

2006

LOTTE SHOPPING  
ANNUAL REPORT

ALWAYS  
NEW



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# + ALWAYS NEW FOR YOU

RETAIL IS THE ART OF SELLING THE NEW.  
IT'S ALL ABOUT CONSISTENTLY FINDING NEW WAYS TO SELL  
NEW PRODUCTS TO NEW CUSTOMERS IN NEW MARKETS.

AT LOTTE SHOPPING, WE'VE BECOME KOREA'S NO. 1 RETAILER  
BY ALWAYS STAYING ONE STEP AHEAD OF OUR CUSTOMERS AND  
THEIR PURSUIT OF THE NEW. IN THE FOLLOWING PAGES,  
WE'LL SHARE WHERE OUR NEVER-ENDING PURSUIT OF THE NEW TOOK  
US IN 2006. AND WHERE IT'S HEADING IN 2007 AND BEYOND  
AS WE STRIVE TO BE ALWAYS NEW FOR YOU.

CONDENSED  
NON-CONSOLIDATED  
BALANCE SHEETS

IN KRW BILLIONS

	2006	2005	2004
<strong>ASSETS</strong>	11,872	8,391	7,621
CURRENT ASSETS	3,465	1,390	1,337
NON-CURRENT ASSETS	8,407	7,002	6,284
<strong>LIABILITIES</strong>	4,356	5,155	4,933
CURRENT LIABILITIES	3,378	3,528	3,112
LONG-TERM LIABILITIES	978	1,627	1,821
<strong>SHAREHOLDERS' EQUITY</strong>	7,516	3,236	2,688
CAPITAL STOCK	145	100	100
CAPITAL SURPLUS	4,651	1,147	1,147
RETAINED EARNINGS	2,635	1,907	1,371
CAPITAL ADJUSTMENTS	84	82	70

CONDENSED  
NON-CONSOLIDATED  
STATEMENTS OF INCOME

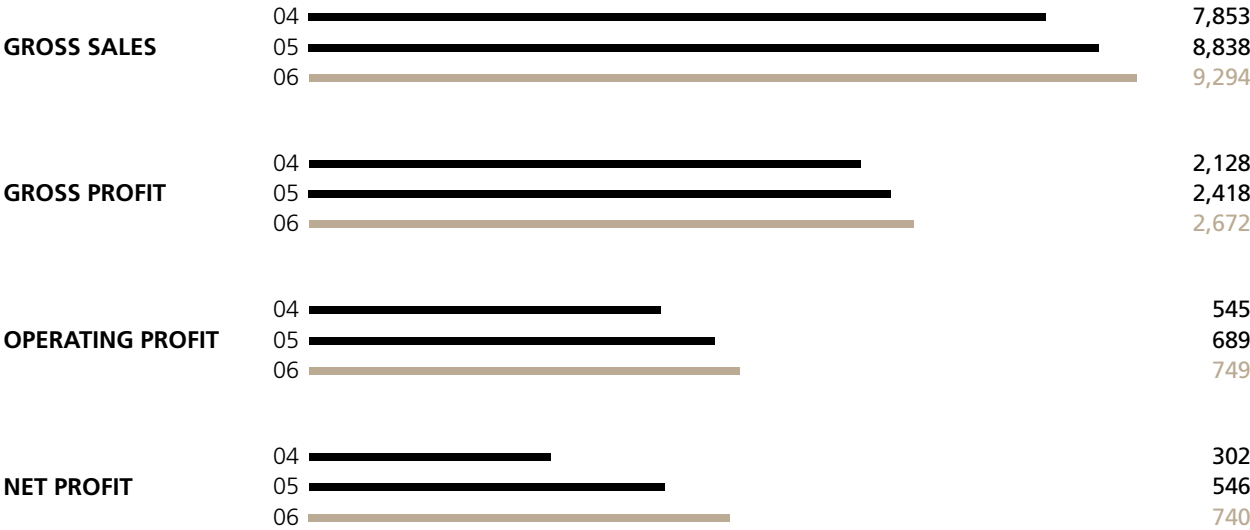
IN KRW BILLIONS

	2006	2005	2004
GROSS SALES*	9,294	8,838	7,853
NET SALES	9,056	8,607	7,628
GROSS PROFIT	2,672	2,418	2,128
SG&A EXPENSES	1,923	1,729	1,582
OPERATING PROFIT	749	689	545
NON-OPERATING PROFIT	431	201	91
NON-OPERATING EXPENSES	194	161	222
ORDINARY PROFIT	986	729	414
NET PROFIT	740	546	302

\* 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.

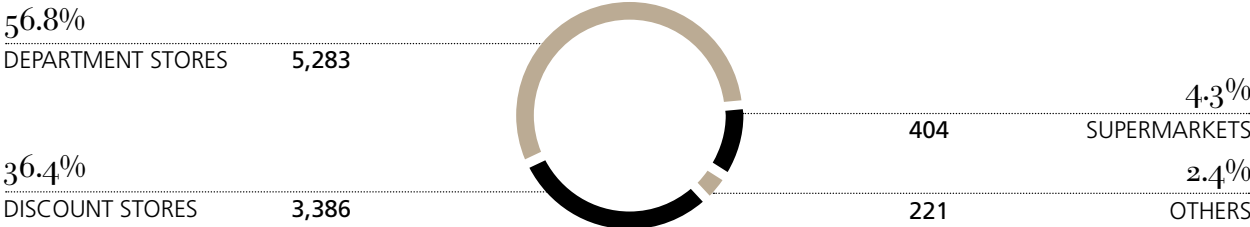
KEY OPERATING  
RESULTS

IN KRW BILLIONS



GROSS SALES BREAKDOWN  
BY BUSINESS DIVISION

IN KRW BILLIONS



WHY CAN'T PASSION



LOTTE IS PASSIONATE  
ABOUT THE POSSIBILITIES



## NEW HORIZONS

THERE COMES A TIME WHEN  
EVERY PASSIONATE RETAILER HAS  
TO THINK BEYOND THE COMFORT  
ZONE OF THEIR HOME MARKET.  
AND THAT TIME HAS COME  
FOR LOTTE.

AT LOTTE SHOPPING, WE'VE BEEN  
PLANNING OUR INTERNATIONAL  
DEBUT FOR MORE THAN A DECADE.  
AND STARTING IN 2007,  
OUR GLOBAL AMBITIONS WILL  
BEGIN TO BECOME A REALITY.  
READ ON AND SEE WHAT WE HAVE  
IN STORE FOR MOSCOW, BEIJING,  
AND HO CHI MINH CITY.



A woman with long dark hair, wearing a black fur hat and a black double-breasted coat, is reclining in a large, ornate, light-colored armchair. She is looking towards the camera. The room is highly decorated with classical elements: a large chandelier hangs from the ceiling, a floor lamp with a white shade is to the left, and a large, ornate mirror is on the wall behind her. To the right, there is a painted cabinet with a vase of red and white flowers and a small framed picture. A black shopping bag with the 'AVENUEL' logo and a black leather handbag are on the floor in the foreground. The overall atmosphere is one of classic luxury and elegance.

SUMMER 2007

NEW EXPERIENCES +

+ NEW LUXURY +

## MOSCOW RUSSIA

YOUR FIRST LOVE IS ALWAYS SPECIAL. A DECADE AGO, WE BEGAN COURTING RUSSIA TO HOST OUR FIRST OVERSEAS DEPARTMENT STORE. IT'S BEEN A LONG TIME COMING, BUT WE HAVE NO DOUBT THAT OUR FLAGSHIP INTERNATIONAL STORE IN THE HEART OF DOWNTOWN MOSCOW, JUST MINUTES FROM THE KREMLIN, IS GOING TO MAKE THIS CLASSY CAPITAL SHINE A LITTLE BRIGHTER WHEN IT OPENS THIS SUMMER.



SPRING 2008

+ NEW SATISFACTION +

+ NEW BRANDS

BEIJING CHINA

THE WORLD'S EYES ARE ON CHINA. FOR MOST OF THE DECADE, SHE'S BEEN BUSY PREPARING TO CELEBRATE HER COMING-OF-AGE BY HOSTING THE 2008 OLYMPIC GAMES. AND WE'RE PLANNING TO ADD A LITTLE CONTRIBUTION OF OUR OWN TO THE CELEBRATION BY OPENING OUR SECOND OVERSEAS DEPARTMENT STORE IN BEIJING'S TRENDY WANGFUJING SHOPPING DISTRICT IN SPRING 2008.



SUMMER 2008

NEW CONVENIENCE +

+ NEW ASPIRATIONS +

## HO CHI MINH CITY VIETNAM

VIETNAM IS ASIA'S NEW SWEETHEART. IN RECENT YEARS, WE'VE WATCHED AS SHE'S BLOSSOMED INTO A BEAUTIFUL YOUNG LADY. AND WHILE SHE HAS EXPENSIVE TASTES LIKE MANY YOUNG LADIES DO, WE'RE TAKING THIS RELATIONSHIP SLOW AND EASY BY COURTING HER WITH OUR FIRST OVERSEAS DISCOUNT STORE SET TO OPEN IN DOWNTOWN HO CHI MINH CITY IN SUMMER 2008.





Chief Executive Officer **LEE CHULWOO**

## CEO'S MESSAGE

# “OUR TRANSFORMATION FROM KOREAN RETAIL’S BEST TO ONE OF THE WORLD’S BEST HAS BEGUN.”

DEAR LOTTE SHOPPING STAKEHOLDER,

IT GIVES ME GREAT PLEASURE TO SHARE WITH YOU THE RESULTS FROM OUR FIRST YEAR AS A PUBLICLY TRADED FIRM. AS THE FLAGSHIP COMPANY OF KOREA’S PREMIER RETAIL GROUP, WE’VE BUILT A REPUTATION FOR GIVING CUSTOMERS THE BEST PRODUCTS AND SERVICE IN THE BUSINESS. TODAY, WE’RE LOOKING TO DELIVER THE SAME KIND OF VALUE TO OUR SHAREHOLDERS AS WE BEGIN THE NEXT PHASE OF OUR GROWTH THAT WILL TRANSFORM US FROM BEING KOREA’S FAVORITE RETAILER TO BEING ONE OF THE WORLD’S FAVORITES.

### WELCOME TO LOTTE SHOPPING

We are Korea’s No.1 retailer in terms of sales, brand power, and customer satisfaction. Since opening our first department store in Seoul in 1979, we’ve become the “gold standard” by which all other Korean retailers are judged. Today, our retail portfolio extends far beyond our core department and discount store businesses to include supermarkets, cinemas, specialty stores, fashion brands, and doughnut shops as we seek to bring a new kind of synergy and energy to the business of shopping.

### THE YEAR IN REVIEW

The year 2006 will go down in history as the year that Lotte Shopping took a major leap forward in its quest to become one of the world’s leading retailers.

In recent years, we’ve built a synergistic portfolio of businesses around our core department and discount store businesses that includes everything from supermarkets and fashion specialty stores to cinema multiplexes, fashion brands, and doughnuts. In 2006, we raised our sights beyond these offline businesses and took our next step toward becoming Korea’s leading online retailer by expanding beyond our Lotte.com e-tail business into the TV home shopping market.

The year 2006 also brought a flurry of activity as we began to act on our global vision. In February 2006, we successfully listed on stock markets in Seoul and London.

As preparations to open our first overseas department store in Moscow in 2007 moved steadily ahead, we were busy wrapping up the next phases of our overseas expansion, signing joint ventures with local companies in China and Vietnam to open our first department store in Beijing and our first discount store in Ho Chi Minh City.

As we continued to expand at home and abroad, we were also ringing up some of the highest sales and profits in our history. Even the lackluster Korean economy couldn’t slow us down as net sales rose 5.2% to KRW 9.1 trillion. Our profitability performance was even more remarkable as operating profit grew 8.8% to KRW 749.4 billion and net profit jumped 35.5% to KRW 739.8 billion.

