by accelerating the rollout of our new “mySuper” mini-supermarkets.



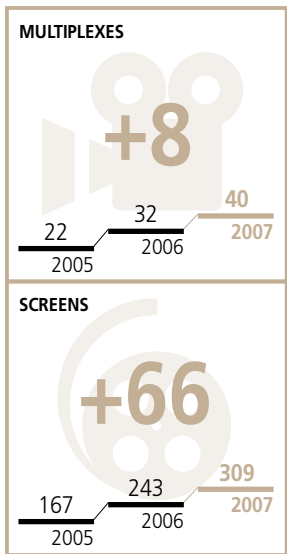
Lotte Super
Bucheon





WWW.LOTTECINEMA.CO.KR

LOTTE CINEMA



Lotte Cinema is Korea's fastest growing multiplex chain with 309 screens at 40 locations nationwide. We entered the cinema business back in 1999 to create synergies with our existing retail businesses. As we entered 2008, 14 of our multiplexes were located near either a Lotte department or discount store, generating additional crosstraffic and sales for both business segments.

Our cinema multiplex business added 8 multiplexes and 66 screens in 2007, further solidifying our position as Korea's No. 2 cinema chain. Our cinemas are on the cutting edge of digital cinema technology with the latest standard and 3D projection systems. In 2007, we continued to lead the industry in innovation by equipping select theaters with full stage facilities for hosting children's productions and other special events. We also began testing a couple- and family-friendly seating concept featuring a mix of couch-style two- and four-person seating.

We plan to add around 10 multiplexes with an average of 12 screens each in 2008, bringing our chain to over 400 screens at some 50 locations. We are currently preparing to take our cinema chain and film distribution network international as we take the next step toward becoming one of Asia's leading entertainment companies.



WWW.KRISPYKREME.CO.KR

KRISPY KREME DOUGHNUTS

Since our first Krispy Kreme store opened its doors in December 2004 in Seoul's Sincheon district, we've opened a total of 26 doughnut stores serving this quintessential American treat.

Taste and ambiance are what make the Krispy Kreme experience special. Over half of our 2007 sales came from a single product—our Original Glazed doughnut. We also offer customers a fascinating look at how our tempting treats are made through glass-enclosed open kitchens that we like to call "doughnut theaters." In keeping with the times, all of our doughnuts are now produced with 0% trans fat shortening.

Now solidly profitable with four new shops scheduled to open in 2008, we are aiming for high-double-digit sales growth that will lay the framework for us to vie for industry leadership in the coming years. We also continue to offer our customers healthier choices by expanding our menu with whole-wheat mixes, organic coffees, and frozen fresh-fruit blends.



WWW.LOTTEFOOD.CO.KR

FOOD MANUFACTURING

We entered the food manufacturing business back in 1994 with the acquisition of affiliate Lotte Foods. While our primary customers are Lotte affiliates operating in the food and beverage industries, we do market a growing number of Lotte-branded products to consumers at home and abroad.

We produce a wide range of quality food additives, flavorings, seasonings, snack foods, chocolate, and coffee as well as sanitizers and disinfectants at our Ansan plant just south of Seoul. Our products are sold through our own retail channels as well as third-party wholesalers and retail distributors.

In 2008, we will continue to upgrade the quality and output of our production lines as we strategically expand into higher margin businesses like health foods and foodstuffs and set up a production presence in China to better meet the needs of Lotte Group food and beverage affiliates operating in that local market.



SHOPPING MALLS & OUTLETS

Shopping centers and malls have become an increasing central part of the retail landscape worldwide since the first modern centers started appearing in the US in the 1920s. In Korea, rising incomes and an increasingly common five-day workweek are giving families more time for leisure and entertainment. In 2005, we launched this division to spearhead our advance into segments we believe will lead the next wave of retail development in Korea.

SKY PARK MALL

In 2007, we broke ground for Sky Park shopping mall on a 195,000-sqm site at Gimpo International Airport in Seoul. Now on schedule for opening in spring 2011, Sky Park will host the full lineup of Lotte retail and entertainment businesses—including a department store, discount store, multiplex, and specialty stores.

PREMIUM OUTLET MALLS

The outlet mall retail concept first appeared in the US and traces its roots back to the days when manufacturers sold directly to the public from stores located at their factory or warehouse sites. We will open our first premium outlet malls in 2008 in Gwangju and Gimhae.

GLOBAL FASHION

We launched this division in 2005 to give us a competitive edge in the fashion retail business. The division is in charge of identifying and securing international brands that we believe can succeed in the Korean marketplace as well as supervising the development of our own world-class private brands.

In 2007, we added Hot Diamonds to our global brand portfolio that currently includes Furla premium leather goods, Junior City children's wear, Gerard Darel women's wear, and our private Tasse Tasse women's casual wear and Herrbon men's wear brands. We also launched a new department store shop called Italium featuring fine Italian-tailored men's casual and formal suits from several time-honored names. Our ongoing channel diversification initiative continues to gain momentum as we steadily add Furla shops inside other competing department stores.



Lotte Card is the Lotte Group's consumer credit specialist. Formerly known as Tongyang Card, we became a subsidiary of Lotte Shopping in December 2002. We took over Lotte Shopping's credit card business in December 2003, beginning Lotte Card's transformation from a local department store credit card brand to a full-service credit card company.

In addition to our MasterCard and Visa businesses, we are Korea's sole issuer of American Express corporate cards. In October 2007, we began issuing JCB cards, making us the only Korean card company to issue all four of these major international cards. These credit cards are one of Lotte Shopping's most valuable marketing tools. Captured transaction data provides our Lotte affiliates with valuable insights on consumer preferences and spending patterns by brand, merchandise category, and store location. The data also facilitates targeted marketing activities such as special promotional events and direct mailings.

The launch of the Lotte Membership loyalty program by Lotte department store in November 2005 has significantly improved our ability to attract new customers and expand our CRM database. This integrated membership program with an enrollment of over 10 million going into 2008 allows customers to earn and use Lotte Points at any Lotte Group affiliate, including department and discount stores, cinemas, duty-free shops, hotels, Lotteria fast-food restaurants, and 7-Eleven convenience stores. While other card issuers have point redemption rates in the 60% to 70% range, our redemption rate is over 90%, indicating that we're doing a good job at satisfying our cardholders.

We enjoyed strong transaction volume growth and an exceptionally low delinquency rate as our business steadily grew in 2007. We continue to see our transaction volume rise in local markets as Lotte Shopping opens new department stores, discount stores, and supermarkets across Korea. The Lotte Group's 2006 acquisition of Woori Home Shopping has accelerated the shift in consumer perceptions of us away from being just a "department store card", helping us emerge as the payment method of choice at Lotte Home Shopping, Lotte.com, Krispy Kreme Doughnuts, TGI Friday's, and other Lotte affiliates.

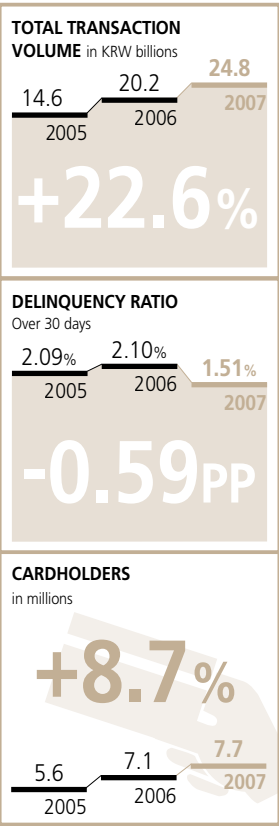
Our long-term goals are to surpass 10 million cardholders and enter the industry top-five. Leveraging the formidable customer base represented by our Lotte affiliates, we continue to aggressively expand our credit card business portfolio as we upgrade our IT systems to take our risk management and database marketing capabilities to the next level.

2007 FINANCIAL HIGHLIGHTS

Transaction volume climbed nearly 23% to KRW 24.8 trillion in 2007 as synergy with Lotte Group affiliates continued to be a catalyst for growth. Despite this rapid growth in volume, we continued to have the industry's lowest over-30-day delinquency ratio at 1.51%, down a remarkable 0.59 percentage points from 2006. Operating profit was down a sharp 66% to KRW 62 billion due to a substantial statutory increase in provisions for bad debts as well as higher income taxes as our acquisition tax benefits expired and we began paying the standard corporate tax rate. As of 2007 year-end, Lotte Shopping held a 92.5% stake in us.

WWW.LOTTECARD.CO.KR

LOTTE CARD





WWW.LOTTEIMALL.COM

LOTTE HOME SHOPPING

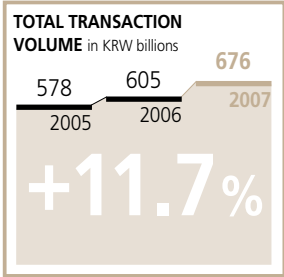
Lotte Home Shopping has been helping Korea’s small and medium-sized firms reach the local marketplace since May 2001. Formerly known as Woori Home Shopping, we became a subsidiary of Lotte Shopping in February 2007 and began operating under the Lotte name in May 2007.

We have a reputation for pushing the boundaries of information and broadcast technology to reach Korean consumers in new, innovative ways. We launched the industry’s first m-commerce service—shop-ping via mobile phone—in July 2006. We made history again in April 2007 by launching the industry’s first t-commerce service—shopping via the interactive features supported by digital cable TV. Today, we continue to thrive on the cutting-edge of technology as we explore new retail opportunities in Japan, Southeast Asia, and other regional markets.

In the first half of 2008, we will be launching a catalog business targeting consumers in both our and Lotte Shopping’s customer da-tabases. We believe that our cross-media strategy of synergistically combining TV, Internet, catalog, and mobile shopping will put us at the new media forefront as we strive to deliver a compelling value proposition to our customers as one of the Lotte Group’s premier online channels.

2007 FINANCIAL HIGHLIGHTS

Although the overall Korean retail market was flat in 2007, total transaction volume increased by 11.7% to KRW 676 billion. TV accounted for 77.8% sales, followed by the Internet with 21.5%, and other sales with 0.7%. Of particular note was the 7.1% increase our TV home shopping business generated in a year when the top-three industry players all saw sales fall. Operating profit fell 37.0% due to a strategic decision to dramatically curtail airtime sales to third parties to maintain better control of our brand image. As of 2007 year-end, Lotte Shopping held a 50.58% stake in us.



WWW.LOTTE.COM

LOTTE.COM

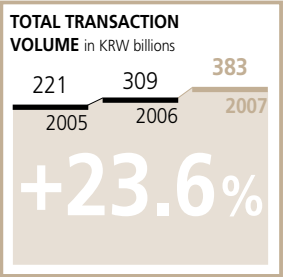
Lotte Shopping started Korea’s online shopping revolution back in 1996 with the launch of Lotte.com. Backed by over a decade of expertise in the field, we continue to expand our online businesses as we provide customers with one-stop access to the full spectrum of merchandise and services offered by our Lotte retail affiliates.

According to the Korea National Statistical Office, Korea’s online marketplace was valued at KRW 15.8 trillion in 2007, a 17.1% increase over 2006. General e-tailors accounted for two-thirds of the total, with customer-to-customer (C2C) transactions making up the remainder. In 2008, the market is forecast to once again grow roughly 17% to reach KRW 18 trillion. Mainstream e-tail sales are expected to rise about 12% to KRW 11 trillion, while C2C markets look set to grow at about twice that pace, jumping 26% to reach KRW 7 trillion.

In 2008, we will be leveraging our 10-plus years of experience in online sales to meet and beat the competition with superior merchandising and service. Profitability will continue to be our primary focus as we step up cooperation with Lotte department store, make our processes more efficient and customer-centered, and expand our fashion lineup. We will also continue to strategically branch out into new businesses such as hybrid online-offline shopping malls, overseas buying agent services, and online ticketing services.

2007 FINANCIAL HIGHLIGHTS

Transaction volume rose 23.6% to KRW 382.5 billion, significantly outperforming overall online sales growth. As of 2007 year-end, Lotte Shopping held a 34.4% stake in us.



PRACTICING SUSTAINABILITY

In retail, sustainability finds both its greatest challenges and opportunities.

At Lotte Shopping, we want to make a positive difference in life for all our stakeholders.

We're always looking for new ways to conserve, preserve, serve, and share with our local communities. This firm commitment to sustainable growth is what guides us as we help lead Korean retail into a greener, brighter future.



ROOFTOP GARDENS

A growing number of our department stores have rooftop gardens to save energy and provide customers and employees alike a refreshing place to relax. The garden at our new Centum City store in Busan is currently Korea's largest.