Our flagship department store business opened its 23rd department store—the only one to open in Korea in 2006. As we pushed ahead with major projects like the Lotte World II retail entertainment development, Star City, and Cheongnyangni stores in Seoul and the Centum City and Gwangbok stores in Busan, we were also accelerating the nationwide rollout of our Young Plaza fashion specialty stores.

Our discount store business opened eight new Lotte Marts during the year to bring the total to 50. We also secured an additional 44 sites for future expansion as we laid the groundwork for dramatic growth in this core business.



Rapid expansion also continued to be the focus for our newer businesses. Our supermarket business opened seven new Lotte Supers to bring the chain to 52 locations nationwide. Our cinema multiplex business opened 13 Lotte Cinemas with 95 screens, bringing the chain total to 36 sites and 273 screens. And our doughnut business opened its 17th Krispy Kreme store as it began to accelerate its nationwide rollout.

Our key subsidiaries also enjoyed solid performances in 2006. Lotte Station Building and Lotte Midopa, which together own a total of three department stores we manage under contract, registered net sales of KRW 630.3 billion and KRW 319.2 billion and net profits of KRW 56.5 and KRW 61.8 billion, respectively. Credit card subsidiary Lotte Card—in whom we have a 92.5% stake—saw sales and net profit rise 32.9% and 22.0% respectively to KRW 697.9 billion and KRW 160.6 billion.

THE YEAR AHEAD

The retail outlook for Korea shows consumption contracting across the board in 2007. Despite the formidable challenges we face in the months ahead, we are confident we have the right mix of businesses, people, and vision to keep growing. The following strategies will play a key role in guiding us to growth and profitability in these challenging times.

STRATEGIES FOR GROWTH

We will continue to aggressively invest in our core department and discount store businesses in 2007. Looking to have more than two-dozen department stores in operation by 2010, we will open our third Busan department store—a full-line store with 30,000 square meters of retail space—in that port city's Centum City development in December. Our discount store business plans to accelerate store openings in 2007 as it stays on track to surpass 100 stores by 2011.

As we continue to expand our core businesses, we are also working to bring new retail formats to life. After spending 2006 improving inventory management and store operations, our supermarket business is poised to launch a major expansion in 2007. Our cinema multiplex business

will likewise be continuing to add locations and expand its role in the film distribution field. We plan to open two Lotte Young Plaza fashion specialty stores in 2007, the beginning of what will be a nationwide rollout. We will also be preparing for an early debut of the latest additions to our retail portfolio—Toys “R” Us and Zara fashion.

Our global retail strategy targeting emerging markets such as Russia, China, Vietnam, and India will bear its first fruit in 2007. We are confident that we can successfully differentiate our merchandising with Korean brands, leverage our department store operating and marketing know-how, and successfully localize our businesses through local partnerships. Our international debut will take place in summer 2007 with the opening of our first department store in Moscow, followed in 2008 by our second department store in Beijing and our first discount store in Ho Chi Minh City.

STRATEGIES FOR PROFITABILITY

Over the past three years, our operating profit and net profit have grown an average of 17.2% and 56.4%, respectively. In 2007, we will continue to build on this solid record of success in a variety of ways.

We will continue to boost buying power with economies of scale. Our net sales margin has significantly improved between 2004 and 2006. Our department store margin rose from 31.1% to 32.7%, while our discount store margin rose from 19.7% to 22.1%. We expect our store openings in 2007 to continue to expand our buying power and profit margins.

We will focus on private brands and overseas sourcing. In 2006, private brands provided 10.4% of sales at our discount stores, a figure we plan to increase to 12.5% in 2007. Our “Wiselect” and “Wiselect Prime” brands continue to win over customers with outstanding quality and reasonable prices. We are also planning to increase our lineup of profitable private brand fashions as we expand overseas sourcing. Products sourced overseas have a 10% or higher gross profit margin than the discount store average. In 2006, overseas sourcing provided 1.4% of sales,

a figure we plan to boost to 2.7% in 2007. We currently operate sourcing offices in China and India, and we plan to steadily expand over time.

We will make distribution more efficient and profitable. In October 2007, we will open an 85,600 square meter distribution center—Asia’s largest—in Osan to serve the capital region. We plan to open a 54,900 square meter center in Gimhae by the end of 2008 to serve the southern half of the peninsula.

We will continue to streamline for efficiency by merging job functions and streamlining the headquarters staff, assigning the best and brightest to help raise efficiency on our retail floors.

We will leverage our information systems to significantly enhance the efficiency of our operations. In 2006, we wrapped up a major ERP and CRM system project. We continue to upgrade our ordering, inventory management, and CRM systems to achieve lower costs and higher efficiency.

STRATEGIES FOR SATISFACTION & LOYALTY

In recent years, polarization and personalization have emerged as the dominant consumption trends in Korea. Customers have more diverse tastes, and they’ve become much more selective in their purchasing. Our merchandising strategy is geared to meet both of these trends. As we continue to move our department stores upscale in both facilities and merchandise to capture the high-end of the market, we are also adding mega-shops, multi-shops, and theme zones to expand the range of products and brands for sale as we work to satisfy a wider spectrum of consumer needs. We also continue to differentiate our discount stores by launching private brands and expanding exclusive brands to better meet the diverse needs of our customers.

In July 2006, we completed the group-wide integration of the Lotte Membership program, enabling all Lotte affiliates to share a common customer base. The program also allows customers to accumulate and use points on purchases at any Lotte Group affiliate, encouraging customer loyalty and

repeat purchases. The combination of this fast-growing membership base with the 9-million-member base of our recently acquired home shopping business and Lotte Card’s 10-million-cardholder base will give us an invaluable competitive advantage, enabling us to target potential customers more accurately and at lower cost.

OUR PROMISES TO YOU

At Lotte Shopping, we’re proud of our accomplishments as Korea’s retail leader. But we also realize that past success is old news. We realize that no matter how good we are, we can always be better. And it all starts by keeping 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 help define 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 hope you’ll join us for the next step in our quest to be one of the world’s leading retailers.



Chief Executive Officer **LEE CHULWOO**



# OUR DEDICATION TO EXCELLENCE IN GOVERNANCE STARTS AT THE TOP.

Following our simultaneous listings in Seoul and London in February 2006, we quickly moved to put in place a transparent and trustworthy governance structure.

The Lotte Shopping board is currently composed of nine directors, five of which are outside directors. The board met 33 times in 2006, including 14 times after the outside directors joined the board following their approval at the first annual general shareholders’ meeting held on March 30.

The board currently operates two committees responsible for auditing duties and the nomination of outside directors.



**OH JEONGHWAN**  
Former Lotte Group Executive

**YOON SAIREE**  
Lawyer, Law firm Woo Yun Kang  
Jeong&Han

**LEE INWON**  
CEO, Corporate Headquarters,  
Lotte Shopping



**SHIN KYUKHO**  
Chairman, Lotte Group



**SHIN DONGBIN**  
Vice Chairman, Lotte Group



**KANG YOONKOO, PH.D.**  
Professor, Soonchunhyang  
University

**PARK MOOIK**  
CEO, Gallup Korea Research  
Institute

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

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



OUR NEVER-ENDING  
PURSUIT OF THE NEW IS A  
NEVER-ENDING PURSUIT OF  
EXCELLENCE.

FEBRUARY

Korean Retail Goes Public

Our shares begin trading on the London Stock Exchange on February 8 and the Korea Stock Exchange on February 9, successfully completing the Korean retail industry's first simultaneous domestic and overseas IPOs.

FEBRUARY

Korea's First Brand

We receive the 2006 Korea First Brand Award in the discount store category. Sponsored by the *Korea Economic Daily* and Korean Customer's Forum, the consumer-selected award recognizes branding excellence.

MARCH

Fashion with a Spanish Flair

We finalize a joint venture agreement with Spanish fashion distributor Inditex to bring the world-renowned Zara fashion brand to Korea, adding another major exclusive to our up-and-coming global fashion business. We plan to open our first Zara store shortly, eventually opening a nationwide chain with both free-standing and shop-in-shop formats.

APRIL

Young Again

We sign an agreement to acquire Cheongju Department Store. Located in Cheongju's central shopping district, the renovated building is the home of our second Lotte Young Plaza store targeting teens and twenty-somethings with moderately priced fashion. The store opens in February 2007.

JUNE

Quality of Service

We receive the Korea Academy of Commodity Science & Technology Award in the discount-store service quality category from the Korea Academy of Commodity Science & Technology and Sungshin University's Research Institute of Business Administration.

JUNE

RFID in Action

Lotte Mart launches an RFID demonstration area at its Seoul Station store. Technologies shown include a "smart shelf" that instantly relays product information to a big screen display whenever a product is picked up and a kiosk that displays product descriptions, usage instructions, and store display location.

AUGUST

Shopping Comes Home

We sign an agreement to acquire a 53.03% interest in Woori Home Shopping. The acquisition of this TV and Internet home shopping player receives final regulatory approval in December. We look forward to considerable synergies with our offline businesses as we further solidify our reputation as Korea's premier retailer.

SEPTEMBER~OCTOBER

Opening Doors

Lotte department store opens offices in Ho Chi Minh City in September and New Delhi in October as part of an aggressive overseas retail strategy. These offices will play a key role in our advance into these emerging markets, providing valuable insights into the local environment as well as securing quality real estate for future retail operations.

OCTOBER

Solid Gold

Singapore-based industry journal *Retail Asia* honors us at its third annual Retail Asia-Pacific Top 500 Awards with the "Top Retailer 2006 – Gold" award for South Korea.

OCTOBER

Space to Grow

We sign a 50:50 joint venture with Zhejiang Intime Department Store, the retail arm of real estate developer China Yintai Holdings. We expect to open Lotte Intime Department Store—our second overseas store—in a new building currently under construction in Beijing's upscale Wangfujing district in spring 2008, just in time for the city's debut as an Olympic host.

DECEMBER

Birth of a Category Killer

We sign a license agreement with Toys "R" Us, the legendary US-based category killer brand, as we set our sights on pioneering Korea's big-box specialty retail sector. We plan to open full-size Toys "R" Us stores next to our discount stores or smaller Toys "R" Us Toy Box shops inside them to boost crosstraffic and sales.



WHY CAN'T GREAT IDEAS



LOTTE IS INNOVATING  
TO DRIVE GROWTH



## NEW DIRECTIONS

RETAIL NEVER STANDS STILL.  
THERE'S ALWAYS SOMETHING NEW  
AROUND THE CORNER. AND IF  
YOU'RE NOT SELLING IT, CHANCES  
ARE SOMEONE ELSE ALREADY IS.  
OR SOON WILL BE.

AT LOTTE SHOPPING, WE'RE ALWAYS  
ON THE LOOKOUT FOR NEW WAYS TO  
DELIGHT CUSTOMERS OF ALL AGES.  
READ ON AND SEE THE SURPRISES  
WE HAVE IN STORE FOR THEM  
IN THE COMING YEARS.



ALWAYS ONLINE +

ALWAYS IN FASHION +

#### WOORI HOME SHOPPING

There's nothing more convenient than shopping at home. The TV shopping experience is accessible to everyone. And with interactive digital cable networks just around the corner, the future of online shopping is looking even brighter.

In August 2006, we acquired a 53% stake in Woori Home Shopping, paving the way for a higher degree of offline and online synergy as we bring the Lotte shopping experience into living rooms across Korea.

#### ZARA

Spanish retailing giant Zara is one of the fashion industry's most agile retailers. Able to go from concept to store in just three weeks, the company excels at giving customers the fashion they want.

In March 2006, we signed a joint venture with Inditex to bring this popular fashion brand to Korea. We are now working on plans to take Zara nationwide in the near future.



ALWAYS IN TUNE +





ALWAYS FUN +

+ ALWAYS LEARNING +

ALWAYS GROWING +

**TOYS “R” US**

The retail industry has an interesting name for big-box specialty stores that dominate their categories. It calls them “category killers.” In December 2006, we took the first step toward creating Korea’s first category killer by licensing the Toys “R” Us brand—the pioneer in toy and baby product specialty retailing.

Our first store is on track to open in early 2008, and we have ambitious plans to roll out the chain nationwide with free-standing Toys “R” Us stores near our discount stores or Toys “R” Us Toy Box shops inside them as we build traffic and sales with a fun experience for kids of all ages.



## + ALWAYS SYNERGIZING

## + ALWAYS ENTERTAINING +

### LOTTE YOUNG PLAZA

Today's youth have different tastes when it comes to fashion. Very different tastes. So in November 2003, we tried something no other Korean retailer had done. We opened a different kind of fashion specialty store in the heart of Seoul catering specifically to trendy teens and twenty-somethings.

The Young Plaza concept has proven extremely successful over the past three years, leading us to plan two new openings in 2007 as we prepare to take the format to major metropolitan areas nationwide in the coming years.

### SKY PARK SHOPPING MALL

With the advent of the five-day workweek in Korea, families are looking for a fun and entertaining weekend experience. We believe the shopping mall format delivers an ideal balance of retail and entertainment that will keep Korean shoppers coming back again and again.

In June 2006, we signed an agreement to build the Sky Park shopping mall on a 195,000-square-meter site at Seoul's Gimpo International Airport. Sky Park is just the first of a chain of retail developments we have on the drawing board that will synergistically bring together our retail businesses and those of our affiliates to create a compelling leisure experience for the entire family.

## + ALWAYS YOUNG +







WHY CAN'T SERVICE

LOTTE IS DELIVERING  
SUPERIOR SATISFACTION



# NEW COMMITMENT

IN RETAIL, THE CUSTOMER IS KING.  
OR QUEEN. AND IF YOU'RE NOT  
TREATING THEM LIKE ROYALTY,  
CHANCES ARE THEY'LL FIND  
ANOTHER RETAILER WHO WILL.

AT LOTTE SHOPPING, WE'RE  
CONSTANTLY COMING UP WITH  
CREATIVE NEW WAYS TO MAKE  
OUR CUSTOMERS THE CENTER OF  
ATTENTION FROM THE MOMENT  
THEY SET FOOT IN OUR STORES.  
READ ON AND SEE HOW WELL WE  
DID AT SATISFYING THEM IN 2006.

## Business Portfolio

### Business Divisions

- Department Stores
- Discount Stores
- Supermarkets
- Cinemas

Krispy Kreme Doughnuts

Food Manufacturing

Shopping Malls

Global Fashion

### Subsidiaries

Lotte Card

Woori Home Shopping

Lotte.com



Lotte Department Stores

FOR NEARLY THREE DECADES, LOTTE DEPARTMENT STORE HAS BEEN THE PREFERRED DESTINATION FOR STYLE AND IMAGE CONSCIOUS SHOPPERS IN KOREA WITH THE INDUSTRY’S WIDEST ASSORTMENT OF MERCHANDISE FROM THE WORLD’S BIGGEST BRANDS AND SUPERIOR SERVICE. TODAY, WE ARE THE UNRIVALED DOMESTIC LEADER IN TERMS OF BOTH STORES AND MARKET SHARE WITH A NATIONWIDE CHAIN OF 23 STORES—THREE OF WHICH WE MANAGE UNDER CONTRACT.

In 2006, gross sales rose 2.7% to nearly KRW 5.3 trillion as we continued to dominate the sector with a 42.3% share of the market. Operating profit rose almost 6.2% to KRW 644 billion as we successfully tapped into the high-end market.

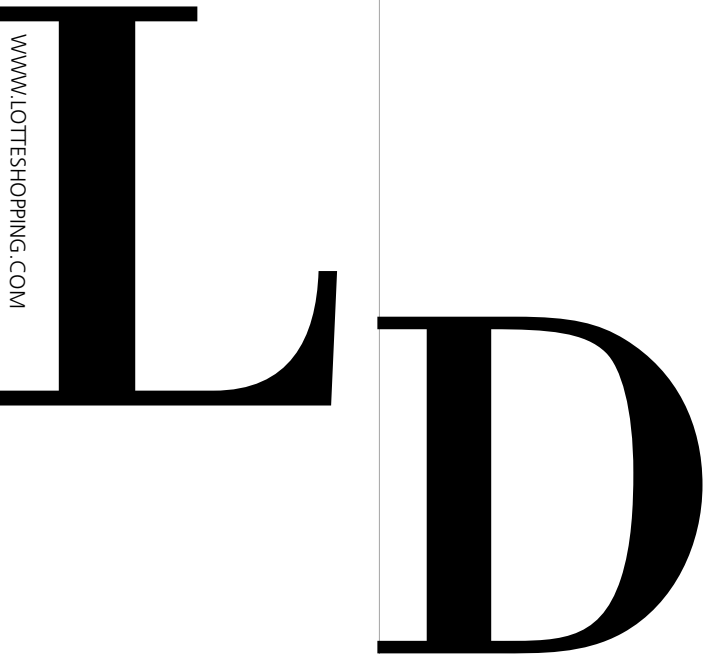
While Korea’s department store sector is relatively mature, we believe there is still considerable room for growth. In 2006, we opened our first department store since 2004 in Seoul’s Mia-dong district, bringing a true high-end retail experience to residents of northeast Seoul for the first time. The Mia store was the only new department store to open in Korea during the year. By 2010, we plan to add five new stores, including three in Seoul.

Our merchandising draws on a broad range of fashion selections—from leading fashion houses to emerging designers. We continue to enhance our competitive edge by signing exclusive “Lotte only” brands as we add our own premium private brands and trendy new ones. We have been very successful at attracting and keeping quality customers with our constantly evolving VIP programs. Renowned for their customer-friendly layouts and visual displays, our stores host numerous third-party concessionaires including restaurants, medical clinics, hairdressers, and jewelry shops, adding to their attractiveness as shopping destinations.

In recent years, we have diversified our retail strategy to move beyond the traditional department store format. In 2003, took aim at the teen and twenty-something fashion market with our first Lotte Young Plaza. In 2005, we set

our sights on the ultra-high-end of the retail market with our Avenuel luxury specialty store. The close proximity of these new retail formats to our flagship department store in downtown Seoul has enabled us to create a unique shopping district known as “Lotte Town” that leverages the synergy of our retail, food, and hospitality affiliates to deliver an upscale shopping and leisure experience.

Looking ahead, the year 2007 will be a landmark year in our expansion plans both at home and abroad. At home, we will be opening Lotte Young Plazas in Cheongju and Daegu and a Lotte department store in Busan’s Centum City development. We will also become the first Korea-based department store to enter the international retail space when we open our first overseas department stores in Moscow this summer and Beijing in the first-half of 2008.



LOTTE DEPARTMENT STORES		
2004	2005	2006
19 stores	19 stores	20 stores
* Figures exclude three department stores managed under contract.		







LOTTE MART STORES

2004	2005	2006
36 stores	42 stores	50 stores

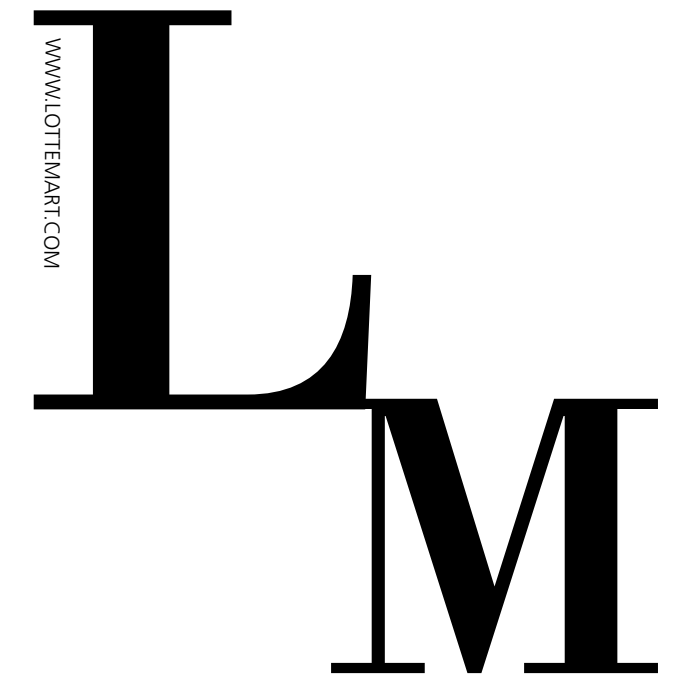
## Lotte Mart

SINCE OPENING OUR FIRST DISCOUNT STORE IN APRIL 1998, WE HAVE EXECUTED A SYSTEMATIC EXPANSION PLAN THAT HAS SEEN OUR CHAIN GROW TO 50 STORES NATIONWIDE AS OF 2006 YEAR-END. TODAY, WE ARE THE INDUSTRY NO. 2 IN TERMS OF STORES AND NO. 3 IN SALES

Lotte Mart is known for one-stop shopping. Its strength lies in its diverse range of quality merchandise ranging from groceries and clothing to household appliances, all at competitively low prices. Customers can also enjoy the same low prices as well as free delivery when they shop online at LotteMart.com. While the 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.

In 2006, we generated gross sales of KRW 3.4 trillion. Sales of private brand products such as “Wiselect”, “Basic Icon”, and “Withone” rose 5.7 percentage points year-on-year to account for 10.4% of sales. We continued to expand our overseas sourcing through our offices in China and India during the year. We also received approval from the Vietnamese government to set up a joint-venture discount store in Ho Chi Minh City. We plan to open our first overseas store there in the first-half of 2008.

We are currently in the process of building two new state-of-the-art distribution centers to meet the needs of our growing retail network. Scheduled to open in October 2007, the 85,600-square-meter Osan Distribution Center will serve discount stores in the Seoul metropolitan region. The 54,900-square-meter Gimhae Jangyu Distribution Center will serve discount stores across the southern half of the Korean peninsula when it opens in 2008. We anticipate that these centers will add one percentage point to our gross profit margin when they are fully operational.



GROSS SALES  
in 2006  
**+14.4%**

We expect double-digit sales growth in 2007 as we accelerate store openings to stay on target to surpass 100 stores by 2011. Beyond the additional buying power this expansion will bring, we believe that profitability will steadily grow during the year as private brands rise from 10.4% of 12.5% of sales and overseas sourcing rises from 1.4% to 2.7% of sales. Internally, we will continue to use merchandising evaluation tools to improve our competitiveness as we expand our training program to ensure our people have the knowledge and skills they need to excel in their jobs. We will also be working on an enhanced store format to expand our one-stop shopping concept with convenience facilities such as dry cleaners, banking, government services, and travel agencies as we continue to optimize our product mix through innovations in merchandising.