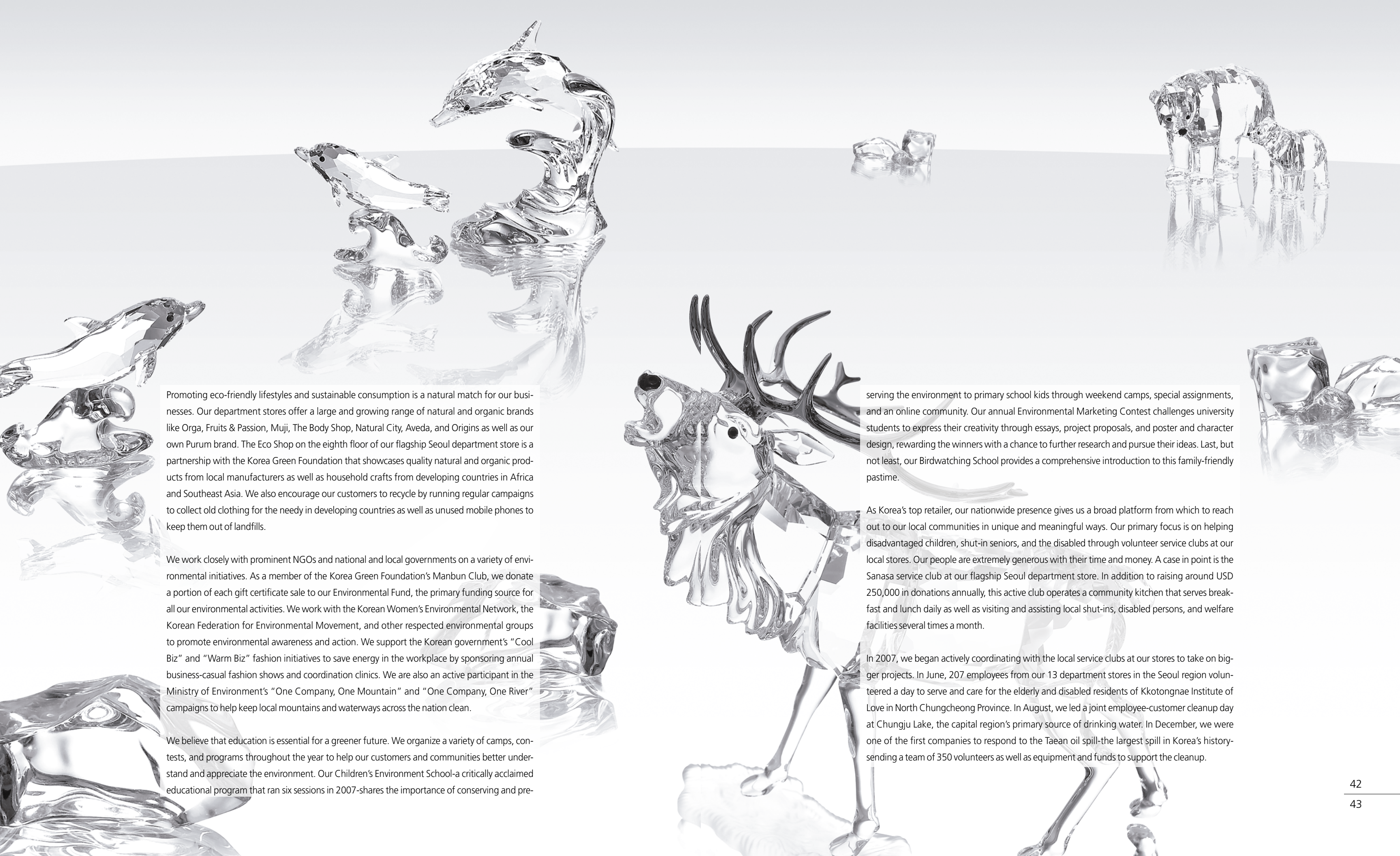


TAEAN CLEANUP

In December 2007, the Tae'an region on Korea's west coast was impacted by the largest oil spill in the nation's history. We quickly responded to this huge environmental crisis with volunteers, equipment, and cleanup funds..



In the years since we launched the local industry's first sustainability strategy back in 2004, we have continued to lead the way in sustainable retailing. We acquired ISO 14001 environmental management certification for our department store chain and became the first local retailer to publically commit to green purchasing in 2006. We encourage supermarket shoppers to bring their own shopping bags by offering a small cash discount. We recycle more than 40% of waste by weight and print our promotional materials with recycled paper and soy ink, saving the equivalent of 25,000 thirty-year-old trees annually. We have a system in place for recycling store fixtures, and we continue to add rooftop gardens and explore other innovative ways to reduce greenhouse emissions and save energy. We are still the only one in our industry to have a department dedicated to environmental affairs. We added yet another first in January 2007 when we became an official participant in the United Nations Global Compact, the world's largest voluntary corporate responsibility initiative encompassing core values in the areas of human rights, labor standards, the environment, and anti-corruption.



Promoting eco-friendly lifestyles and sustainable consumption is a natural match for our businesses. Our department stores offer a large and growing range of natural and organic brands like Orga, Fruits & Passion, Muji, The Body Shop, Natural City, Aveda, and Origins as well as our own Purum brand. The Eco Shop on the eighth floor of our flagship Seoul department store is a partnership with the Korea Green Foundation that showcases quality natural and organic products from local manufacturers as well as household crafts from developing countries in Africa and Southeast Asia. We also encourage our customers to recycle by running regular campaigns to collect old clothing for the needy in developing countries as well as unused mobile phones to keep them out of landfills.

We work closely with prominent NGOs and national and local governments on a variety of environmental initiatives. As a member of the Korea Green Foundation's Manbun Club, we donate a portion of each gift certificate sale to our Environmental Fund, the primary funding source for all our environmental activities. We work with the Korean Women's Environmental Network, the Korean Federation for Environmental Movement, and other respected environmental groups to promote environmental awareness and action. We support the Korean government's "Cool Biz" and "Warm Biz" fashion initiatives to save energy in the workplace by sponsoring annual business-casual fashion shows and coordination clinics. We are also an active participant in the Ministry of Environment's "One Company, One Mountain" and "One Company, One River" campaigns to help keep local mountains and waterways across the nation clean.

We believe that education is essential for a greener future. We organize a variety of camps, contests, and programs throughout the year to help our customers and communities better understand and appreciate the environment. Our Children's Environment School-a critically acclaimed educational program that ran six sessions in 2007-shares the importance of conserving and pre-

serving the environment to primary school kids through weekend camps, special assignments, and an online community. Our annual Environmental Marketing Contest challenges university students to express their creativity through essays, project proposals, and poster and character design, rewarding the winners with a chance to further research and pursue their ideas. Last, but not least, our Birdwatching School provides a comprehensive introduction to this family-friendly pastime.

As Korea's top retailer, our nationwide presence gives us a broad platform from which to reach out to our local communities in unique and meaningful ways. Our primary focus is on helping disadvantaged children, shut-in seniors, and the disabled through volunteer service clubs at our local stores. Our people are extremely generous with their time and money. A case in point is the Sanasa service club at our flagship Seoul department store. In addition to raising around USD 250,000 in donations annually, this active club operates a community kitchen that serves breakfast and lunch daily as well as visiting and assisting local shut-ins, disabled persons, and welfare facilities several times a month.

In 2007, we began actively coordinating with the local service clubs at our stores to take on bigger projects. In June, 207 employees from our 13 department stores in the Seoul region volunteered a day to serve and care for the elderly and disabled residents of Kkotongnae Institute of Love in North Chungcheong Province. In August, we led a joint employee-customer cleanup day at Chungju Lake, the capital region's primary source of drinking water. In December, we were one of the first companies to respond to the Taean oil spill-the largest spill in Korea's history-sending a team of 350 volunteers as well as equipment and funds to support the cleanup.



PURSuing PROFITABILITY

In retail, striking the proper balance between growth and profitability is a constant battle. At Lotte Shopping, we believe that quantitative and qualitative growth must go hand-in-hand. In all our businesses, we are continually pursuing opportunities for greater synergies, efficiencies, and economies of scale to keep both our top and bottom lines healthy and growing.

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INDEPENDENT AUDITORS' REPORT
December 31, 2007 and 2006



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

We have audited the accompanying non-consolidated balance sheets of Lotte Shopping Co., Ltd. (the “Company”) as of December 31, 2007 and 2006, and the related non-consolidated statements of income, appropriation of retained earnings and cash flows for the years then ended and of changes in equity for the year ended December 31, 2007. 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.

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

In our opinion, the non-consolidated financial statements referred to above present fairly, in all material respects, the financial position of Lotte Shopping Co., Ltd. as of December 31, 2007 and 2006, the results of its operations, the appropriation of its retained earnings, and its cash flows for the year then ended, and the changes in equity for the year ended December 31, 2007, 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, 2007 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.

KPMG Samjong Accounting Corp.

KPMG Samjong Accounting Corp.
Seoul, Korea
February 14, 2008

This report is effective as of February 14, 2008, 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.

NON-CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2007 AND 2006

	2007 In KRW millions	2006 In KRW millions	2007 In USD thousands (note 2)
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents (notes 9)	₩467,026	747,586	\$497,789
Short-term financial instruments (notes 3, 12 and 13)	318,985	1,426,527	339,996
Trade accounts receivable, net of allowance for doubtful accounts of ₩2,838 million in 2007 and ₩2,802 million in 2006 (note 8)	247,543	230,172	263,849
Other accounts receivable, net of allowance for doubtful accounts of ₩1,164 million in 2007 and ₩1,719 million in 2006 (note 8)	55,515	41,641	59,172
Advance payments, net of allowance for doubtful accounts of ₩379 million in 2007 and ₩369 million in 2006 (note 8)	11,585	36,638	12,348
Inventories (notes 4 and 8)	1,017,880	946,137	1,084,929
Other current assets (note 6)	34,754	36,405	37,044
Total current assets	₩2,153,288	₩3,465,106	\$2,295,127
NON-CURRENT ASSETS			
Available-for-sale securities (notes 5 and 12)	102,965	115,342	109,748
Equity method investment securities (note 5)	2,112,201	1,433,835	2,251,334
Other investment assets (note 11)	16,602	129,133	17,695
Property, plant and equipment, net of accumulated depreciation of ₩1,611,546 million in 2007 and ₩1,321,278 million in 2006 (notes 8, 9 and 35)	6,740,876	6,111,108	7,184,903
Intangible assets (notes 10, 32 and 35)	112,524	35,592	119,936
Long-term prepaid expenses	161,226	142,086	171,846
Long-term advance payments	98,418	83,686	104,901
Guarantee deposits (notes 8 and 17)	459,555	356,426	489,826
Total non-current assets	9,804,367	8,407,208	10,450,189
Total assets	₩ 11,957,655	₩ 11,872,314	\$12,745,316

NON-CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2007 AND 2006

	2007 In KRW millions	2006 In KRW millions	2007 In USD thousands (note 2)
LIABILITIES AND STOCKHOLDERS' EQUITY			
CURRENT LIABILITIES			
Trade accounts payable (notes 8 and 13)	₩ 1,613,779	₩ 1,548,170	\$1,720,080
Other accounts payable (notes 8 and 13)	381,357	439,953	406,476
Advances from customers (note 8)	14,435	18,462	15,386
Accrued expenses (note 8 and 13)	120,816	116,667	128,774
Accrual for gift certificates	322,108	301,326	343,326
Current portion of debentur es, net of discount on debentures of ₩442 million in 2007 and ₩1,167 million in 2006 (notes 13 and 16)	549,558	656,721	585,758
Current portion of long-term borrowings (notes 13 and 15)	-	65,072	-
Income taxes payable (note 26)	195,873	124,296	208,776
Accrual for bonus cards (note 19)	29,362	23,284	31,296
Current derivative liabilities	-	25,375	-
Other current liabilities (note 14)	65,323	58,646	69,626
Total current liabilities	₩ 3,292,611	₩ 3,377,972	3,509,498
LONG-TERM LIABILITIES			
Debentures, net of discount of ₩1,685 million in 2006 (notes 16)	-	548,315	-
Leasehold deposits (notes 17)	246,011	252,801	262,215
Accrual for retirement and severance benefits, net (note 18)	43,265	45,431	46,116
Deferred income tax liabilities (note 26)	192,215	131,942	204,876
Total long-term liabilities	₩ 481,491	₩ 978,489	\$513,207
Total liabilities	₩ 3,774,102	₩ 4,356,461	\$4,022,705
STOCKHOLDERS' EQUITY			
Common stock of ₩5,000 par value (note 20)			
Authorized: 60,000,000 shares			
Issued and outstanding: 29,043,374 shares	₩145,217	₩145,217	\$154,782
Capital surplus (note 20)	4,650,895	4,650,895	4,957,254
Accumulated other comprehensive income (notes 21)	98,892	84,349	105,406
Retained earnings (notes 22)	3,288,549	2,635,392	3,505,169
Total stockholders' equity	₩ 8,183,553	₩ 7,515,853	\$8,722,611
Commitments and contingencies (note 28)			
Total liabilities and stockholders' equity	₩ 11,957,655	₩ 11,872,314	\$12,745,316

See accompanying notes to non-consolidated financial statements.