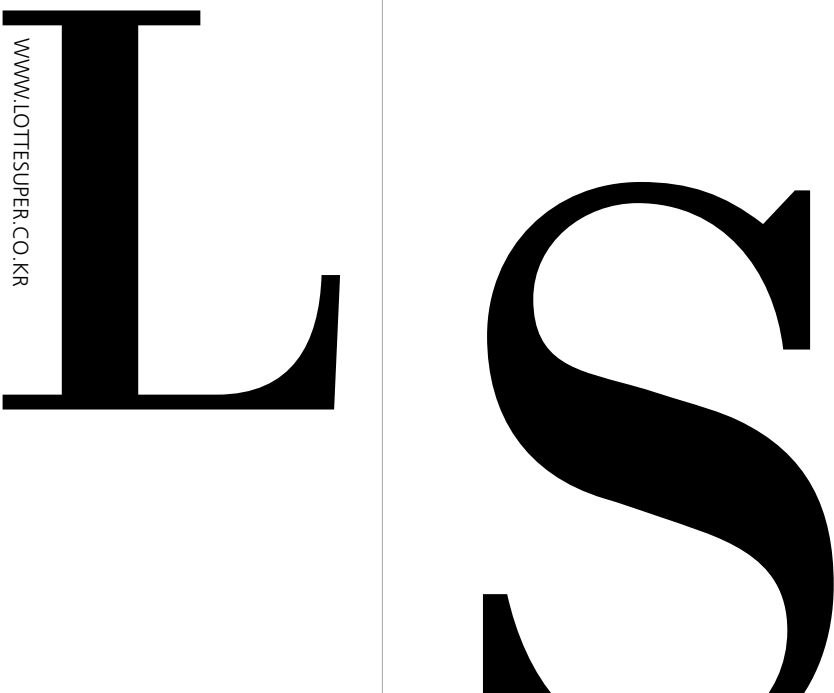
Gimhae Jangyu Distribution Center





Lotte Super

SINCE WE OPENED OUR FIRST SUPERMARKET BACK IN 2001,  
WE HAVE STRATEGICALLY EXPANDED OUR LOTTE SUPER CHAIN THROUGH  
BOTH ACQUISITIONS AND NEW STORE OPENINGS.  
WE OPERATED 52 STORES NATIONWIDE AS OF THE END OF 2006,  
A FIGURE WE PLAN TO GROW TO 110 BY THE END OF THE DECADE.



Lotte Super is a one-stop shopping experience featuring a superior selection of fresh produce, meat, poultry, and fish as well as packaged foods, daily necessities, and household products at everyday low prices with the convenience of a neighborhood market. Our 52 stores generated sales of KRW 404.3 billion in 2006. Private-brand growth from 4.1% of sales in 2005 to 9.7% and integrated sourcing with Lotte Mart both helped boost profitability.

Our primary business challenges in 2006 came from mergers and acquisitions in the discount store sector and ongoing chain expansion by our supermarket competitors. As a result, we revisited our own store development strategy by hiring a major international consultant to conduct a region-by-region review of our expansion plans. We also took steps to improve product management by setting up a special SKU taskforce and improving standard product displays as well as stepping up marketing to boost sales and minimize customer loss.

Korea’s supermarket sector is expected to grow much faster than the overall retail market in 2007. The year will bring one of the largest expansions to date for Lotte Super. As of March 2007, we have acquired the Big-Mart supermarket chain in the Gwangju metropolitan area, giving us a foothold in Korea’s southwest Honam region as we continue to expand our chain nationwide. In addition to expanding our market coverage, we expect this acquisition to generate additional synergies in both product supply and logistical efficiency. We plan to combine the company’s distribution



LOTTE SUPER STORES		
2004	2005	2006
41 stores	47 stores	52 stores

GROSS SALES in KRW billions		
04		306
05		407
06		404



expertise with our buying power as we lay a solid foundation for mid- and long-term growth across the region.

Taking into account the stores acquired from Big-Mart and new stores to open in 2007, we aim to have over 75 stores operating nationwide by the end of the year. We also expect our integrated sourcing with Lotte Mart, an expanding line of private brand products, and systematic inventory management to continue to improve profitability across-the-board.





Lotte Cinema

WE OPENED OUR FIRST LOTTE CINEMA BACK IN 1999 TO CREATE SYNERGY WITH OUR EXISTING RETAIL BUSINESSES. AT THE END OF 2006, 13 OF OUR 36 MULTIPLEXES WERE IN CLOSE PROXIMITY TO EITHER A LOTTE DEPARTMENT OR DISCOUNT STORE, CREATING MORE CROSSTRAFFIC AND SALES FOR BOTH BUSINESSES.

In 2006, our multiplex cinema business generated sales of KRW 126 billion, with our film distribution business adding another KRW 11 billion. We added 13 new multiplexes with 95 screens at major locations across Korea and upgraded the cinema experience with innovations like REAL D digital 3D cinema systems and Hi-Pass online ticketing, keeping us a solid No. 2 in the market.

We plan to add 65 screens at eight multiplexes in 2007, expanding our chain to 338 screens at 44 locations as we continue to enhance our competitive edge with the best facilities and entertainment experience. On the distribution side, we plan to focus on big-budget films. We are currently formulating plans to take both our cinema chain and distribution international as we seek to establish ourselves as one of Asia’s leading entertainment companies.



LOTTE CINEMA

2004	2005	2006
12 multiplexes	23 multiplexes	36 multiplexes
2004	2005	2006
98 screens	178 screens	273 screens



Krispy Kreme Doughnuts

WE OPENED OUR FIRST KRISPY KREME STORE IN DECEMBER 2004. SINCE THEN, WE’VE OPENED A TOTAL OF 17 STORES, VIRTUALLY ALL OF WHICH HAVE OPEN KITCHENS CALLED “DOUGHNUT THEATERS” THAT SHARE THE FASCINATING PROCESS BY WHICH THE TEMPTING TREATS ARE MADE.

We added 11 stores in 2006, four more than originally planned. We also responded to growing health concerns about trans fats by transitioning to a 0% trans fat shortening. Our signature Original Glazed doughnut accounted for nearly 55% of sales for the year.

With our operating profit soundly in the black and 10 new shops scheduled to open in 2007, we are forecasting high-double-digit sales growth as we continue to lay the framework to take the lead in our industry. As we aim for the high-end of the market with more exotic doughnut varieties, we will continue to address consumer healthy eating concerns by adding more organic products such as whole-wheat mixes, organic coffees, and frozen fresh-fruit blends.

KRISPY KREME DOUGHNUTS

2004	2005	2006
1 store	6 stores	17 stores



Food Manufacturing

WE LAUNCHED THIS DIVISION IN 1994 FOLLOWING OUR ACQUISITION OF AFFILIATE LOTTE FOODS. WHILE OUR PRIMARY CUSTOMERS ARE LOTTE FOOD AND BEVERAGE AFFILIATES, 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, chocolate, coffee, and 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 2007, we will concentrate on improving the quality and productivity of our existing product lines with a focus on healthy foods and ingredients where we have a cost edge. We are also considering setting up a subsidiary in China to better service the needs of Lotte Group food and beverage affiliates operating in that local market.





# Shopping Malls

WE LAUNCHED THIS DIVISION IN 2005 TO SPEARHEAD OUR ADVANCE INTO A SEGMENT WE BELIEVE WILL BE THE NEXT WAVE OF RETAIL DEVELOPMENT IN KOREA.

Shopping centers and malls have become an increasing central part of the retail landscape in countries such as the United States and Japan since the 1920s. In Korea, rising incomes and an increasingly common five-day workweek are giving families more time for leisure and entertainment. We believe that the time is ripe to add this retail format to our business mix.

Our shopping mall strategy took a major step forward in June 2006 with the signing of an agreement with Korea Airports Corporation to develop the Sky Park shopping mall at Gimpo International Airport in Seoul. Built on a 195,000-square-meter site, Sky Park will host the full line-up of Lotte retail and entertainment businesses, including a department store, discount store, multiplex, category killers, and specialty stores when it opens in the spring of 2010.



# Global Fashion

WE LAUNCHED THIS DIVISION IN 2005 TO GIVE US A COMPETITIVE EDGE IN THE FASHION BUSINESS BY IDENTIFYING AND MANAGING INTERNATIONAL BRANDS THAT WE BELIEVE CAN SUCCEED IN THE KOREAN MARKETPLACE AS WELL AS DEVELOPING OUR OWN WORLD-CLASS PRIVATE BRANDS.

In 2006, we added the world-famous Zara casual fashion brand from Spain and Furla premium leather goods to our global brand portfolio that currently includes 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 made headway in our ongoing channel diversification initiative by opening Furla shops inside other competing department stores. We will continue to expand our global brand portfolio in 2007.



LOTTE TOWN IN THE HEART OF SEOUL EXEMPLIFIES THE POWERFUL SYNERGY OUR RETAIL BUSINESSES ARE CREATING.



Lotte Card

LOTTE CARD WAS LAUNCHED IN DECEMBER 2002  
WHEN THE LOTTE GROUP ACQUIRED TONGYANG CARD.  
IN DECEMBER 2003, WE TOOK OVER  
LOTTE SHOPPING'S CREDIT CARD DIVISION.  
AS OF 2006 YEAR-END,  
LOTTE SHOPPING HELD A 92.5% STAKE IN US.

Our total transaction volume surpassed KRW 20 trillion in 2006 as we grew our cardholder base by 4.7% to 6,771,000, adding over 300,000 new customers. While our net profit on credit card purchases grew a strong 24% for the year, profitability on cash advances and card loans soared 53% as we continued to expand our business in this higher-margin segment. Despite our fast-growing customer base, we continued to lead the industry with a 2.1% over-30-day delinquency ratio, up a miniscule 0.01% over 2006.

In addition to MasterCard and Visa, we are Korea's sole issuer of American Express cards. These credit cards are one of our most valuable marketing tools. Captured transaction data helps us better understand consumer preferences and spending patterns by brand, merchandise category, and store location. We also use this data for target marketing activities such as special promotional events and direct mailings to our most valued customers.

The launch of the Lotte Membership loyalty program by Lotte department store in November 2005 has significantly improved our ability to attract new cardholders and enhance our CRM database. With over 10 million members at the end of 2006, this integrated membership program 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.

As Lotte Shopping opens new department stores, discount stores, and supermarkets, we are poised to expand our market share in those regions. The addition of Woori Home Shopping to the Lotte family also provides a good opportunity to grow our cardholder base in the online sector.

Building on the strength of the captive market represented by Lotte Group retailers, we are now aggressively expanding our credit card business portfolio. We will also continue to upgrade our IT systems related to risk management and database marketing. Our long-term goals are to surpass 10 million cardholders and enter the industry top-five in Korea.

OPERATING PROFIT  
in 2006

+56.8%



www.LOTTECARD.CO.KR  
L  
C

TOTAL TRANSACTION VOLUME  
in KRW trillions



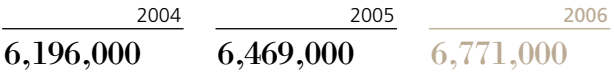
OPERATING PROFIT  
in KRW billions



DELINQUENCY RATIO  
Over 30 days



CARDHOLDERS





## Woori Home Shopping

WOORI HOME SHOPPING WAS LAUNCHED IN MAY 2001 WITH THE MISSION OF HELPING KOREA’S SMALL AND MEDIUM-SIZED FIRMS REACH THE LOCAL MARKETPLACE. IN ADDITION TO OUR KOREAN OPERATIONS, WE HAVE JOINT VENTURES IN CHINA AND TAIWAN. IN FEBRUARY 2007, WE FORMALLY BECAME A SUBSIDIARY OF LOTTE SHOPPING, A COMPANY THAT CURRENTLY HOLDS A 53.03% STAKE IN US.

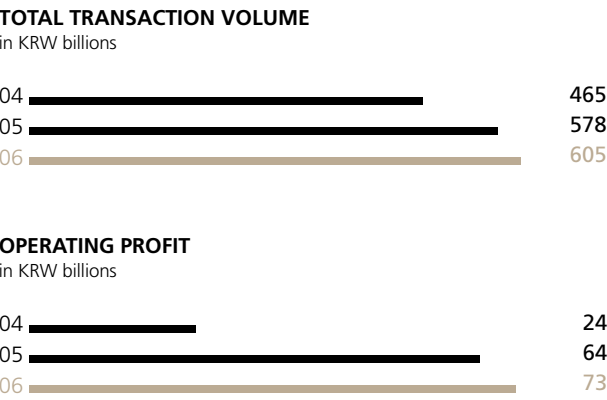
In 2006, we had a total transaction volume of KRW 605.2 billion, a 4.7% year-on-year increase. Broken down by shopping channel, TV accounted for 79.1% sales, followed by the Internet with 17.9%, and other sales with 3%.