NON-CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2007 AND 2006

NON-CONSOLIDATED STATEMENTS OF APPROPRIATION OF RETAINED EARNINGS

YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007 In KRW millions	2006 In KRW millions	2007 In USD thousands (note 2)
Sales (notes 8, 17, 23, 24, 28 and 35)	₩9,768,132	₩9,055,880	\$10,411,567
Cost of sales (notes 8, 23 and 24)	6,844,893	6,383,540	7,295,772
Gross profit	₩2,923,239	₩2,672,340	\$3,115,795
Selling and administrative expenses (notes 8 and 25)	2,166,568	1,922,968	2,309,282
Operating income (notes 35)	₩756,671	₩749,372	\$806,513
NON-OPERATING INCOME			
Interest income	₩66,149	₩111,275	\$70,506
Dividend income	1,881	1,795	2,005
Gain on foreign currency transactions	4,910	3,282	5,234
Unrealized gain on foreign currency translation	-	8,363	-
Equity in income of affiliates (note 5)	209,129	234,609	222,904
Unrealized gain on reclassification of available-for-sale securities	-	39,821	-
Others	22,679	31,732	24,173
	₩304,748	₩430,877	\$324,822
NON-OPERATING EXPENSES			
Interest expense	₩36,524	₩87,318	\$38,930
Loss on foreign currency transactions	161	16,297	171
Unrealized loss on foreign currency translation	5	25,781	5
Equity in losses of affiliates (note 5)	38,746	6,246	41,298
Unrealized loss on valuation of derivative instruments	-	8,340	-
Loss on derivative instruments transactions	190	17	203
Loss on disposition of property, plant and equipment	642	19,216	685
Others	30,398	31,091	32,400
	₩106,666	₩194,306	\$113,692
Income before income taxes			
Income taxes (note 26)	265,292	246,099	282,767
Net income	₩689,461	₩739,844	\$734,876
Basic earnings per share in Won and U.S. dollars (note 27)	₩23,739	₩26,399	\$25.30

	2007 In KRW millions	2006 In KRW millions	2007 In USD thousands (note 2)
UNAPPROPRIATED RETAINED EARNINGS:			
Balance at beginning of year	₩13,328	₩9,878	\$14,207
Changes of equity in retained earnings of equity method investees	-	3,541	-
Net income	689,461	739,844	734,876
Balance at end of year before appropriation (note 22)	702,789	753,263	749,083
TRANSFER FROM VOLUNTRY RESERVES:			
Reserve for finance structure improvement	5	-	6
UNAPPROPRIATED RETAINED EARNINGS AVAILABLE FOR APPROPRIATION	702,794	753,263	749,089
APPROPRIATIONS OF RETAINED EARNINGS			
Legal reserve	3,630	3,630	3,870
Voluntary reserve	650,000	700,000	692,816
Cash dividends (note 29)	36,304	36,304	38,696
	689,934	739,934	735,382
Unappropriated retained earnings to be carried over to subsequent year	₩12,860	₩13,329	\$13,707

See accompanying notes to non-consolidated financial statements.

NON-CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

YEARS ENDED DECEMBER 31, 2007

	In KRW millions, In USD thousands (note 2)					
	CAPITAL STOCK	CAPITAL SURPLUS	ACCUMULATED OTHER COMPREHENSIVE INCOME	RETAINED EARNINGS	TOTAL EQUITY	TOTAL EQUITY
BALANCE AT JANUARY 1, 2007	₩145,217	₩4,650,895	₩84,349	₩2,635,392	₩7,515,853	\$8,010,929
Net income	-	-	-	689,461	689,461	734,876
Payment of cash dividends	-	-	-	(36,304)	(36,304)	(38,696)
Unrealized gain on valuation of available-for-sale securities	-	-	11,746	-	11,746	12,520
Unrealized loss on valuation of equity method investments	-	-	3,040	-	3,040	3,241
Unrealized loss on valuation of derivative instruments	-	-	(243)	-	(243)	(259)
Balance at December 31, 2007	₩145,217	₩4,650,895	₩98,892	₩3,288,549	₩8,183,553	\$8,722,611

See accompanying notes to non-consolidated financial statements.

See accompanying notes to non-consolidated financial statements.

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007 In KRW millions	2006 In KRW millions	2007 In USD thousands (note 2)
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	₩ 689,461	₩ 739,844	\$ 734,876
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation	₩ 305,028	₩ 265,336	\$ 325,121
Amortization of intangibles	27,350	15,838	29,151
Bad debt expense	506	297	539
Provision for retirement and severance benefits	38,045	31,267	40,551
Loss on inventory shrinkage	9,032	7,445	9,627
Loss on valuation of inventory	4,320	1,436	4,604
Amortization of discount on debentures	2,410	8,134	2,569
Loss on valuation of equity method investment securities	38,746	6,246	41,298
Loss on valuation of derivative instruments	-	8,340	-
Loss on disposition of property, plant and equipment	642	19,216	685
Loss on foreign currency translation	5	25,781	5
Gain on foreign currency translation	-	(8,363)	-
Gain on valuation of equity method investment securities	(209,129)	(234,609)	(222,904)
Unrealized gain on valuation of associate's share to exercise significant influence	-	(39,821)	-
Others	709	(3,482)	757
Changes in operating assets and liabilities			
Trade accounts receivable	₩(17,515)	₩(51,003)	\$(18,669)
Other accounts receivable	(11,038)	79,978	(11,766)
Accrued interest income	(4,540)	(7,855)	(4,839)
Advance payments	8,858	(14,361)	9,441
Inventories	(85,096)	(133,581)	(90,701)
Other current assets	5,232	(9,147)	5,576
Long-term prepaid expenses	(18,946)	(30,537)	(20,194)
Trade accounts payable	65,606	173,263	69,928
Other accounts payable	(50,044)	148,295	(53,340)
Advances from customers	(4,027)	(3,325)	(4,292)
Accrued expenses	4,222	849	4,500
Income taxes payable	71,577	20,713	76,292
Accrual for gift certificates	20,783	30,149	22,151
Accrual for mileage	6,078	1,933	6,478
Other current liabilities	6,678	11,857	7,117
Decrease in the National Pension Fund	(2)	29	(2)
Payment of retirement and severance benefits	(26,355)	(11,531)	(28,091)
Decrease in severance benefit deposit	(16,912)	(12,040)	(18,026)
Others	55,318	50,133	58,964
Net cash provided by operating activities	₩917,002	₩ 1,086,724	\$977,406

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007 In KRW millions	2006 In KRW millions	2007 In USD thousands (note 2)
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash inflows from investing activities			
Withdrawal of short-term financial instruments	₩ 2,546,806	₩ 2,582,903	\$2,714,567
Refund of guarantee deposits	11,653	26,976	12,421
Proceeds from disposition of property, plant and equipment	21,090	27,010	22,481
Others	4,544	4,105	4,841
	₩ 2,584,093	₩ 2,640,994	\$2,754,310
Cash outflows from investing activities:			
Purchase of short-term financial instruments	₩(1,439,264)	₩(4,023,027)	\$(1,534,069)
Purchase of available-for-sale securities	(10,944)	(47,691)	(11,665)
Purchase of equity method investment securities	(342,129)	(14,452)	(364,666)
Payment of guarantee deposits	(78,729)	(75,232)	(83,914)
Purchase of property, plant and equipment	(1,002,121)	(940,523)	(1,068,132)
Additions to intangible assets	(47,246)	(13,478)	(50,358)
Others	(69,458)	(186,990)	(74,034)
	₩(2,989,891)	₩(5,301,393)	\$(3,186,838)
Net cash used in investing activities	₩(405,798)	₩(2,660,399)	\$(432,528)
Cash flows from financing activities:			
Cash inflows from financing activities:			
Proceeds from short-term borrowings	₩ 252	₩ 45,276	\$269
Proceeds from issuance of common stock, net	-	3,549,434	-
Receipt of leasehold deposits	18,821	66,806	20,060
	₩ 19,073	₩ 3,661,516	\$20,329
Cash outflows from financing activities:			
Repayment of short-term borrowings	₩(252)	₩(629,307)	\$(269)
Redemption of debentures	(683,598)	(700,000)	(728,627)
Repayment of long-term borrowings	(65,072)	-	(69,358)
Repayment of leasehold deposits received	(25,611)	(33,482)	(27,298)
Dividends paid	(36,304)	(15,000)	(38,696)
	₩(810,837)	₩(1,377,789)	\$(864,248)
Net cash provided by (used in) financing activities	₩(791,764)	₩ 2,283,727	\$(843,919)
Net increase (decrease) in cash and cash equivalents	₩(280,560)	₩710,052	\$(299,041)
Cash and cash equivalents at beginning of year	747,586	37,534	796,830
Cash and cash equivalents at end of year	₩467,026	₩747,586	\$497,789

See accompanying notes to non-consolidated financial statements.

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, 2007 are as follows:

Stockholder	Number of shares	Ownership(%)
Shin Dong Bin	4,237,627	14.6%
Shin Dong Ju	4,235,883	14.6%
Shin Kyuk Ho	353,577	1.2%
Shin Young Ja	228,962	0.8%
Hotel Lotte Co., Ltd.	2,697,201	9.3%
Korea Fuji Film Co., Ltd.	2,474,543	8.5%
Lotte Confectionery Co., Ltd.	2,474,543	8.5%
Lotte Data Communication Company	1,515,653	5.2%
Lotte Chilsung Beverage Co., Ltd.	1,237,272	4.3%
Lotte Engineering & Construction Co., Ltd.	300,019	1.0%
Hotel Lotte Pusan Co., Ltd.	246,720	0.8%
Others	9,041,374	31.2%
Total	29,043,374	100.0%

(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.

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, 2007, the Company adopted Statements of Korea Accounting Standards (“SKAS”) No. 11 (Discontinued Operations), No. 21 (Preparation and Presentation of Financial Statements), No. 22 (Share-based Payment), and No. 23 (Earnings per Share). The adoption of these standards did not have a significant impact on the accompanying non-consolidated financial statements. Certain accounts of prior year’s non-consolidated financial statements have been reclassified to conform to the current year’s presentation. These reclassifications have not resulted in any change to reported net income or stockholders’ equity.

(c) Changes in Presentation of Financial Statements

According to SKAS No. 21, Preparation and Presentation of Financial Statements, a statement of changes in equity has been included in the financial statements and the capital adjustment account has been split into capital adjustments and accumulated other comprehensive income. Only the current year’s statement of changes in equity is required to be presented in the financial statements in the year of adoption of the standard. In addition, a statement of comprehensive income has been included in the notes to the financial statements.

(d) 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 for which the Company bears the overall risk for inventories, such as purchase contracts 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 sheets.

The Company recognizes sales of merchandise which is supplied on

condition that they may be returned at any time on a net basis, after deducting the cost of such merchandise, which is not included in cost of sales.

(e) 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.

(f) Inventories

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

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

The amounts of any write-down of inventories to net realizable value due to obsolescence or excess inventory 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.

The Company changed its method of valuation of inventories from the retail method to the gross average method for merchandise and finished goods of the Mart Division from January 1, 2007. The cumulative effect of this change on net income cannot be determined with reasonable accuracy and, accordingly, the effect of the change has not been accounted for retroactively. The effect of this change in the valuation of inventory on assets as of December 31, 2007 and cost of sales for the year ended December 31, 2007, was a decrease and an increase, respectively, by ₩1,153 million. Net income and retained earnings for the year ended December 31, 2007, net of the effect of income taxes, each decreased by ₩836 million.

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

(i)Classification

Upon acquisition, the Company classifies debt and equity securities (excluding investments in subsidiaries, associates and joint ventures) into the following categories: held-to-maturity, available-for-sale or trading securities. This classification is reassessed at each balance sheet date.

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

(ii) Initial recognition

Investments in securities (excluding investments in subsidiaries, associates and joint ventures) are initially recognized at cost.

(iii) Subsequent measurement and income recognition

Trading securities are subsequently carried at fair value. Gains and losses arising from changes in the fair value of trading securities are included in the income statement in the period in which they arise. Available-for-sale securities are subsequently carried at fair value. Gains and losses arising from changes in the fair value of available-for-sale securities are recognized as accumulated other comprehensive income, net of tax, directly in equity. Investments in available-for-sale securities that do not have readily determinable fair values are recognized at cost less impairment, if any. Held-to-maturity investments are carried at amortized cost with interest

income and expense recognized in the income statement using the effective interest method.

(iv)Fair value information

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

(v)Presentation

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

(vi)Impairment

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

(h)Investments in Associates and Subsidiaries

Associates are all entities over which the Company has the ability to significantly influence the financial and operating policies and procedures, generally accompanying a shareholding of over 20 percent of the voting rights. Subsidiaries are entities controlled by the Company.

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

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

When events or circumstances indicate that the carrying value of goodwill may not be recoverable, the Company reviews goodwill for impairment and records any impairment loss immediately in the statement of income.

The Company's share of its post-acquisition profits or losses in investments in associates and subsidiaries is recognized in the income statement, and its share of post-acquisition movements in equity is recognized in equity. The cumulative post-acquisition movements are adjusted against the carrying amount of each investment. Changes in the carrying amount of an investment resulting from dividends by an associate or subsidiary are recognized when the associate or subsidiary declares the dividend. When the Company's share of losses in an associate or subsidiary equals or exceeds its interest in the associate or subsidiary, including preferred stock or other long term loans and receivables issued by the associate or subsidiary, the Company does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate or subsidiary. Unrealized gains on transactions between the Company and its associates or subsidiaries are eliminated to the extent of the Company's interest in each associate or subsidiary.

(i)Joint Venture Investments

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

In respect to jointly controlled operations, the Company includes, in its non-consolidated financial statements, the assets that it controls and the liabilities and expenses it has incurred, plus its share of the income 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 using the equity method of accounting.

(j)Property, Plant and Equipment

Property, plant and equipment are stated at cost, except in the case of revaluations made in accordance with the Asset Revaluation Law which allowed for asset revaluation prior to the Law being revoked. Assets acquired through investment in kind or donation, are recorded at their fair value upon acquisition. For assets acquired in exchange for a non-monetary asset, the fair value of the asset given up is used to measure the cost of the asset received unless the fair value of the asset received is more clearly evident.

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 of the retail business segment over their respective estimated useful lives and by the declining-balance method for machinery of the other business segment, vehicles, equipment decorations and other equipment using rates based on useful lives as follows:

Useful lives (years)	
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.

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.

(k)Intangible Assets

Intangible assets are stated at cost, net of accumulated amortization. Subsequent expenditures on intangible assets after their purchases or completion, which enable the assets to generate future economic benefits and which 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 the 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 date closest to the most recent quarter end (the deemed acquisition date). Goodwill, which represents the excess of the acquisition cost over the fair value of net identifiable assets acquired, is amortized on a straight-line basis over the estimated useful life. The impairment loss on the goodwill is recognized when the goodwill's recoverable amount declines below its carrying amount and its amount is material.

Amortization is computed using the straight-line method over the

estimated useful lives as follows:

Useful lives (years)	
Goodwill	10
Industrial property rights	5
Rights to use a water supply facility	10
Rights to use an electricity supply facility	10
Rights to use a gas supply facility	10
Rights to use a facility	20
License	5~10
Copyrights	Duration of related revenue to be realized
Others	5

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

(l)Leases

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

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

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

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

Where the Company is a lessee under a capital lease, the present value of future minimum lease payments is capitalized and a corresponding liability is recognized. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

(m)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.

(n)Retirement and Severance Benefits

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

(o)Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into Korean Won at the balance sheet date, with the resulting gains or losses recognized in the income statement. Monetary assets and liabilities denominated in foreign currencies are translated into Korean Won at ₩938.2 to US\$1, the rate of exchange on December 31, 2007 that is permitted by the Financial Accounting Standards. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated into Korean Won at the foreign exchange rate on the date of the transaction.

Foreign currency assets and liabilities of foreign-based operations and companies accounted for using the equity method are translated at the rate of exchange at the balance sheet date. Foreign currency amounts in the statement of income are translated using an average rate and foreign currency balances in the capital account are translated using the historical rate. Translation gains and losses arising from collective translation of the foreign currency financial statements of foreign-based operations are recorded net as accumulated other comprehensive income. These gains and losses are subsequently recognized as income in the year the foreign operations or the companies are liquidated or sold.

(p)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 qualified hedge transaction, the adjustment to the fair value is reflected in current operations. 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, 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 the income statement. The ineffective portion of the gain or loss is charged or credited to current results of operations.

(q)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.

(r)Liability for Gift Certificates

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

(s)Income Taxes

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

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

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 car-

ryforwards 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.

(t)Earnings Per Share

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

(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 ₩938.2 to US\$1, the basic exchange rate on December 31, 2007. 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, 2007 and 2006 are as follows:

In KRW millions, In USD thousands (note 2)				
Account	Depository	2007	2006	2007
Short-term financial instruments:				
Guarantee deposits of contracts	Busan Bank	₩1,985	₩1,806	\$2,115
Long-term financial instruments:				
Guarantee deposits for checking accounts	Shinhan Bank and others	31	33	33
Total		₩2,016	₩1,839	\$2,148

4. Inventories

(a)Inventories as of December 31, 2007 and 2006 are as follows:

In KRW millions, In USD thousands (note 2)			
Description	2007	2006	2007
Merchandise	₩ 979,499	₩906,761	\$1,044,019
Finished goods	3,974	1,867	4,236
Raw materials	2,935	2,569	3,129
Supplies	942	937	1,004
Materials-in-transit	811	1,310	864
Plots of land	22,804	30,418	24,306
Unfinished housing units	6,915	2,275	7,371
Total	₩ 1,017,880	₩ 946,137	\$1,084,929

(b)Loss on inventory shrinkage and loss on valuation of inventory for the year ended December 31, 2007 are ₩9,032 million and ₩4,320 million, respectively.

5. Investment in Securities

Investments in securities as of December 31, 2007 and 2006 are as follows:

(a)Available-for-sale securities

(i)Equity securities

					In KRW millions
		2007			2006
Description	Owned shares	Cost	Fair value	Book value	Book value
Marketable securities (*1):					
Busan Bank (*2)	3,892,318	₩18,041	₩61,109	₩61,109	₩ 45,151
Shinhan Financial Group	271,662	1,584	14,534	14,534	12,904
Eyesvision Corporation	16,880	491	73	73	53
Korea Investment Corporation	10,869	100	16	16	32
Subtotal		₩20,216	₩75,732	₩ 75,732	₩ 58,140

In KRW millions				
		2006	2005	
Description	Owned shares	Cost	Book value	Book value
Non-marketable securities (*3):				
Lotte Giants (*4)	-	6,000	₩30	₩30
Korea Foods Industry Association	-	5	5	5
Hankyung Economic Daily	1,722	31	31	31
Agentrics	4,768,731	865	865	865
I Venture Media Investment Union	14	700	700	700
So Big 5 Contents Investment Union	18	1,800	1,800	1,800
M-ciety Development Co., Ltd.	441,000	2,205	2,205	1,960
M-ciety Co., Ltd.	2,940	15	15	15
Corona Development (formerly Incheon PF)	172,000	860	860	100
Lakepark AMC (*4)	14,340	72	72	72
IZara Retail Korea Co., Ltd.	2,600	130	130	-
STX Construction Industrial Co., Ltd	139	1	1	-
Woori Home Shopping & Television	-	-	-	28,600
Lotteshopping RUS	-	-	-	7,137
Lotte Vietnam Shopping Co., Ltd.	-	-	-	3,749
Herald Media Inc.	12,000	60	-	-
V Bank Consulting	2,500	13	-	-
Incheon United Football Club	400	2	-	-
Subtotal		6,789	6,714	45,064
Total		₩27,005	₩82,446	₩103,204

(*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 other comprehensive income.

(*2)As of December 31, 2007, the Company has pledged 1,030,000 shares of equity securities of Busan Bank to Gyeongsangnam-do Province as a performance guarantee for the construction of a large retail complex. The Company has also pledged 1,313,827 shares of equity securities of Busan Bank to Busan Metropolitan City as a construction performance guarantee.

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

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

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

Continued

(ii)Debt securities

In KRW millions, In USD thousands (note 2)			
	2007	2006	2007
Current assets			
Government and public bonds (note6)	₩32	₩2	\$34
Non-current assets			
Government and public bonds	20,519	12,138	21,870
Total	₩20,551	₩12,140	\$21,904

(iii)Changes in unrealized holding gains (losses)

Changes in unrealized gains (losses) for the years ended December 31, 2007 and 2006 are summarized as follows:

In KRW millions, In USD thousands (note 2)			
	2007	2006	2007
Balance at beginning of period	₩26,732	₩30,863	\$28,493
Unrealized gains (losses) on valuation of securities, net of tax	11,746	(4,131)	12,520
Balance at end of period	₩38,478	₩26,732	\$41,013

(b)Equity method accounted investments

(i)Investments in companies accounted for using the equity method as of December 31, 2007 and 2006 are as follows:

In KRW millions					
2007					
Affiliate	Owned shares	Percentage of ownership	Cost	Net asset value	Balance at December 31, 2007
Lotte Station Building Co., Ltd.	900,000	25.00%	₩4,500	₩126,488	₩126,488
Daehong Communications Co., Ltd.	12,006	30.02%	6,280	58,389	58,390
Lotte.Com Inc.	1,600,000	34.39%	8,000	8,121	8,153
Lotte Boulangerie Co., Ltd.	3,920,222	93.33%	19,601	13,143	13,143
Foodstar Inc.	5,582,896	39.76%	33,994	4,523	4,523
Lotte Midopa Co., Ltd. (*2)	51,475,843	79.01%	257,379	419,703	453,376
Lotte Card Co., Ltd.	69,995,159	92.54%	432,907	729,682	754,270
Lotte Capital Co., Ltd.	6,434,128	20.55%	67,573	44,926	44,926
FRL Korea Co., Ltd.	2,352,000	49.00%	11,760	13,165	13,165
Woori Home Shopping & Television Co., Ltd.	4,046,796	50.58%	445,148	76,827	425,800
Lakepark Co, Ltd.	621,400	23.90%	3,107	2,714	2,714
Nexus Media Contents Investment Union	20	20.00%	2,000	948	948
KTB Media Investment Union	15	30.00%	1,500	960	960
Isu Entertainment Investment Union	30	37.50%	3,000	2,028	2,028
Lotte RUS Ltd. (*1)	64,457	17.69%	13,154	12,585	13,497
Lotte Engineering & Machinery Manufacturing Co., Ltd. (*1)	393,283	13.71%	2,069	13,744	13,745
Lotte Trading Co., Ltd. (*1)	53,393	8.77%	1,981	22,816	42,303
Lotte Aluminium Co., Ltd. (*1)	48,391	5.08%	23,038	29,321	34,218
Lotteria Co., Ltd. (*1)	74,000	19.94%	39,719	49,874	56,449
Lotteshopping RUS	-	100.00%	22,394	14,818	14,818
Lotte Vietnam Shopping Co., Ltd.	-	85.96%	8,641	6,360	6,360
Lotte Asset Development Co., Ltd.	3,600,000	60.00%	18,000	17,856	17,856
Lotte Logistics Co., Ltd.	66,308	4.64%	4,000	4,987	4,071
Total			₩1,429,745	₩1,673,978	₩2,112,201

In KRW millions					
2006					
Affiliate	Owned shares	Percentage of ownership	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.	3,920,222	93.33%	19,601	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. (*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. (*1)					
(formerly Lotte Industry Co., Ltd.) (*1)	53,393	8.77%	1,981	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			₩924,485	₩1,335,281	₩1,433,835

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

(*2) The quoted market values of Lotte Midopa Co., Ltd., based on the closing price at the Korea Stock Exchange, are ₩640,874 million and ₩844,204 million as of December 31, 2007 and 2006, respectively.