Home shopping is an ideal retail business for fast-changing markets because it gives quick feedback from consumers. It also gives higher margins than offline businesses by directly connecting manufacturers and consumers. Korea’s home shopping market has grown an average of 13.2% annually over the past three years according to the Korea On-Line Shopping Association. As technologies like IPTV and the Internet continue to blur the boundaries between broadcasting and communications, we expect home shopping to capture an increasingly large share of the retail marketplace.

In 2007, Korea’s TV home shopping industry players are expected to shift their focus from profitability to growth by launching aggressive marketing initiatives to boost sales. The outlook for online retailers is even brighter as consumers experience and become increasingly comfortable with shopping online.

As we begin to integrate our online retail channels with Lotte Shopping’s existing offline retail operations, we expect to see many opportunities for synergy. We will be able to grow our customer base through co-marketing with Lotte Shopping and other Lotte affiliates. We will have access to customer data from 10 million Lotte Shopping customers,

and Lotte Shopping will have access to data from our 9 million customers. We will also be able to learn from Lotte Shopping’s offline buying expertise as we share our online expertise. Last, but not least, Lotte Shopping’s buying power will help us attract top vendors, enabling us to give our customers an even greater selection of quality merchandise.



## Lotte.com

LOTTE SHOPPING STARTED KOREA’S ONLINE SHOPPING REVOLUTION WHEN IT LAUNCHED LOTTESHOPPING.COM IN 1996. TODAY, WE CARRY A DIVERSE SELECTION OF MERCHANDISE FROM ALL LOTTE GROUP RETAIL AFFILIATES. AS OF 2006 YEAR-END, LOTTE SHOPPING HELD A 34.4% STAKE IN US.

Korea’s online marketplace was valued at KRW 13.4 trillion in 2006, with general e-tailors accounting for two-thirds and customer-to-customer (C2C) sales for the remaining one-third. While the overall online market grew 26.1% in 2006 according to the Korea National Statistical Office, we significantly outperformed the market by generating

growth of nearly 40% with a transaction volume of KRW 3.1 trillion.

Korea’s overall online market is forecast to reach KRW 17 trillion in 2007 according to the Korea National Statistical Office, a 26.3% year-on-year increase. Mainstream e-tailors are expecting growth of about 12% to KRW 10 trillion, while C2C markets anticipate continued torrid growth with a 54.7% jump to KRW 7 trillion.

Our strategy for 2007 includes differentiating ourselves from the competition by stepping up cooperation with Lotte department store, making our processes more efficient and customer-centered, and expanding our fashion lineup to improve our revenue structure. We will also be branching out into new businesses such as hybrid online-offline shopping malls and overseas buying agent services. Above all, we will be relying on our 10-plus years of experience in online sales to meet and beat the competition with superior merchandising and service.







WHY CAN'T CARING

LOTTE IS HELPING  
MAKE A DIFFERENCE



NEW  
HOPE

EVERYTHING WE DO IN LIFE  
MAKES A DIFFERENCE EITHER FOR  
THE BETTER, OR FOR THE WORSE.  
THAT'S WHY TODAY'S LEADING  
COMPANIES ARE NATURALLY  
FOCUSING ON SUSTAINABILITY  
AND STEWARDSHIP.

AT LOTTE SHOPPING, WE'RE ALWAYS  
ON THE LOOKOUT FOR NEW WAYS  
TO CONSERVE, PRESERVE, SERVE,  
AND SHARE WITH OUR LOCAL  
COMMUNITIES. READ ON AND SEE  
HOW WE'RE HELPING MAKE A  
DIFFERENCE IN THEM.





# Lotte & The Environment

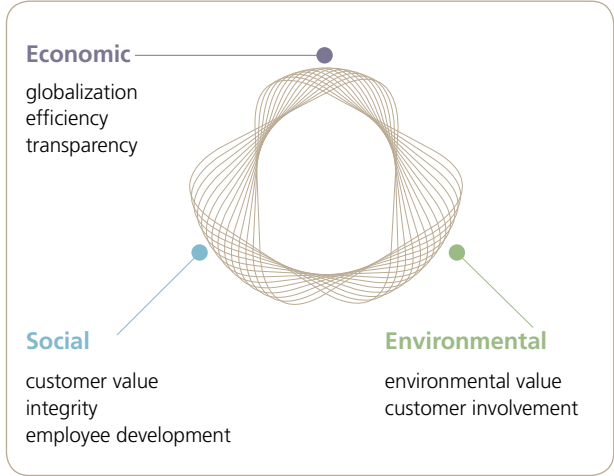
SUSTAINABILITY IS SIMPLY SMART BUSINESS.  
IT'S BEEN THREE YEARS SINCE WE MADE  
SUSTAINABILITY A CORNERSTONE OF  
OUR BUSINESS STRATEGY BACK IN 2004 BY  
ANNOUNCING A FIVE-YEAR PLAN TO  
INVEST OVER KRW 100 BILLION IN  
ENVIRONMENTAL AND SOCIAL CAUSES.  
SINCE THEN, WE'VE MADE REMARKABLE  
PROGRESS IN EVERY ASPECT OF  
OUR OPERATIONS.

Our internal environmental initiatives continued to make solid progress in 2006 as we pushed them down to the store level through ISO 14001 environmental management certification, "green" buying policies, and weekly performance evaluations. The highlight of our year came in December when we completed ISO 14001 certification for our entire department store chain.

Resource usage is one area where small changes can make a big difference. We aim to reduce energy consumption by 2.5% and water usage by 2% annually through 2008. We are currently recycling over 40% of waste by weight, and we continue to make our waste management system more eco-friendly.



## LOTTE & SUSTAINABILITY



# I L E



While making sure our businesses are run sustainably is essential to success, we realize that we can make a bigger difference by partnering with others. The Korea Green Foundation is a good example of the kind of organizations we like to work with. As a member of the foundation's Manbun Club, we donate a portion of each sale made through our Environmental Gift Certificate program as we continued to work together to promote environmental awareness and action.

In recent years, we have found frequent opportunities to promote sustainability in connection with our businesses. During Environment Month each June, we spotlight green foods, homewares, cosmetics, and other products. We sponsor a biannual Eco-Shop green-product showcase at our department stores in partnership with the Korea Green Foundation. We also organize business-casual fashion shows and coordination clinics in support of the Korean government's "Cool Biz" and "Warm Biz" fashion initiatives to save energy in the workplace by keeping air conditioning at 28°C in summer and heating at 20°C in winter.

In 2006, we held the third annual Environmental Marketing Contest for university students in cooperation with the Ministry of Environment and the Korea Green Foundation. This year's contest added a new category—character design—in addition to essays, project proposals, and poster design.

Our Environment School is a four-month program that teaches primary school kids about the importance of conserving and preserving the environment through monthly weekend camps, special assignments, and an online community. We are gradually expanding this popular program nationwide.

We have a special place in our hearts for birds. In 2006, our "I Love Birds" festival sent a group of customers chosen by lottery to birdwatching school as part of our efforts to promote this family friendly leisure pastime. We plan to launch an Internet portal to promote birdwatching as well as lead a campaign to select Korea's national bird. 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 rivers across the nation clean.



C

## Lotte & Communities

AS A RETAILER, OUR SUCCESS DEPENDS ON HOW WELL WE MEET THE NEEDS OF LOCAL CONSUMERS. WHETHER IT’S CREATING JOBS, LENDING A HELPING HAND, OR INVITING CUSTOMERS TO JOIN US, WE’RE ALWAYS LOOKING FOR NEW WAYS TO GIVE BACK TO OUR LOCAL COMMUNITIES.



Employment is the most visible way we impact local communities. In 2006, we employed over 8,404 full-time employees across the Korean peninsula.



The diversified nature of our nationwide retail operations makes it more effective for each store to set its own community service agenda. In 2006, a significant number of our people volunteered their time and money to help local charities and meet the basic needs of the underprivileged in their surrounding communities. In addition to supporting these employee-driven activities at our local stores, we also contribute to the Lotte Group’s nationwide philanthropy initiatives spearheaded by the Lotte Scholarship Foundation and the Lotte Welfare Foundation.

We encourage our customers to join us in making a difference in their communities. Our Lotte Membership program enables customers to donate the Lotte Points they earn on purchases to a charity or charities of their choice. Many of our businesses invite customers to donate their spare change to UNICEF. Lotte Cinema offers special discounts to moviegoers who donate blood or participate in organ and tissue donor programs. Last, but not least, our Avenuel luxury specialty store teams up with top fashion brands and artists for the “Share the Love with Avenuel” program to benefit worthy charities.



## FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT  
February 14, 2007



Based on a report originally issued in Korean

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

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

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

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

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

WITHOUT QUALIFYING OUR OPINION, WE DRAW ATTENTION TO THE FOLLOWING:

As discussed in note 1(b) to the non-consolidated financial statements, accounting principles and auditing standards and their application in practice vary among countries. The accompanying non-consolidated financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries other than the Republic of Korea. In addition, the procedures and practices utilized in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying non-consolidated financial statements are for use by those knowledgeable in Korean accounting principles and auditing standards and their application in practice.

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

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

*KPMG Samjong Accounting Corp.*

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

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



NON-CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2006 AND 2005

ASSETS	2006 In KRW millions	2005 In KRW millions	2006 In USD thousands (note 2)
CURRENT ASSETS			
Cash and cash equivalents (notes 9 and 12)	₩747,586	₩37,534	\$804,201
Short-term financial instruments (notes 3 and 12)	1,426,527	12,184	1,534,560
Trade accounts receivable, net of allowance for doubtful accounts of ₩2,802 million in 2006 and ₩2,162 million in 2005 (note 8)	230,172	179,882	247,604
Other accounts receivable, net of allowance for doubtful accounts of ₩1,719 million in 2006 and ₩1,207 million in 2005 (note 8)	41,641	119,477	44,794
Advance payments, net of allowance for doubtful accounts of ₩369 million in 2006 and ₩481 million in 2005 (note 8)	36,638	234,212	39,413
Inventories (notes 4 and 8)	946,137	788,539	1,017,789
Other current assets (note 6)	36,405	17,961	39,163
Total current assets	₩3,465,106	₩1,389,789	\$3,727,524
NON-CURRENT ASSETS			
Available-for-sale securities (note 5)	₩115,342	₩77,933	\$124,077
Equity method investment securities (note 5)	1,433,835	1,135,699	1,542,422
Guarantee deposits (notes 8 and 16)	356,426	289,481	383,419
Long-term prepaid expenses	142,086	111,549	152,846
Other investment assets (note 35)	210,857	5,500	226,823
Property, plant and equipment, net of accumulated depreciation of ₩1,321,278 million in 2006 and ₩1,067,598 million in 2005 (notes 8, 9 and 34)	6,111,108	5,342,582	6,573,912
Intangible assets (notes 10, 33 and 34)	35,592	36,847	38,287
Other non-current assets (note 11)	1,962	1,972	2,112
Total non-current assets	₩8,407,208	₩7,001,563	\$9,043,898
Total assets	₩11,872,314	₩8,391,352	\$12,771,422