(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, 2007 and 2006 are as follows:

In KRW millions				
2007				
Affiliate	Beginning balance	Increase	Amortization	Balance at December 31, 2007
Lotte Midopa Co., Ltd.	₩40,331	₩-	₩(6,725)	₩33,606
Lotte Card Co., Ltd.	28,865	-	(4,880)	23,985
Woori Home Shopping & Television Co., Ltd.	-	388,006	(39,042)	348,964
Lotte RUS Ltd.	1,078	-	(165)	913
Lotte Trading Co., Ltd.	13,319	6,206	(38)	19,487
Lotte Aluminium Co., Ltd.	5,877	-	(980)	4,897
Lotteria Co., Ltd.	8,218	-	(1,644)	6,574
Lotte Logistics Co., Ltd.	-	(1,001)	84	(917)
Total	₩97,688	₩393,211	₩(53,390)	₩437,509

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2006				
Affiliate	Beginning balance	Increase	Amortization	Balance at December 31, 2006
Lotte Midopa Co., Ltd.	₩47,055	₩-	₩(6,724)	₩40,331
Lotte Card Co., Ltd.	33,744	-	(4,879)	28,865
Lotte RUS 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	-	(1,646)	8,217
Total	₩98,762	₩13,319	₩(14,394)	₩97,687

(iii)Eliminated net unrealized losses from intercompany transactions as of December 31, 2007 and 2006 are ₩ 714 million and ₩867 million, respectively.

(iv)Details of changes in investments in companies accounted for using the equity method for the years ended December 31, 2007 and 2006 are as follows:

2007						
Adjustment to						
Affiliate	Percentage of ownership	Beginning balance	Net income (loss)	Capital adjustment	Other	Balance at December 31, 2007
Lotte Station Building Co., Ltd.	25.00%	₩110,429	₩16,956	₩3	₩900	₩126,488
Daehong Communications Co., Ltd.	30.02%	49,909	3,910	4,574	(3)	58,390
Lotte.Com Inc.	34.39%	5,400	2,753	-	-	8,153
Lotte Boulangerie Co., Ltd.	93.33%	7,120	6,023	-	-	13,143
Foodstar Inc.	39.76%	9,438	(4,926)	11	-	4,523
Lotte Midopa Co., Ltd.	79.01%	338,918	114,183	275	-	453,376
Lotte Card Co., Ltd.	92.54%	713,057	46,236	(5,023)	-	754,270
Lotte Capital Co., Ltd.	20.55%	34,325	10,527	74	-	44,926
FRL Korea Co., Ltd.	49.00%	5,333	1,984	(32)	5,880	13,165
Woori Home Shopping & Television Co., Ltd.	50.58%	-	(19,135)	(213)	445,148	425,800
Lakepark Co., Ltd.	23.90%	1,893	(368)	(6)	1,195	2,714
Nexus Media Contents Investment Union	20.00%	1,856	(908)	-	-	948
KTB Media Investment Union	30.00%	1,160	(200)	-	-	960
Isu Entertainment Investment Union	37.50%	2,903	(875)	-	-	2,028
Lotte Rus Ltd.	17.69%	11,556	1,035	906	-	13,497
Lotte Engineering & Machinery Manufacturing Co., Ltd.	13.71%	11,241	2,497	7	-	13,745
Lotte Trading Co., Ltd.	8.77%	43,777	(1,484)	10	-	42,303
Lotte Aluminium Co., Ltd.	5.08%	33,200	1,057	(39)	-	34,218
Lotteria Co., Ltd.	19.94%	52,321	1,897	2,231	-	56,449
Lotteshopping RUS	100.00%	-	(8,458)	882	22,394	14,818
Lotte Vietnam Shopping Co., Ltd.	85.96%	-	(2,248)	(33)	8,641	6,360
Lotte Asset Development Co., Ltd.	60.00%	-	(144)	-	18,000	17,856
Lotte Logistics Co., Ltd.	4.64%	-	71	-	4,000	4,071
Total		₩1,433,836	₩170,383	₩3,627	₩504,355	₩2,112,201

2006						
Adjustment to						
Affiliate	Percentage of ownership	Beginning balance	Net income (loss)	Capital adjustment	Other	Balance at December 31, 2006
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.	93.33%	1,628	(4,062)	(46)	9,600	7,120
Foodstar Inc.	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.	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 and *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 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)With the exercise of significant influence, beginning from December 29, 2006, the Company has accounted for its investment in this company using the equity method. An unrealized gain of ₩39,821 million on the fair-value valuation of the affiliate's shares held until the date on which the significant influence became exercisable, was included in 2006.

(v)Summarized financial information of equity-accounted investments which represents 100% of the entities’ balances as of December 31, 2007 is as follows:

In KRW millions				
Affiliate	Total assets	Total liabilities	Sales	Net income (loss)
Lotte Station Building Co., Ltd.	₩722,838	₩216,887	₩627,380	₩67,823
Daehong Communications Co., Ltd.	308,108	142,709	106,892	5,110
Lotte.Com Inc.	64,674	41,064	69,393	8,131
Lotte Boulangerie Co., Ltd.	50,221	36,140	43,832	6,454
Foodstar Inc.	86,344	74,968	91,408	(12,214)
Lotte Midopa Co., Ltd.	658,483	127,303	322,835	153,034
Lotte Card Co., Ltd.	3,483,313	2,694,767	815,612	55,355
Lotte Capital Co., Ltd.	2,165,319	1,946,669	215,100	51,234
FRL Korea Co., Ltd.	40,042	13,173	44,653	4,049
Woori Home Shopping & Television Co., Ltd.	253,086	101,209	242,074	39,337
Lakepark Co., Ltd.	11,358	-	-	(1,538)
Nexus Media Contents Investment Union	4,740	-	129	(1,082)
KTB Media Investment Union	3,453	254	534	(669)
Isu Entertainment Investment Union	5,408	-	234	(2,332)
Lotte RUS Ltd.	314,518	243,382	10,158	6,788
Lotte Engineering & Machinery Manufacturing Co., Ltd.	360,740	261,756	447,131	18,107
Lotte Trading Co., Ltd.	910,205	655,696	802,481	(3,069)
Lotte Aluminium Co., Ltd.	904,387	385,029	611,575	(1,506)
Lotteria Co., Ltd.	303,767	115,700	240,414	9,647
Lotteshopping RUS	28,272	13,454	3,550	(7,347)
Lotte Vietnam Shopping Co., Ltd.	51,748	44,349	-	(2,596)
Lotte Asset Development Co., Ltd.	30,367	606	-	(135)
Lotte Logistics Co., Ltd.	159,876	52,404	28,421	(786)
Total	₩10,921,267	₩7,167,519	₩4,723,806	₩391,795

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

6. Other Current Assets

Other current assets as of December 31, 2007 and 2006 are as follows:

In KRW millions, In USD thousands (note 2)			
	2007	2006	2007
Accrued interest income	₩12,721	₩8,181	\$13,559
Available-for-sale securities (note 5)	32	2	34
Short-term loans	396	1,386	422
Prepaid expenses	11,757	10,960	12,532
Current deferred income tax assets (note 26)	9,848	15,876	10,497
Total	₩34,754	₩36,405	\$37,044

7. Joint Venture Investments

Details of joint venture investments as of December 31, 2007 are as follows:

Joint venture investment	Ownership	Equity holder	Principal business
Lotte Academy	35.0%	Lotte Confectionery, etc.	Training service
Kookge Building	6.0%	Honam Petro Chemical, etc.	Building leasing services
Busan Underground Shopping Center	45.0%	Hotel Lotte Co., Ltd.	Building leasing services

8. Transactions and Balances with Related Companies

(a)Details of investor and subsidiary relationships with the Company as of December 31, 2007 are as follows:

Investor company	Ownership (%)	Control relationship
Hotel Lotte Co., Ltd.	9.3%	Affiliate of Lotte group
Korea Fuji Film Co., Ltd.	8.5%	Affiliate of Lotte group
Lotte Confectionery Co., Ltd.	8.5%	Affiliate of Lotte group
Lotte Data Communication Company	5.2%	Affiliate of Lotte group
Lotte Chilsung Beverage Co., Ltd.	4.3%	Affiliate of Lotte group
Lotte Engineering & Construction Co., Ltd.	1.0%	Affiliate of Lotte group
Hotel Lotte Pusan Co., Ltd.	0.8%	Affiliate of Lotte group

Controlled subsidiary (*)	Ownership (%)	Principal business
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
Woori Home Shopping & Television Co., Ltd.	50.6%	TV home shopping
Lotteshopping Luth	100.0%	Department stores
Lotte Vietnam Shopping Co., Ltd.	86.0%	Discount stores
Lotte Asset Development Co., Ltd.	60.0%	Asset development
Daehong Communications Co., Ltd. (*2)	30.0%	Advertising service
Lotte Capital Co., Ltd. (*3)	20.6%	Finance service

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

(*2)This company is expected to be excluded from controlled subsidiaries because the Company has made an arrangement to dispose of a certain proportion of its ownership in Daehong Communications Co., Ltd. on February, 2008.

(*3)This company is expected to be excluded from controlled subsidiaries according to the Company’s arrangement to dispose of a certain proportion of its ownership in Daehong Communications Co., Ltd., which owns an 8.4 percent interest in this company, as described in (*2) above.

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(b)Significant transactions which occurred in the normal course of business with related companies for the years ended December 31, 2007 and 2006 are summarized as follows:

In KRW millions				
2007				
Revenue transactions		Expenses and other transactions		
Related company	Sales and other revenue	Purchases of goods	Fees and commissions	Other
Hotel Lotte Co., Ltd.	₩ 14,773	₩ 3,243	₩58,872	₩ 1,419
Lotte Confectionery Co., Ltd.	26,813	54,418	364	-
Lotte Data Communication Company	995	13,138	34,170	21,492
Lotte Chilsung Beverage Co., Ltd.	11,741	26,210	286	178
Lotte Engineering & Construction Co., Ltd.	2,265	56	526	415,956
Hotel Lotte Pusan Co., Ltd.	5,187	75	14,296	-
Lotte Midopa Co., Ltd. (*)	7,197	2	7,206	-
Lotte.Com Inc.	211	271	27,898	771
Lotte Card Co., Ltd.	2,096	4,979	101,711	-
Daehong Communications Co., Ltd.	5,538	1,439	19,362	15
Lotte Station Building Co., Ltd. (*)	14,817	12	6,338	65
Lotte Aluminium Co., Ltd.	1,202	13,674	11,259	8,619
Lotte Engineering & Machinery Manufacturing Co., Ltd.	245	3,670	647	4,748
Lotteria Co., Ltd.	5,348	5	69	-
Lotte Trading Co., Ltd.	2,788	143,420	561	1,043
Lotte Samkang Co., Ltd.	5,173	6,516	1,580	-
Lotte Ham Co., Ltd.	4,220	30,470	23	-
Others	18,820	51,803	42,624	815
Total	₩129,429	₩353,401	₩327,792	₩455,121

In KRW millions				
2006				
Revenue transactions		Expenses and other transactions		
Related company	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	-
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 Trading Co., Ltd.	1,789	124,577	352	1,064
Lotte Samkang Co., Ltd.	6,443	9,872	2,509	-
Lotte Ham Co., Ltd.	6,171	43,013	670	-
Others	13,286	31,007	46,639	361
Total	₩115,467	₩282,434	₩344,311	₩409,601

(*)As described in note 28(b), 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.

(c)Account balances with related companies as of December 31, 2007 and 2006 are summarized as follow

In KRW millions						
2007						
Receivables				Payables		
Related company	Trade accounts receivable	Other accounts receivable	Other	Trade accounts payable	Other accounts payable	Other
Hotel Lotte Co., Ltd.	₩ 159	₩ 1,965	₩23,953	-	₩ 1,664	₩9,548
Lotte Confectionery Co., Ltd.	1,302	706	-	9,239	127	415
Lotte Data Communication Company	-	204	-	4	7,276	1,804
Lotte Chilsung Beverage Co., Ltd.	2,204	319	-	2,696	107	4
Lotte Engineering & Construction Co., Ltd.	27	475	410	-	76,772	20
Hotel Lotte Pusan Co., Ltd.	95	66	300	16	422	956
Lotte Midopa Co., Ltd.	6,180	1,375	19,673	-	2,179	1
Lotte Card Co., Ltd.	63,979	1,206	-	-	59,293	6,455
Daehong Communications Co., Ltd.	298	221	-	-	207	14,752
Lotte Station Building Co., Ltd.	12,097	4,743	9,889	-	4,681	276
Lotteria Co., Ltd.	712	33	-	-	769	6,214
Lotte Trading Co., Ltd.	28	326	594	6,925	2,706	226
Lotte Ham Co., Ltd.	242	214	-	2,076	86	-
Others	11,402	3,736	1,314	6,241	14,956	7,485
Total	₩98,725	₩15,589	₩56,133	₩27,197	₩171,245	₩48,156

In KRW millions						
2006						
Receivables				Payables		
Related company	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	-	101,144	-
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	-
Daehong Communications Co., Ltd.	-	240	-	2,011	527	8,051
Lotteria Co., Ltd.	501	40	-	-	572	6,041
Lotte Trading Co., Ltd.	-	-	-	8,863	1,447	-
Lotte Ham Co., Ltd.	789	215	-	3,795	90	230
Others	7,949	2,794	1,242	5,230	14,048	6,787
Total	₩100,61	₩17,420	₩57,537	₩29,447	₩251,290	₩48,827

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(d)The remuneration and provision for retirement and severance benefits of directors for the years ended December 31, 2007 are ₩11,673 million and ₩5,586 million, respectively.