NON-CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2006 AND 2005

LIABILITIES AND STOCKHOLDERS' EQUITY	2006 In KRW millions	2005 In KRW millions	2006 In USD thousands (note 2)
CURRENT LIABILITIES			
Trade accounts payable (notes 8 and 12)	₩1,548,170	₩1,374,908	\$1,665,415
Short-term borrowings (notes 14 and 29)	1	584,031	1
Other accounts payable (note 8)	439,953	291,822	473,272
Advances from customers (note 8)	18,462	21,787	19,860
Accrued expenses (note 8)	116,667	115,818	125,502
Accrual for gift certificates	301,326	271,176	324,145
Current portion of debentures, net of discount on debentures of ₩1,167 million in 2006 and ₩3,092 million in 2005 (notes 12 and 15)	656,721	696,908	706,456
Current portion of long-term borrowings (notes 12 and 14)	65,072	-	70,000
Income taxes payable (note 27)	124,296	103,583	133,709
Accrual for bonus cards (note 18)	23,284	21,351	25,048
Current derivative liabilities (note 19)	25,375	-	27,297
Other current liabilities (note 13)	58,645	46,815	63,086
Total current liabilities	₩3,377,972	₩3,528,199	\$3,633,791
LONG-TERM LIABILITIES			
Long-term borrowings (notes 12 and 14)	₩-	₩70,910	\$-
Debentures, net of discount on debentures of ₩1,685 million in 2006 and ₩7,895 million in 2005 (notes 12 and 15)	548,315	1,202,495	589,839
Non-current derivative liabilities (note 19)	-	16,396	-
Rental guarantee deposits (note 16)	252,801	219,478	271,946
Accrual for retirement and severance benefits, net (note 17)	45,431	35,888	48,871
Deferred income tax liabilities (note 27)	131,942	82,132	141,935
Total long-term liabilities	₩978,489	₩1,627,299	\$1,052,591
Total liabilities	₩4,356,461	₩5,155,498	\$4,686,382
STOCKHOLDERS' EQUITY (note 20)			
Common stock of ₩5,000 par value	₩145,217	₩100,000	\$156,214
Authorized: 60,000,000 shares			
Issued and outstanding: 29,043,374 shares in 2006 and 20,000,000 shares in 2005			
Capital surplus (notes 20 and 21)	4,650,895	1,146,678	5,003,115
Retained earnings (notes 20 and 22)	2,635,392	1,907,007	2,834,975
Capital adjustments (notes 20 and 23)	84,349	82,169	90,736
Total stockholders' equity	₩7,515,853	₩3,235,854	\$8,085,040
Commitments and contingencies (note 29)			
Total liabilities and stockholders' equity	₩11,872,314	₩8,391,352	\$12,771,422

See accompanying notes to non-consolidated financial statements.



NON-CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2006 AND 2005

	2006 In KRW millions	2005 In KRW millions	2006 In USD thousands (note 2)
Sales (notes 8, 16, 24, 25, 29 and 34)	₩9,055,880	₩8,607,104	\$9,741,695
Cost of sales (notes 8, 24 and 25)	6,383,540	6,189,256	6,866,975
Gross profit	₩2,672,340	₩2,417,848	\$2,874,720
Selling and administrative expenses (notes 8, 26, 31 and 32)	1,922,968	1,729,028	2,068,597
Operating income	₩749,372	₩688,820	\$806,123
Non-operating income			
Interest income	₩111,275	₩9,245	\$119,701
Dividend income	1,795	1,371	1,931
Gain on foreign currency transactions	3,282	1,289	3,531
Unrealized gain on foreign currency translation (note 19)	8,363	3,085	8,996
Gain on transactions of derivatives	7,072	-	7,608
Equity in income of affiliates (note 5)	234,609	159,811	252,377
Unrealized gain on reclassification of available-for-sale securities (note 5)	39,821	-	42,837
Others	24,660	26,373	26,528
	₩430,877	₩201,174	\$463,509
Non-operating expenses			
Interest expense	₩87,318	₩131,475	\$93,930
Loss on foreign currency transactions	16,297	26	17,532
Unrealized loss on foreign currency translation	25,781	27	27,733
Equity in losses of affiliates (note 5)	6,246	4,649	6,719
Unrealized loss on valuation of derivative instruments (note 19)	8,340	3,080	8,972
Loss on disposal of property, plant and equipment	19,216	2,911	20,671
Additional income taxes for prior period	11,339	2	12,198
Others	19,769	19,045	21,267
	₩194,306	₩161,215	\$209,022
Ordinary income	₩985,943	₩728,779	\$1,060,610
Extraordinary item	-	-	-
Income before income taxes	₩985,943	₩728,779	\$1,060,610
Income taxes (note 27)	246,099	182,562	264,736
Net income	₩739,844	₩546,217	\$795,874
Ordinary income per share in Korean won and U.S. dollars (note 28)	₩26,399	₩27,311	\$28
Net income per share in Korean won and U.S. dollars (note 28)	₩26,399	₩27,311	\$28

See accompanying notes to non-consolidated financial statements.

NON-CONSOLIDATED STATEMENTS OF APPROPRIATION OF RETAINED EARNINGS

YEARS ENDED DECEMBER 31, 2006 AND 2005

	2006 In KRW millions	2005 In KRW millions	2006 In USD thousands (note 2)
UNAPPROPRIATED RETAINED EARNINGS			
Balance at beginning of year	₩9,878	₩10,081	\$10,626
Changes of equity in retained earnings of equity method investees	3,541	-	3,809
Net income	739,844	546,217	795,874
Balance at end of year before appropriation (note 22)	753,263	556,298	810,309
TRANSFER FROM VOLUNTARY RESERVES			
Reserve for social overhead capital investment	-	80	-
Unappropriated retained earnings available for appropriation	753,263	556,378	810,309
APPROPRIATIONS OF RETAINED EARNINGS			
Legal reserve	3,630	1,500	3,905
Voluntary reserve	700,000	530,000	753,012
Cash dividends (note 30)	36,304	15,000	39,054
	739,934	546,500	795,971
Unappropriated retained earnings to Be carried over to subsequent year	₩13,329	₩9,878	\$14,338

See accompanying notes to non-consolidated financial statements.



NON-CONSOLIDATED STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2006 AND 2005

	2006 In KRW millions	2005 In KRW millions	2006 In USD thousands (note 2)
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	₩ 739,844	₩ 546,217	\$795,874
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation	₩ 265,336	₩ 225,841	\$285,430
Amortization of intangibles	15,838	4,428	17,038
Bad debt expense	297	182	320
Provision for retirement and severance benefits	31,267	28,831	33,635
Loss on inventory shrinkage	8,881	6,351	9,553
Amortization of discount on debentures	8,134	11,756	8,750
Loss on valuation of equity method investment securities	6,246	4,649	6,719
Loss on valuation of derivative instruments	8,340	3,080	8,972
Loss on disposal of property, plant and equipment	19,216	2,911	20,671
Loss on foreign currency translation	25,781	27	27,733
Gain on foreign currency translation	(8,363)	(3,085)	(8,996)
Gain on valuation of equity method investment securities	(234,609)	(159,811)	(252,377)
Unrealized gain on valuation of associate's share to exercise significant influence	(39,821)	-	(42,837)
Changes in operating assets and liabilities			
Trade accounts receivable	₩ (51,003)	₩ (31,644)	\$(54,865)
Other accounts receivable	79,978	(79,512)	86,035
Accrued interest income	(7,855)	61	(8,450)
Advance payments	(14,361)	(53,863)	(15,448)
Inventories	(133,581)	105,890	(143,697)
Other current assets	(9,147)	(5,655)	(9,840)
Long-term prepaid expenses	(30,537)	-	(32,850)
Trade accounts payable	173,263	25,496	186,385
Other accounts payable	148,295	(22,501)	159,525
Advances from customers	(3,325)	9,622	(3,577)
Accrued expenses	849	46,954	913
Income taxes payable	20,713	4,523	22,282
Accrual for gift certificates	30,149	19,658	32,432
Accrual for mileage	1,933	5,696	2,080
Other current liabilities	61,990	51,339	66,685
Decrease in National Pension Fund	29	176	31
Payment of retirement and severance benefits	(11,531)	(13,575)	(12,405)
Decrease in severance insurance deposits for employees	(12,040)	(10,996)	(12,952)
Others	(3,482)	(12,829)	(3,746)
Net cash provided by operating activities	₩ 1,086,724	₩ 710,217	\$1,169,023

Continued

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2006 AND 2005

	2006 In KRW millions	2005 In KRW millions	2006 In USD thousands (note 2)
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash inflows from investing activities			
Withdrawal of short-term financial instruments	₩ 2,582,903	₩ 612,027	\$2,778,510
Refund of guarantee deposits	26,976	47,014	29,019
Proceeds from disposal of property, plant and equipment	25,757	10,353	27,708
Proceeds from disposal of intangibles	1,253	23	1,348
Others	4,105	728	4,416
	₩ 2,640,994	₩ 670,145	\$2,841,001
Cash outflows from investing activities			
Purchase of short-term financial instruments	₩ (4,023,027)	₩ (602,492)	\$(4,327,697)
Purchase of available-for-sale securities	(47,691)	(9,767)	(51,303)
Payment of guarantee deposits	(75,232)	(86,016)	(80,930)
Purchase of property, plant and equipment	(940,523)	(683,947)	(1,011,751)
Additions to intangibles	(13,478)	(5,232)	(14,498)
Others	(201,442)	(11,955)	(216,697)
	₩ (5,301,393)	₩ (1,399,409)	\$(5,702,876)
Net cash used in investing activities	₩ (2,660,399)	₩ (729,264)	\$(2,861,875)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash inflows from financing activities			
Proceeds from short-term borrowings	₩ 45,276	₩ 10,211,596	\$48,706
Issurance of debentures	-	348,460	-
Proceeds from issuance of common stock, net	3,549,434	-	3,818,238
Receipt of leasehold deposits	66,806	95,727	71,865
	₩ 3,661,516	₩ 10,655,783	\$3,938,809
Cash outflows from financing activities			
Repayment of short-term borrowings	₩ (629,307)	₩ (10,144,300)	(676,966)
Redemption of bonds	(700,000)	-	(753,012)
Repayment of current portion of long-term borrowings	-	(441,752)	-
Repayment of leasehold deposits received	(33,482)	(27,283)	(36,018)
Dividends paid	(15,000)	(10,000)	(16,136)
Payment of derivative instruments	-	(6,004)	-
	₩ (1,377,789)	₩ (10,629,339)	\$(1,482,132)
Net cash provided by financing activities	₩ 2,283,727	₩ 26,444	\$2,456,677
Net increase in cash and cash equivalents	₩ 710,052	₩ 7,397	\$763,825
Cash and cash equivalents at beginning of year	37,534	30,137	40,376
Cash and cash equivalents at end of year	₩ 747,586	₩ 37,534	\$804,201

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, 2006 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	226,962	0.8%
Hotel Lotte Co., Ltd.	2,697,201	9.3%
Korea Fuji Film Co., Ltd.	2,474,543	8.5%
Lotte Confectionery Co., Ltd.	2,474,543	8.5%
Lotte Data Communication Company	1,515,653	5.2%
Lotte Chilsung Beverage Co., Ltd.	1,237,272	4.3%
Lotte Engineering & Construction Co., Ltd.	300,019	1.0%
Hotel Lotte Pusan Co., Ltd.	246,720	0.8%
Others	9,043,374	31.2%
Total	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, re-structured 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, 2006, the Company adopted Statements of Korea Accounting Standards (“SKAS”) No. 18 (*Joint Venture Investments*), No. 19 (*Leases*), and No. 20 (*Related Party Disclosures*). Except for the additional disclosures required by SKAS No. 20, the adoption of these standards did not have any impact on the accompanying non-consolidated financial statements.

(c) Revenue Recognition

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

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

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

(d) Allowance for Doubtful Accounts

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

(e) Inventories

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

	Retail business segment	Food and sale of apartments business segments
Merchandise and finished goods	Retail method	Gross average method
	Specific identification method	Specific identification method
Materials-in-transit		
Others	First-in, first-out method	Gross average method

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

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

(f) Investments in Securities

(i) Classification of Securities

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

(ii) Valuation of Securities

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

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

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

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

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

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

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

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

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

Under the equity method of accounting, unrealized gains and losses on transactions with an investee are eliminated to the extent of the investor's interest in the investee. Investments in affiliated companies are reduced when dividends are declared at the shareholders' meeting of the respective affiliated companies.

**(h) Joint Venture Investments**

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

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

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

**(i) Property, Plant and Equipment**

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

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

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

Useful lives in 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, and 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.