(e)As of December 31, 2007, the Company has provided to Citibank N.A. Hochiminh a guarantee for the borrowings of Lotte Vietnam Shopping Co., Ltd., a related company, amounting to US\$60,000 thousand and interest thereon.

(f)During the year ended December 31, 2007, the Company purchased plots of land for ₩2,052 million and ₩103,022 million from Shin Kyuk Ho, one of the largest stockholders, and Lotte Foundation, a related entity, respectively, to build a new distribution center.

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.

(b)Changes in property, plant and equipment for the years ended December 31, 2007 and 2006 are as follows:

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

(*) Long-term advance payments aggregating ₩19,935 million were transferred to tangible assets, and tangible assets of ₩65,934 million were, in a large measure, transferred to intangible assets or charged to expense.

In KRW millions						
2006						
	Book value as of January 1, 2006	Acquisitions	Disposals	Depreciation	Transfers(*)	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	₩5,342,582	₩940,523	₩(40,682)	₩(265,336)	₩134,021	₩6,111,108

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

(c)The officially declared value and book value of land as of December 31, 2007 are as follows:

In KRW millions			The officially declared value, which is used for government purposes, is not intended to represent fair value.
2007			
	Book value	Declared value	
Land	₩2,923,107	₩4,016,102	

(d)Details of coverage under major insurance policies carried by the Company as of December 31, 2007 and 2006 are as follow

In KRW millions, In USD thousands (note 2)				
Type of insurance	Covered assets	Amount covered		Amount covered
		2007	2006	2007
Burglary insurance	Cash	₩39,722	₩33,105	\$42,339
Fire insurance	Merchandise, buildings and tools	5,214,226	4,568,779	5,557,692
Engine and machinery insurance	Machinery and equipment	87,610	77,103	93,380
Business liability insurance	Facilities and products	421,644	367,716	449,418
Directors & officers liability insurance	-	50,000	50,000	53,293
Others	Other utilities	29,610	30,235	31,561
Total		₩5,842,812	₩5,126,938	\$6,227,683

10. Intangible Assets

Changes in intangible assets for the years ended December 31, 2007 and 2006 are as follows:

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

In KRW millions					
2006					
	Book value as of January 1, 2006	Acquisitions	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 of water supply facility	2,768	-	(375)	746	3,139
Rights to use of electricity supply facility	2,214	-	(327)	965	2,852
Rights to use of gas supply facility	1,130	3	(157)	462	1,438
Rights to use of facility	10,134	-	(857)	-	9,277
License	-	1,609	(110)	-	1,499
Copyrights	2,408	10,406	(11,300)	-	1,514
Others	3,069	1,322	(840)	(1,068)	2,483
Total	₩36,847	₩13,478	₩(15,838)	₩1,105	₩35,592

11. Other Investment Assets

Other assets as of December 31, 2007 and 2006 are as follows:

In KRW millions, In USD thousands (note 2)			
	2007	2006	2007
Long-term financial instruments	₩31	₩32	\$33
Long-term loans	8,245	1,931	8,788
Others	8,326	127,170	8,874
Total	₩16,602	₩129,133	\$17,695

12. Pledged Assets and Guarantees

(a)The following assets are pledged as collateral for the Company's contract performance as of December 31, 2007:

In KRW millions, In USD thousands (note 2)			
Assets	Guarantee for		
Short-term financial instruments	₩1,985	\$2,115	Performance of contract, etc.
Long-term financial instruments	31	33	Billing and settlement plan
Available-for-sale securities (note 5(a))	36,798	39,222	Performance of contract, etc.
Total	₩38,814	₩41,370	

(b)The guarantees provided by third parties for the Company as of December 31, 2007 are as follows:

In KRW millions, In USD thousands (note 2)			
Guarantor	Guarantee for		
Seoul Guarantee Insurance Company	₩94,886	\$101,136	Performances of construction, etc.
Standard Chartered First Bank Korea Ltd.	100	107	E-commerce
Total	₩ 94,986	₩101,243	

13. Assets and Liabilities Denominated in Foreign Currency

Assets and liabilities denominated in foreign currency as of December 31, 2007 and 2006 are summarized as follows:

			Foreign currency in thousands, Won equivalent in millions	
2007			2006	
	Foreign currency	Won equivalent	Foreign currency	Won equivalent
Assets:				
Short-term financial instruments	\$7	₩7	\$630,078	₩585,721
Total	\$7	₩7	\$630,078	₩585,721
Liabilities:				
Trade accounts pay able	\$640	₩600	\$811	₩754
	EUR 23	32	58	70
	YEN 6,556	55	-	-
Other accounts pay able	\$277	260	579	539
Accrued expenses	\$330	309	478	443
Current portion of long-term borrowings	-	-	70,000	65,072
Current portion of long-term debentures	-	-	30,000	27,888
Total	\$1,247	₩1,169	\$101,868	₩94,696
	EUR 23	32	58	70
	YEN 6,556	55	-	-

14. Other Current Liabilities

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

In KRW millions, In USD thousands (note 2)			
	2007	2006	2007
Short-term borrowings	₩1	₩1	\$1
Unearned income	17	-	18
Withholdings	10,489	7,252	11,180
Value-added tax withholdings	40,054	38,317	42,693
Guaranty money received	3,146	2,597	3,353
Investment withholdings	11,616	10,479	12,381
Total	₩65,323	₩58,646	\$69,626

15. Long-term Borrowings

Long-term borrowings as of December 31, 2007 and 2006 are summarized as follows:

In KRW millions					
Lender	Maturity	Annual interest rate(%)	Foreign currency	2007	2006
Kookmin Bank	Jun. 25, 2007	Libor+0.75	USD 70,000,000	₩-	₩65,072
Less current portion				-	(65,072)
				₩-	-

16. Debentures

Debentures as of December 31, 2007 and 2006 are summarized as follows:

In KRW millions				
Description	Maturity	Interest rate(%)	2007	2006
39th placed	Jan. 29, 2007	5.00	₩-	₩170,000
40th placed	Mar. 04, 2007	5.00	-	250,000
41st placed	Apr. 09, 2008	5.00	200,000	200,000
42nd placed	Jun. 23, 2007	4.00	-	210,000
43rd placed	Jun. 25, 2007	Libor+0.75	-	27,888
44th placed	May 03, 2008	3.95	250,000	250,000
45th placed	Sep. 12, 2008	4.71	100,000	100,000
Subtotal			₩550,000	₩1,207,888
Less:				
Discount on debentures issued			(442)	(2,852)
Total book value			₩549,558	₩1,205,036
Less:				
Current portion, net of discount			(549,558)	(656,721)
			₩-	₩548,315

17. 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, 2007 aggregate ₩432,656 million.

(b)Future minimum lease payments under operating leases as of December 31, 2007 are as follows:

In KRW millions, In USD thousands (note 2)		
Period		
2008. 1. 1~2008. 12. 31	₩54,954	\$58,574
2009. 1. 1~2012. 12. 31	202,307	215,633
2013 and thereafter	298,865	318,551
Total	₩556,126	\$592,758

(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, 2007. The Company received lump-sum rental deposits of ₩246,011 million and rental income of ₩312,654 million for the year ended December 31, 2007.

18. Retirement and Severance Benefits

Changes in retirement and severance benefits for the years ended December 31, 2007 and 2006 are summarized as follows:

In KRW millions, In USD thousands (note 2)			
	2007	2006	2007
Estimated severance accrual at beginning of period	₩114,101	₩92,548	\$121,617
Provisions	38,045	31,267	(28,091)
Payments	(26,355)	(11,531)	40,551
Transfer of severance benefits from affiliated companies	3,059	1,817	3,261
Estimated severance accrual at end of period	128,850	114,101	137,338
Transfers to National Pension Fund	(53)	(51)	(56)
Deposit for severance benefit trust	(85,532)	(68,619)	(91,166)
Net balance at end of period	₩43,265	₩45,431	\$46,116

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

19. Accrual for Bonus Cards

The Company recognizes an accrual for bonus cards which provide free services for purchasers registered with Lotte Membership Card, which is a royalty program operated by many Lotte group companies. The changes in the accrual for bonus cards for the years ended December 31, 2007 and 2006 are summarized as follows:

In KRW millions, In USD thousands (note 2)			
Beginning of period	₩23,284	₩21,351	\$24,818
Increase	45,695	7,806	48,705
Decrease	(39,617)	(5,873)	(42,227)
End of period	₩29,362	₩23,284	\$31,296

20. 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 of ₩5,000 per share. The Company is authorized to issue non-voting preferred shares of up to one-fourth of the Company's total issued and outstanding capital stock. Holders of preferred shares may, upon a resolution of the board of directors at the time of the issuance of the preferred shares, be entitled to receive dividends prior to the holders of common shares. The preferred shares will be automatically converted to common shares 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, 2007, the Company has not issued any preferred stock and 29,043,374 shares of common stock were issued and outstanding.

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(b)Capital surplus as of December 31, 2007 and 2006 consists of the following:

In KRW millions, In USD thousands (note 2)			
	2007	2006	2007
Paid-in capital in excess of par value	₩3,605,117	₩3,605,117	\$3,842,589
Gain on capital reduction	1,793	1,793	1,911
Other capital surplus	1,043,985	1,043,985	1,112,754
	₩4,650,895	₩4,650,895	\$4,957,254

(i)Gain on capital reduction

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

(ii)Gain on merger

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

(iii)Assets revaluation

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

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

21. Other Comprehensive Income

Details of other comprehensive income as of December 31, 2007 and 2006 are as follows:

In KRW millions, In USD thousands (note 2)			
Accounts	2007	2006	2007
Unrealized gain on valuation of available-for-sale securities	₩38,479	₩26,732	\$41,013
Unrealized gain on investments under equity method, net	60,413	57,374	64,393
Unrealized gain on valuation of derivative instruments	-	243	-
	₩98,892	₩84,349	\$105,406

22. Retained Earnings

Retained earnings as of December 31, 2007 and 2006 are summarized as follows:

In KRW millions, In USD thousands (note 2)			
Accounts	2007	2006	2007
Appropriated			
Legal reserve	₩21,702	₩18,072	\$23,132
Reserve for business rationalization	10,552	10,552	11,247
Reserve for corporate development	134,000	134,000	142,827
Reserve for improvement of financial structure	5	5	6
Discretionary reserve	2,419,500	1,719,500	2,578,874
	2,585,759	1,882,129	2,756,086
Unappropriated	702,790	753,263	749,083
	₩3,288,549	₩2,635,392	\$3,505,169

(a)Legal reserve

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

(b)Reserve for business rationalization

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

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

(c)Reserve for corporate development

Under Korean Corporation Tax Law, the Company was required to appropriate into a reserve for corporate development. However, effective as of December 31, 2001, the Company is no longer required to establish a reserve for corporate development. This reserve is not available for the payment of dividends; however, it may be used for a specified purpose or continue to be reserved.

23. Sale of Apartments

(a)Lotting-out housing construction contracts as of and for the years ended December 31, 2007 and 2006 are as follows:

In KRW millions, In USD thousands (note 2)			
	2007	2006	2007
Beginning of period	₩107,080	₩6,154	\$114,133
Increase	726	114,923	773
Revenue recognized in current year	27,027	13,997	28,807
End of period	₩80,779	₩107,080	\$86,099

(b) Accumulated revenue and cost on lotting-out housing construction contracts as of December 31, 2007 are summarized as follows:

In KRW millions, In USD thousands (note 2)				
Project	Cumulative revenue	Cumulative cost	Cumulative revenue	Cumulative cost
Beome-dong project	₩35,734	₩28,668	\$38,088	\$30,556

24. Sales and Cost of Sales

Details of other comprehensive income as of December 31, 2007 and 2006 are as follows

In KRW millions, In USD thousands (note 2)			
	2007	2006	2007
Sales			
Sales of merchandise	₩9,135,745	₩8,529,487	\$9,737,524
Specific sales	405,537	303,806	432,250
Sales of products	71,757	48,888	76,484
Sales of apartments	27,027	13,997	28,807
Ancillary property operating revenue	122,428	114,284	130,493
Other operating revenue	473,495	436,244	504,685
Deductions			
Cost of specific sales	(317,005)	(238,303)	(337,886)
Sales allowance	(150,852)	(152,523)	(160,790)
	₩9,768,132	₩9,055,880	\$10,411,567
Cost of sales			
Cost of merchandise sold:			
Beginning inventory of merchandise	₩906,761	₩777,378	\$966,490
Purchases of merchandise for the year	6,796,632	6,411,017	7,244,331
Transfer to other accounts	-	(4)	-
Ending inventory of merchandise	(979,499)	(906,761)	(1,044,019)
	₩6,723,894	₩6,281,630	\$7,166,802
Cost of products sold:			
Beginning inventory of products	₩1,867	₩1,694	\$1,990
Cost of products manufactured for the year	42,286	32,245	45,071
Transfer to other accounts	(1,926)	(1,444)	(2,051)
Ending inventory of products	(3,974)	(1,867)	(4,236)
	₩38,253	₩30,628	\$40,774
Cost of sales - apartments	₩21,683	₩12,316	\$23,111
Ancillary property operating cost	61,063	58,966	65,085
	82,746	71,282	88,196
	₩6,844,893	₩6,383,540	\$7,295,772
Gross profit	₩2,923,239	₩2,672,340	\$3,115,795

25. Selling and Administrative Expenses

Details of selling and administrative for the years ended December 31, 2007 and 2006 are as follows:

In KRW millions, In USD thousands (note 2)			
	2007	2006	2007
Salaries	₩417,824	₩368,960	\$445,346
Provision for retirement and severance benefits	37,794	30,978	40,283
Other employee benefits	66,002	57,559	70,350
Education and training	5,282	4,426	5,630
Travel	11,945	10,403	12,732
Service contract expenses	281,015	238,039	299,526
Advertising	134,918	128,789	143,805
Sales promotion and commissions	232,597	230,569	247,918
Supplies	29,958	26,308	31,931
Communications	8,068	7,578	8,599
Utilities	111,692	98,148	119,049
Maintenance	19,326	16,263	20,600
Commissions and fees	253,571	228,375	270,274
Insurance	5,747	5,292	6,126
Transportation	2,670	3,116	2,846
Depreciation	301,923	262,735	321,811
Amortization of intangible assets	9,245	4,538	9,854
Taxes and dues	93,591	79,814	99,756
Rent	109,322	91,316	116,523
Others	34,078	29,762	36,323
	₩2,166,568	₩1,922,968	\$2,309,282

26. Income Taxes

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

Taxable income	Tax rate
Up to ₩ 100 million	14.3%
Over ₩ 100 million	27.5%

The components of income tax expense for the years ended December 31, 2007 and 2006 are summarized as follows:

In KRW millions, In USD thousands (note 2)			
	2007	2006	2007
Current income tax expense	₩203,945	₩202,650	\$217,379
Deferred income tax expense	66,300	43,130	70,667
Income taxes directly charged (credited) to equity	(4,953)	319	(5,279)
Income taxes	₩265,292	₩ 246,099	\$282,767

(b)The provision for income taxes calculated using the normal tax rates differs from the actual charge for the years ended December 31, 2007 and 2006 for the following reasons:

In KRW millions, In USD thousands (note 2)			
	2007	2006	2007
Provision for income taxes at normal tax rates	₩ 262,544	₩ 271,121	\$ 279,838
Tax effects of permanent differences, net	210	3,790	224
Investment tax credit	(6,343)	(1,150)	(6,761)
Increase (decrease) in deferred income tax liabilities of others, net	8,881	(27,662)	9,466
Actual charge for income taxes	₩ 265,292	₩ 246,099	\$ 282,767

The effective tax rates, after adjustments for certain differences between amounts reported for financial accounting and income tax purposes, were approximately 27.8%and 25.0% for the years ended December 31, 2007 and 2006, respectively.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

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(c)The tax effects of temporary differences that result in significant portions of the deferred tax assets and liabilities as of December 31, 2007 and 2006 are presented below:

In KRW millions, In USD thousands (note 2)			
	2007	2006	2007
Deferred tax assets:			
Allowance for doubtful accounts	₩877	₩1,513	\$935
Impairment losses on available-for-sale securities	20	1,305	22
Accrued expenses (bonus cards)	8,075	6,403	8,607
Accrued expenses (bonuses)	3,207	3,135	3,418
Available-for-sale securities	24	24	26
Negative other comprehensive income due to use of equity method	13	-	14
Loss on valuation of derivative instruments	-	7,070	-
Others	2,368	980	2,524
Total deferred tax assets	₩14,584	₩20,430	\$15,546
Deferred tax liabilities:			
Depreciation	4,120	4,120	4,392
Accrued interest income	3,499	2,250	3,729
Disallowed financing costs capitalized	17,512	18,031	18,665
Land	1,111	1,111	1,184
Equity method securities	134,895	80,135	143,781
Loss on valuation of available-for-sale securities	14,595	10,140	15,557
Other comprehensive income due to use of equity method	21,219	20,617	22,617
Loss on valuation of derivative instruments	-	92	-
Total deferred tax liabilities	₩196,951	₩136,496	\$209,925
Net deferred tax liability	₩(182,367)	₩(116,066)	\$(194,379)

(d)The Company did not recognize deferred tax assets in the amount of ₩3,537million and ₩24,997 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, 2007, 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, 2007, 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.

(e)As of December 31, 2007, details of aggregate deferred tax assets (liabilities) are as follows:

In KRW millions			
		Deferred Tax Assets (Liabilities)	
Temporary differences at December 31, 2007		Current	Non-current
Assets			
Allowance for doubtful receivables	₩3,189	₩877	₩-
Impairment losses on investment securities	12,938	-	20
Accrued expenses (bonus cards)	29,362	8,075	-
Accrued expenses (bonuses)	11,662	3,207	-
Available-for-sale securities	87	-	24
Negative other comprehensive income due to use of equity method	791	-	13
Others	8,611	1,188	1,180
	₩66,640	₩13,347	₩1,237
Liabilities			
Depreciation	₩(14,983)	₩-	₩(4,120)
Accrued interest income	(12,721)	(3,499)	-
Interest incurred during construction period	(63,679)	-	(17,512)
Land	(4,038)	-	(1,111)
Equity method investment securities	(600,837)	-	(134,895)
Land (reserve for advance depreciation)	(728,989)	-	-
Loss on valuation of available-for-sale securities	(53,074)	-	(14,595)
Other comprehensive income due to use of equity method	(82,410)	-	(21,219)
	(1,560,731)	(3,499)	(193,452)
Deferred income tax assets (liabilities)	₩(1,494,091)	₩9,848	₩(192,215)

(f)The deferred tax liabilities that were directly credited to other comprehensive income as of December 31, 2007 are as follows:

In KRW millions, In USD thousands (note 2)				
	Temporary differences	Deferred tax liabilities	Temporary differences	Deferred tax liabilities
Unrealized gain on valuation of available-for-sale securities	₩53,075	₩(14,595)	\$56,571	\$(15,557)
Capital adjustment of equity securities	81,619	(21,206)	86,995	(22,603)
	₩134,694	₩(35,801)	\$143,566	\$(38,160)

27. Earnings Per Share

Earnings per share for the years ended December 31, 2007 and 2006 are as follows:

Korean Won (millions, except per share amounts), U.S. dollars (thousands, except per share amounts)			
	2007	2006	2007
Net income	₩689,461	₩739,844	\$734,876
Weighted-average number of common shares outstanding	29,043,374	28,025,851	29,043,374
Earnings per share in Won and U.S. dollars	₩23,739	₩26,399	\$25.30

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28. Commitments and Contingencies

(a)As of December 31, 2007, the Company has various forms of credit facility with financial institutions as follows:

In KRW millions, In USD thousands		
Credit line	Amount used under credit facility	
Overdraft	₩65,000	₩1
General loan	₩200,000	₩-
Buyer's credit	₩1,120,000	₩74,680
Letter of credit	\$16,000	\$2,871
	₩1,485,000	₩74,681
	\$16,000	\$2,871

(b) The Company has entered into contracts with Lotte Midopa Co., Ltd. and Lotte Station Building Co., Ltd., both related parties of the Company, for providing management services. The Company receives an annual management fee equal to 10 percent of ordinary income before depreciation expense of related companies.

(c) The Company entered into contracts with Lotte Midopa Co., Ltd. and Lotte Station Building Co., Ltd. for the lease of its buildings. Details of those contracts as of December 31, 2007 are as follows:

In KRW millions					
Leaseholder	Location	Beginning date	Expiration date	Guarantee deposit amount	Monthly rent
Lotte Midopa Co., Ltd	Namdaemun-ro, Jung-gu, Seoul	Nov. 18, 2003	Oct. 31, 2023	₩17,500	346
Lotte Station Building Co., Ltd.	Nammoon-ro, Sangdang-gu, Cheongju	Feb. 23, 2007	Feb. 22, 2027	5,000	251
				₩22,500	597

(d)As of December 31, 2007, the Company is the plaintiff in 12 lawsuits claiming damages totalling ₩5,707 million and the Company is the defendant in 11 lawsuits claiming damages totalling ₩6,770 million. Management believes that the ultimate resolution of these legal actions will not have a material adverse effect on the financial position or operations of the Company; accordingly, the Company has not accrued any liability for possible losses in the accompanying non-consolidated financial statements.

29. Dividends

(a)Details of dividends for the years ended December 31, 2007 and 2006 are as follows:

In KRW millions, In USD thousands (note 2)			
	2007	2006	2007
Dividend amount (Cash dividends)	₩ 36,304	₩ 36,304	\$38,696
Net income	₩ 689,461	₩ 739,844	\$734,876
Dividends as a percentage of net income	5.27%	4.91%	5.27%
Par value	₩ 145,217	₩ 145,217	\$154,782
Dividends as a percentage of par value	25.0%	25.0%	25.0%

(b)Dividend yield ratio for the years ended December 31, 2007 and 2006 are as follows:

In KRW millions, In USD thousands (note 2)			
	2007	2006	2007
Dividend per share	₩ 1,250	₩ 1,250	\$1.33
Market price as of year end	413,000	386,000	440
Dividend yield ratio	0.30%	0.32%	0.30%

30. Added Value

The components of manufacturing costs and selling and general administrative expenses which are necessary in calculating added value at December 31, 2007 and 2006 are as follows:

In KRW millions, In USD thousands (note 2)			
	2007	2006	2007
Salaries	₩422,124	₩372,766	\$449,929
Retirement allowances and severance benefits	38,045	31,267	40,551
Other employee benefits	66,534	58,018	70,916
Rent	109,495	91,490	116,708
Depreciation	305,028	265,336	325,121
Taxes and dues	93,672	79,860	99,843
	₩1,034,898	₩898,737	\$1,103,068

31.Comprehensive Income

Comprehensive income for the years ended December 31, 2007 and 2006 was as follows:

In KRW millions, In USD thousands (note 2)			
	2007	2006	2007
Net income	₩689,461	₩739,844	\$734,876
Change in unrealized gain on valuation of available-for-sale securities, net of tax effect of ₩4,456 million	11,746	(4,131)	12,520
Change in unrealized gain on valuation of equity method investments, net of tax effect of ₩589 million	3,040	6,774	3,241
Change in unrealized loss on valuation of derivative, net of tax effect of ₩92 million	(243)	(464)	(259)
Comprehensive income	₩704,004	₩742,023	\$750,378

32.Acquisition of Business

The Company acquired 22 supermarkets in cash from Big Mart Co., Ltd., Nais Mart Co., Ltd. and other companies to enhance the efficiency and competitiveness of the Supermarket Division for the year ended December 31, 2007. The condensed financial information for the acquisitions is as follows:

In KRW millions, In USD thousands (note 2)		
Description		
Assets:		
Current assets	₩284	\$303
Non-current assets	86,883	92,606
	87,167	92,909
Liabilities:		
Current liabilities	₩55	\$59
Long-term liabilities	1,739	1,853
	1,794	1,912
Net assets purchased	85,373	90,997
Acquisition cost	106,133	113,126
Goodwill	₩20,760	\$22,129

33.Date of Authorization for Issue

The 2007 non-consolidated financial statements are expected to be authorized for issue on February 14, 2008, at the Board of Directors Meeting.

34.Results of Operations for the Last Interim Period

The Company's results of operations for the last interim periods of the years ended December 31, 2007 and 2006 are summarized as follows:

In KRW millions except for earnings per share, In USD thousands except for earnings per share (note 2)			
Description	2007 4th Quarter	2006 4th Quarter	2007 4th Quarter
Revenue	₩2,706,785	2,530,007	\$2,885,083
Operating income	213,207	216,520	227,251
Net income for the period	186,927	242,361	199,240
Earnings per share	6,436	8,345	6.86

35.Segment Information

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

(b)Financial information by business segment for the years ended December 31, 2007 and 2006 is summarized as follows:

2007				2006		
Department store	Mart	Other		Department store	Mart	Other
Sales	₩5,206,453	₩3,805,319	₩756,360	₩5,144,321	₩3,328,217	₩583,342
Operating income	645,727	104,721	6,223	643,668	97,826	7,878
Depreciation and amortization	141,970	131,154	59,254	134,848	101,929	44,397

2007				2006		
Department store	Mart	Other		Department store	Mart	Other
Sales	\$5,549,406	\$4,055,979	\$806,182	\$5,483,181	\$3,547,449	\$621,767
Operating income	688,262	111,619	6,632	686,066	104,270	8,398
Depreciation and amortization	151,322	139,793	63,157	143,730	108,643	47,322

(c)The property, plant and equipment and intangible asset information for the major segments as of December 31, 2007 and 2006 is summarized as follows:

2007				2006		
Department store	Mart	Other		Department store	Mart	Other
Property, plant and equipment	₩3,498,658	₩2,913,052	₩329,166	₩3,427,789	₩2,469,883	₩213,436
Intangible assets	11,108	61,721	39,695	11,564	9,329	14,699
Total	₩3,509,766	₩2,974,773	₩368,861	₩3,439,353	₩2,479,212	₩228,135

2007				2006		
Department store	Mart	Other		Department store	Mart	Other
Property, plant and equipment	\$3,729,117	\$3,104,937	\$350,849	\$3,723,025	\$2,682,614	\$231,819
Intangible assets	11,840	65,787	42,309	12,560	10,133	15,965
Total	\$3,740,957	\$3,170,724	\$393,158	\$3,735,585	\$2,692,747	\$247,784

36. Subsequent Events

(a)On December 24, 2007, the Company made an arrangement with KTB Private Real Estate Investment 29th Fund to sell land and buildings of three stores of its Mart Division in order to hedge the risk of price fluctuation of real estate and to improve its financial structure. In accordance with this arrangement, the Company received a total of ₩220,000 million on January 31, 2008, and accounted for this transaction as a bona fide sale. At the same time the Company made an arrangement to leaseback the real estate sold for 14.5 years, for which the Company deposited ₩11,440 million as key money and will pay the monthly rent of ₩1,144 million.

(b)The Company decided to acquire shares of CTA Makro Commercial Co., Ltd. that operates several discount stores in China. So the Company made arrangements to purchase 49 percent and 51 percent equity interests in CTA Makro Commercial Co., Ltd. from SHV Investment N.V. Co., Ltd. on December 17, 2007 and from China Trade Association Property Co., Ltd. on January 24, 2008, respectively, and will pay 57,619 thousand Euro and 637,500 thousand RMB, respectively.

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, 2007. 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, 2007, 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.

INDEPENDENT ACCOUNTANTS' REVIEW REPORT ON
INTERNAL ACCOUNTING CONTROL SYSTEM

REPORT ON THE OPERATIONS OF
INTERNAL ACCOUNTING CONTROL SYSTEM

January 24, 2008

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, 2007 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, 2007. We did not review the Company's IACS subsequent to December 31, 2007. This report has been prepared for Korean regulatory purposes, pursuant to the External Audit Law, and may not be appropriate for other purposes or for other users.

KPMG Samjong Accounting Corp.

February 14, 2008

This report is annexed in relation to the audit of the non-consolidated financial statements as of December 31, 2007 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.

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, 2007.

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, 2007, in all material respects, in accordance with the IACS Framework issued by the Internal Accounting Control System Operation Committee.



Hyun Soo, Kim
Internal Accounting Control Officer



Chul Woo, Lee
Chief Executive Officer or President

January 24, 2008

CONSOLIDATED INCOME STATEMENTS

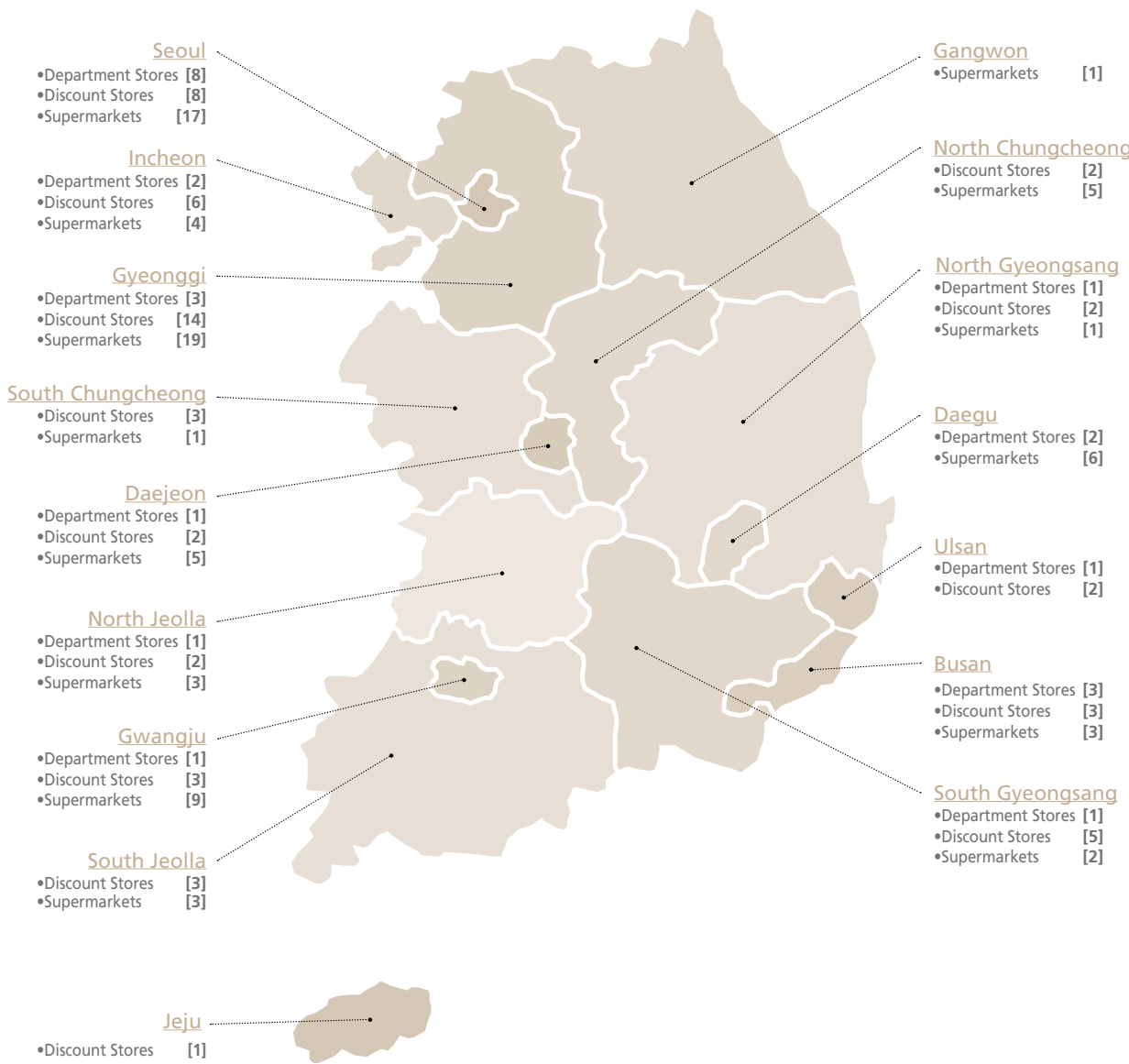
YEARS ENDED DECEMBER 31, 2007 AND 2005

	2007 In KRW millions	2006 In KRW millions	2005 In KRW millions
Net sales	₩ 11,063,229	₩ 10,005,983	₩ 9,348,144
Gross profit	₩ 3,481,740	₩ 3,074,190	₩ 2,752,373
SG&A expenses	2,610,498	2,103,749	1,929,657
Operating profit	₩ 871,241	₩ 970,441	₩ 822,716
Non-operating profit	₩ 337,318	₩ 249,425	₩ 94,904
Interest income	78,481	112,419	9,731
Dividend income	1,941	1,795	1,382
Gain on valuation using the equity method	39,934	86,436	25,529
Gain on foreign currency transactions	4,910	3,283	7,903
Gain on foreign currency translation	1	8,363	3,112
Gain on disposal of property, plant and equipment	397	4,336	2,504
Reversal of allowance for doubtful accounts	14	54	-
Gain on prior period error correction	-	-	11,417
Others	24,597	25,667	15,039
Non-operating expenses	₩ 93,763	₩ 195,213	₩ 170,350
Interest expense	38,121	90,433	135,580
Loss on valuation using the equity method	20,643	2,184	4,301
Loss on foreign currency transactions	162	16,298	4,291
Loss on foreign currency translation	5	25,781	48
Loss on disposal of trade accounts receivable	-	-	5
Loss on disposal of property, plant and equipment	646	19,520	3,180
Donations	15,611	4,130	4,330
Loss on prior period error correction	-	-	1,066
Additional income tax for prior periods	-	11,339	3
Others	16,342	15,626	12,969
Ordinary income	₩ 1,114,796	₩ 1,024,653	₩ 747,270
Net profit	₩ 754,277	₩ 775,172	₩ 564,709

STORE NETWORK as of December 31, 2007

- Department Stores* [24]
- Discount Stores [56]
- Supermarkets [79]

* Includes three stores managed under contract.



Leading Korean Retail into a Global Future

At Lotte Shopping, we’ve been winning the hearts of Korean shoppers with top global brands, unique shopping experiences, and unrivaled service since 1979. Over the past three decades, we’ve expanded our operations from department stores into virtually every segment of retail with discount, supermarket, specialty, and home shopping channels. As we continue to expand these channels across Korea, we are now accelerating our advance into the global marketplace as we begin the next phase in our strategy to become one of the world’s top-50 retailers by 2010.

○ NOVEMBER 1979

Lotte Shopping Co., Ltd. is founded

○ DECEMBER 1979

Opened first Lotte department store

○ JUNE 1996

Launched LotteShopping.com

○ APRIL 1998

Opened first Lotte Mart

○ JANUARY 2000

Spun off LotteShopping.com to create Lotte.com

○ MAY 2001

Opened first Lotte Super

○ OCTOBER 2002

Acquired Nowon department store from Midopa

○ NOVEMBER 2003

Opened Lotte Young Plaza

○ DECEMBER 2003

Spun off credit card business to subsidiary Lotte Card

○ MARCH 2004

Acquired 25 supermarkets from Hanhwa Super

○ MARCH 2005

Opened Avenuel

○ FEBRUARY 2006

Listed on London and Korean stock exchanges

○ AUGUST 2006

Acquired majority stake in Woori Home Shopping

○ MARCH 2007

Acquired Big-Mart supermarket chain

○ SEPTEMBER 2007

Opened first overseas department store in Moscow

○ DECEMBER 2007

Entered Chinese discount store market with acquisition of Makro

Operated 24 department stores, 56 discount stores, and 79 supermarkets nationwide

Bringing Consumers the Best of the Best

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



STEPPING UP THE PACE

At Lotte Shopping, our global retail strategy continues to accelerate.

In the past 12 months, we've launched or acquired operations in Russia and China.

Before the end of 2008, we'll add new operations in China and Vietnam.

And as our vision of becoming one of the world's top-50 retailers by 2010 comes a step closer to reality every day, you can expect to see legions of satisfied Lotte customers in Moscow, Beijing, Tianjin, Ho Chi Minh City, and beyond in the very near future.