**(j) Intangible Assets**

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

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

The Company accounts for acquisitions of businesses assuming that the transaction occurs as of the closest date of the most recent quarter end (deemed acquisition date). Goodwill, which represents the excess of the acquisition cost over the fair value of net identifiable assets acquired, is amortized on a straight-line basis over the estimated useful life. An impairment loss on goodwill is recognized when the amount of goodwill recoverable declines below its carrying amount and the amount is material.

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

Useful lives in 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
Copyrights	Duration of related revenue to be realized
Others	5

When the recoverable amount of an intangible asset is substantially below the carrying amount of the asset due to obsolescence and sharp decline in its market value and others, the Company reduces its

carrying amount to the recoverable amount and the amount impaired is recognized as an impairment loss.

**(k) Leases**

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

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

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

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

**(l) Discount on Debentures**

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

**(m) Retirement and Severance Benefits**

Employees and directors with more than one year of service are entitled to receive a lump-sum payment upon termination of their service with the Company, based on their length of service and rate of pay at the time of termination, as stipulated in the Company's employment regulations.

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

(n) Foreign Currency Translation

The Company and its domestic subsidiaries maintain their accounts in Korean won. Transactions in foreign currencies are recorded in Korean won based on the prevailing rates of exchange on the transaction dates. Monetary accounts with balances denominated in foreign currencies are recorded and reported in the accompanying financial statements at the exchange rates prevailing on the balance sheet dates. The balances have been translated using the Seoul Money Brokerage Services, Ltd. Basic Rate, which was ₩ 929.6 and ₩ 1,013.0 to US\$1 on December 31, 2006 and 2005, respectively, and translation gains or losses are reflected in current operations.

(o) Derivatives

All derivative instruments are accounted for at fair value as an asset or liability according to derivative contracts. If the derivative instrument is not part of a transaction qualifying as a hedge, the adjustment to the fair value is reflected in current operations. The accounting for derivative transactions that are part of a qualified hedge based both on the purpose of the transactions and on meeting the specified criteria for hedge accounting differs depending on whether the transaction is a fair value hedge or a cash flow hedge.

Fair value hedge accounting is applied to a derivative instrument designated as hedging the exposure to changes in the fair value of an asset or a liability or a firm commitment (hedged item) that is attributable to a particular risk. The unrealized gain or loss on valuation of a derivative is recognized in current operations.

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

(p) Provisions and Contingent Liabilities

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

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

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

The Company also recognizes a provision for bonus cards that provide free gifts or services based on credit card usage.

(q) Liability for Gift Certificates

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

(r) Income Taxes

Deferred taxes are provided for 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 for is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

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

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

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

(s) Prior Period Adjustments

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

2. Basis of Translating the Non-Consolidated Financial Statements

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

3. Restricted Deposits

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

In KRW millions, In USD thousands (note 2)				
Account	Bank	2006	2005	2006
Short-term financial instruments:				
Guarantee deposits of contracts	Busan Bank	₩ 1,806	₩ 1,584	\$ 1,943
Long-term financial instruments:				
Guarantee deposits for checking accounts	Shinhan Bank and others	33	41	35
Total		₩ 1,839	₩ 1,625	\$ 1,978

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

(t) Ordinary and Net Income Per Share

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

(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.

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4. Inventories

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

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

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

5. Investments in Securities

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

(a) Available-for-sale securities

(i) Equity securities

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

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

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

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

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

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

(\*5) As described in note 1(g), 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 can record the investment at cost.



NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

Continued

(ii) Debt securities

In KRW millions, In USD thousands (note 2)			
	2006	2005	2006
Current assets			
Government and public bonds (note6)	₩2	₩3	\$3
Non-current assets			
Government and public bonds	12,137	8,253	13,056
Total	₩12,139	₩8,256	\$13,059

(iii) Changes in unrealized holding gains (losses)

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

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

(b) Investments in affiliates

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

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.	2,000,183	90.91%	10,001	7,120	7,120
Foodstar Inc.	5,582,896	39.76%	33,994	9,438	9,438
Lotte Midopa Co., Ltd. (*2)	51,475,843	79.01%	257,379	298,511	338,918
Lotte Card Co., Ltd.	69,995,159	92.54%	432,907	683,483	713,057
Lotte Capital Co., Ltd.	6,434,128	20.55%	67,573	34,325	34,325
FRL Korea Co., Ltd.	1,176,000	49.00%	5,880	5,333	5,333
Lakepark Co, Ltd.	382,400	23.90%	1,912	1,893	1,893
Nexus Media Contents Investment Union	20	20.00%	2,000	1,856	1,856
KTB Media Investment Union	15	30.00%	1,500	1,160	1,160
Isu Entertainment Investment Union	30	37.50%	3,000	2,903	2,903
Lotte Shopping Rus Ltd. (formerly L&L Ltd.) (*1)	64,457	17.69%	13,154	10,478	11,556
Lotte Engineering & Machinery Manufacturing Co., Ltd. (*1)	393,283	13.71%	2,069	11,241	11,241
Lotte Trading Co., Ltd. (formerly Lotte Industry Co., Ltd.) (*1)	53,393	8.77%	43,777	30,458	43,777
Lotte Aluminium Co., Ltd. (*1)	48,391	5.08%	23,038	27,323	33,200
Lotteria Co., Ltd. (*1)	74,000	19.94%	39,720	44,101	52,320
Total			₩956,681	₩1,335,281	₩1,433,835

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

(\*1) The ownership percentages of Lotte Engineering & Machinery Manufacturing Co., Ltd., Lotte Shopping Rus Co., Ltd. (formerly, L&L Ltd.), Lotte Trading Co., Ltd., Lotte Aluminium Co., Ltd. and Lotteria Co., Ltd. are under 20%; however, since the Company is able to exercise significant influence over 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 on Korea Stock Exchange are ₩ 844,204 million and ₩ 1,449,045 million as of December 31, 2006 and 2005, 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, 2006 and 2005 are as follows:

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



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Continued

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

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

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

In KRW millions						
2006						
Affiliate	Percentage of ownership	Beginning balance	Adjustment to			Balance at December 31, 2006
			Net income (loss)	Capital adjustment	Other	
Lotte Station Building Co., Ltd.	25.00%	₩97,268	₩13,979	₩(8)	₩(810)	₩110,429
Daehong Communications Co., Ltd.	30.00%	38,321	11,526	67	(5)	49,909
Lotte.Com Inc.	34.39%	2,075	3,325	-	-	5,400
Lotte Boulangerie Co., Ltd.	90.91%	1,628	(4,062)	(46)	9,600	7,120
Foodstar Inc.	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 Shopping Rus Ltd. (formerly L&L Ltd.)	17.69%	11,042	498	16	-	11,556
Lotte Engineering & Machinery Manufacturing Co., Ltd.	13.71%	9,520	1,702	16	3	11,241
Lotte Trading Co., Ltd. (formerly Lotte Industry Co., Ltd.) (*1,2)	8.77%	-	-	-	43,777	43,777
Lotte Trading Co., Ltd. (*1)	6.75%	2,146	168	4	(2,318)	-
Lotte Aluminium Co., Ltd.	5.08%	27,468	3,490	2,241	1	33,200
Lotteria Co., Ltd.	19.94%	45,898	5,535	562	326	52,321
Total		₩1,135,699	₩228,363	₩8,197	₩61,576	₩1,433,835

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

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

In KRW millions						
2005						
Affiliate	Percentage of ownership	Beginning balance	Adjustment to			Balance at December 31, 2006
			Net income (loss)	Capital adjustment	Other	
Lotte Station Building Co., Ltd.	25.00%	₩83,620	₩14,368	₩-	₩(720)	₩97,268
Daehong Communications Co., Ltd.	30.00%	23,881	4,154	8,142	2,144	38,321
Lotte.Com Inc.	34.39%	1,437	638	-	-	2,075
Lotte Boulangerie Co., Ltd.	90.91%	1,976	(348)	-	-	1,628
Foodstar Inc.	39.76%	8,879	(1,426)	-	-	7,453
Lotte Midopa Co., Ltd.	79.01%	282,001	14,822	-	-	296,823
Lotte Card Co., Ltd.	92.54%	445,097	118,822	1,201	-	565,120
Lotte Capital Co., Ltd.	20.55%	19,599	5,052	-	-	24,651
Nexus Media Contents Investment Union	20.00%	2,014	(201)-	-	1,813	
KTB Media Investment Union	30.00%	-	(30)	-	1,500	1,470
Isu Entertainment Investment Union	37.50%	-	3	-	3,000	3,003
L&L Ltd.	17.69%	13,154	(163)	(1,414)	(535)	11,042
LotteEngineering & Machinery Manufacturing Co., Ltd.	13.71%	2,069	1,381	1,793	4,277	9,520
Lotte Trading Co., Ltd.	6.75%	343	47	(1)	1,757	2,146
Lotte Aluminium Co., Ltd.	5.08%	23,038	523	675	3,232	27,468
Lotteria Co., Ltd.	19.94%	39,719	(2,479)	9,189	(531)	45,898
Total		₩946,827	₩155,163	₩19,585	₩14,124	₩1,135,699

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

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



NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

6. Other Current Assets

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

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

7. Joint Venture Investments

Details of joint venture investments as of December 31, 2006 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 Petrochemical, etc.	Building leasing services

8. Transactions and Balances with Related Companies

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

Parent	Ownership	Control relationship
Hotel Lotte Co., Ltd.	9.3%	Included in Lotte Group
Korea Fuji Film Co., Ltd.	8.5%	Included in Lotte Group
Lotte Confectionery Co., Ltd.	8.5%	Included in Lotte Group
Lotte Data Communication Company	5.2%	Included in Lotte Group
Lotte Chilsung Beverage Co., Ltd.	4.3%	Included in Lotte Group
Lotte Engineering & Construction Co., Ltd.	1.0%	Included in Lotte Group
Hotel Lotte Pusan Co., Ltd.	0.8%	Included in Lotte Group

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

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

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

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

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

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

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

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

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

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

9. Property, Plant and Equipment

(a) The Company revalued its land and buildings in 1998 under the then Korean Assets Revaluation Law. As a result, the Company recorded a revaluation surplus of ₩1,028,713 million, net of asset revaluation tax and 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, 2006 and 2005 are as follows:

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 plots of land, expenses and intangible assets, etc.



NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

Continued

In KRW millions						
2005						
	Book value as of January 1, 2005	Acquisitions	Disposals	Depreciation	Transfers	Book value as of December 31, 2005
Land	₩2,437,479	₩157,086	₩(7,727)	₩-	₩336	₩2,587,174
Buildings	1,970,868	51,325	(1,557)	(97,922)	370,704	2,293,418
Structures	58,028	2,366	(21)	(2,842)	22,465	79,996
Machinery	6,975	3,513	(4)	(2,511)	3,633	11,606
Vehicles	539	283	(94)	(299)	-	429
Furniture and equipment	20,065	1,626	(642)	(14,272)	11,369	18,146
Other	126,669	81,094	(1,015)	(107,995)	74,049	172,802
Construction- in-progress	276,806	386,655	-	-	(484,450)	9,011
Total	₩4,897,429	₩683,948	₩(11,060)	₩(225,841)	₩(1,894)	₩5,342,582

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

In KRW millions		
2006		
	Book value	Declared value
Land	₩2,673,274	₩4,012,472

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

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

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

10. Intangible Assets

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

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 a water supply facility	2,768	-	(375)	746	3,139
Rights to use an electricity supply facility	2,214	-	(327)	965	2,852
Rights to use a gas supply facility	1,130	3	(157)	462	1,438
Rights to use a facility	10,134	-	(857)	-	9,277
Copyrights	2,408	10,406	(11,300)	-	1,514
Others	3,069	2,931	(950)	(1,068)	3,982
Total	₩36,847	₩13,478	₩(15,838)	₩1,105	₩35,592

In KRW millions					
2005					
	Book value as of January 1, 2006	Acquisitions	Amortization	Others	Book value as of December 31, 2005
Goodwill	₩12,973	₩3,753	₩(1,790)	₩ -	₩14,936
Industrial property rights	183	71	(66)	-	188
Rights to use a water supply facility	1,665	1,427	(324)	-	2,768
Rights to use an electricity supply facility	1,852	655	(279)	(14)	2,214
Rights to use a gas supply facility	1,098	175	(143)	-	1,130
Rights to use a facility	10,991	-	(857)	-	10,134
Copyrights	-	-	-	2,408	2,408
Others	2,714	1,324	(969)	-	3,069
Total	₩31,476	₩7,405	₩(4,428)	₩2,394	₩36,847

11. Other Assets

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

In KRW millions, In USD thousands (note 2)			
Description	2006	2005	2006
Long-term financial instruments	₩32	₩42	\$35
Long-term loans	1,930	1,930	2,077
Total	₩1,962	₩1,972	\$2,112

12. Assets and Liabilities Denominated in Foreign Currency

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

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

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

Continued

13. Other Current Liabilities

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

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

14. Borrowings

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

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

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

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

15. Debentures

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

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

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

In KRW millions	
Period	
2007.1.1~2007.12.31	₩657,888
2008.1.1~2009.12.31	550,000
	₩1,207,888

16. Leases

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

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

(b) Future minimum lease payments under operating leases as of December 31, 2006 are as follows:

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



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Continued

17. Retirement and Severance Benefits

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

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

In 1999, the Company converted its group severance benefit insurance policy into a new severance benefit insurance policy with Samsung Life Insurance Co., etc. Under the new insurance policy, payments of the Company's retirement and severance benefit liability to employees are guaranteed to the extent of deposits held by the insurance company. These deposits are presented as a reduction of the accrual for retirement and severance benefits liability.

18. Accrual for Bonus Cards

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

In KRW millions, In USD thousands (note 2)			
	2006	2005	2006
Beginning of year	₩21,351	₩15,654	\$22,967
Increase	7,806	8,207	8,397
Decrease	(5,873)	(2,510)	(6,316)
End of year	₩23,284	₩21,351	\$25,048

19. Derivatives

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

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

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

20. Stockholders' Equity

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

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

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

21. Capital Stock and Capital Surplus

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

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

In KRW millions, In USD thousands (note 2)			
	2006	2005	2006
Paid-in capital in excess of par value (note 20)	₩3,605,117	₩100,900	\$3,814,131
Gain on capital reduction	1,793	1,793	1,897
Other capital surplus	1,043,985	1,043,985	1,104,513
	₩4,650,895	₩1,146,678	\$4,920,541

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

Continued

Gain on capital reduction

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

Gain on merger

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

Assets revaluation

The Company revalued its property, plant and equipment on July 1, 1998 in accordance with the old Assets Revaluation Law. Details of the as-sets 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

22. Retained Earnings

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

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

(a) Legal reserve

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

(b) Reserve for business rationalization

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

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

(c) Reserve for corporate development

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

23. Capital Adjustments

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

In KRW millions, In USD thousands (note 2)			
Accounts	2006	2005	2006
Unrealized gain on valuation of available-for-sale securities	₩26,732	₩30,863	\$28,756
Unrealized gain on investments under the equity method, net	57,374	50,600	61,718
Unrealized gain on valuation of derivative instruments	243	706	261
	₩84,349	₩82,169	\$90,736

24. Sale of Apartments

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

In KRW millions, In USD thousands (note 2)			
	2006	2005	2006
Beginning of year	₩6,154	₩168,850	\$6,620
Increase (decrease)	114,923	4,142	123,626
Revenue recognized in current year	(13,997)	(166,838)	(15,057)
End of year	₩107,080	₩6,154	\$115,189

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

In KRW millions, In USD thousands (note 2)				
Project	Cumulative revenue	Cumulative costs	Cumulative revenue	Cumulative costs
Beome-dong project	₩8,707	₩6,942	\$9,366	\$7,468



25. Sales and Cost of Sales

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

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

26. Selling and Administrative Expenses

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

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

27. Income Taxes

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

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, 2006 and 2005 are summarized as follows:

In KRW millions, In USD thousands (note 2)			
	2006	2005	2006
Current income tax expense	₩202,650	₩148,249	\$217,997
Deferred income tax expense	43,130	65,480	46,396
Income taxes directly charged to equity	319	(31,167)	343
Income taxes	₩246,099	₩182,562	\$264,736

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

Continued

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

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

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

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

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

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

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

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

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

(f) The deferred tax assets and liabilities that were directly charged or credited to capital adjustments as of December 31, 2006, 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	₩ 36,872	₩ 10,140	\$ 39,665	\$ 10,908
Capital adjustment of equity securities	79,404	20,617	85,417	22,178
Capital adjustment of derivative instruments	335	92	360	99
	₩ 116,610	₩ 30,849	\$ 125,441	\$ 33,185



NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

Continued

28. Ordinary and Net Income per Share

Ordinary income and net income per share are computed by dividing ordinary income (after deduction for tax effect) and net income by the weighted average number of common shares outstanding during the years ended December 31, 2006 and 2005. The calculation of ordinary income per share and net income per share is as follows:

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

29. Commitments and Contingencies

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

In KRW millions, In USD thousands		
	Total facility	Amount used under facility
Overdraft	₩65,000	₩1
Buyer's credit	₩1,120,000	₩206,392
General loan	₩200,000	₩-
Letter of credit	\$39,000	\$2,260
	₩1,385,000	₩206,393
	\$39,000	\$2,260

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

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

(d) On July 16, 2003, the Company entered into a contract with Lotte Midopa Co., Ltd. for the lease of Young Plaza, which is located in Namdaemunno, Jung-gu, until October 31, 2023 and paid a guarantee deposit amounting to ₩ 17,500 million. Also, the Company pays monthly rents of ₩ 346 million to Lotte Midopa Co., Ltd. as of December 31, 2006.

(e) As of December 31, 2006, the Company is a plaintiff in 10 lawsuits claiming damages totaling ₩ 822 million and a defendant in 8 lawsuits claiming damages totaling ₩ 3,128 million. Management believes that the ultimate resolution of these litigations will not have a material adverse effect on the financial position or operations of the Company; accordingly, the Company has not accrued any liability for possible losses in the accompanying non-consolidated financial statements.

30. Dividends

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

In KRW millions, In USD thousands (note 2)			
	2006	2005	2006
Dividend amount (cash dividends)	₩ 36,304	₩ 15,000	\$39,054
Net income	₩ 739,844	₩ 546,217	\$795,874
Dividends as a percentage of net income	4.91%	2.75%	4.91%
Par value	₩ 145,217	₩ 100,000	\$156,214
Dividends as a percentage of par value	25.0%	15.0%	25.0%

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

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

31. Added Value

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

In KRW millions, In USD thousands (note 2)			
	2006	2005	2006
Salaries	₩372,766	₩414,177	\$400,996
Retirement allowances and severance benefits	31,267	28,831	33,635
Other employee benefits	58,018	52,135	62,412
Rent	91,490	81,769	98,419
Depreciation	265,336	225,841	285,430
Taxes and dues	79,860	68,312	85,908
	₩898,737	₩871,065	\$966,800

32. Employee Welfare and Contributions to Society

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

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

33. Acquisition of Business

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

In KRW millions, In USD thousands (note 2)		
Description		
Current assets	₩4,792	\$5,155
Non-current assets	1,600	1,721
Net assets purchased	6,392	6,876
		0
Acquisition cost	10,145	10,913
Goodwill	₩3,753	\$4,037

34. Segment Information

(a) The Company's major business segments consist of department store (retail), mart (retail) and other (construction, food manufacturing, movie theaters and supermarkets).

(b) Financial information by business segment for the years ended December 31, 2006 and 2005 is summarized as follows:

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

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

35. Subsequent Events

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

For this acquisition, the Company paid ₩ 124 billion in advance. The acquisition was approved by the Korean Fair Trade Commission on November 29, 2006 and by the Korean Broadcasting Commission on December 27, 2006, after which the Company paid the balance of ₩ 293 billion on January 2, 2007. The Company presently holds a 50.58 percent interest (4,406,796 shares) and intends to purchase an additional 2.45 percent interest (196,000 shares) subsequently.

TO THE PRESIDENT OF  
LOTTE SHOPPING CO., LTD.;

We have reviewed the accompanying Report on the Operations of the Internal Accounting Control System (“IACS”) of Lotte Shopping Co., Ltd. (the “Company”) as of December 31, 2006. The Company’s management is responsible for designing and maintaining an effective IACS and for its assessment of the effectiveness of the 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 the IACS, the Company’s management stated: “Based on the assessment on the operations of the IACS, the Company’s IACS has been effectively designed and is operating as of December 31, 2006, in all material respects, in accordance with the IACS Framework issued by the Internal Accounting Control System Operation Committee.”

We conducted our review in accordance with IACS Review Standards, issued by the Korean Institute of Certified Public Accountants. Those Standards require that we plan and perform the review to obtain assurance of a level less than that of an audit as to whether the Report on the Operations of the Internal Accounting Control System is free of material misstatement. Our review consisted 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 THE  
INTERNAL ACCOUNTING CONTROL SYSTEM

REPORT ON THE OPERATIONS OF THE  
INTERNAL ACCOUNTING CONTROL SYSTEM

January 25, 2007

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, the IACS may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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

This report applies to the Company's IACS in existence as of December 31, 2006. We did not review the Company's IACS subsequent to December 31, 2006. This report has been prepared for Korean regulatory purposes, pursuant to the External Audit Law, and may not be appropriate for other purposes or for other users.

KPMG Samjong Accounting Corp.

February 14, 2007

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

TO THE BOARD OF DIRECTORS AND INTERNAL AUDITOR (AUDIT COMMITTEE) OF  
LOTTE SHOPPING CO., LTD.;

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

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

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



Hyun Soo, Kim  
Internal Accounting Control Officer



In Won, Lee  
Chief Executive Officer and President

CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2006 AND 2005

	2006 In KRW millions	2005 In KRW millions	2004 In KRW millions
Net sales	₩9,997,925	₩9,348,144	₩8,265,554
Gross profit	₩3,126,779	₩2,752,373	₩2,377,704
SG&A expenses	2,159,178	1,929,657	1,769,164
Operating income	₩967,601	₩822,716	₩608,540
Non-operating income	₩258,884	₩76,671	₩60,398
Interest income	112,571	9,731	12,451
Dividend income	1,917	1,382	1,252
Gain on valuation using the equity method	86,436	25,528	-
Gain on foreign currency transactions	10,798	7,903	5,172
Gain on foreign currency translation	8,363	3,112	20,644
Gain on disposal of investment assets	-	-	101
Gain on disposal of property, plant and equipment	4,336	2,504	101
Reversal of allowance for doubtful accounts	54	-	7,842
Gain on prior period error correction	-	11,417	-
Others	34,409	15,094	12,835
Non-operating expenses	₩201,603	₩170,350	₩243,048
Interest expense	90,433	135,580	157,238
Loss on valuation using the equity method	2,184	4,301	8,310
Loss on foreign currency transactions	21,088	4,291	3,831
Loss on foreign currency translation	25,781	48	32
Loss on disposal of trade accounts receivable	-	5	55
Loss on valuation of currency swaps	8,340	3,080	20,450
Loss on transaction of currency swaps	17	1,256	-
Loss on disposal of investment assets	-	-	218
Loss on impairment of available-for-sale securities	1,600	29	12,863
Loss on disposal of property, plant and equipment	20,217	3,338	23,660
Donations	4,130	4,330	2,377
Loss on prior period error correction	-	1,066	-
Additional income tax for prior periods	11,339	3	849
Others	16,474	13,023	13,165
Ordinary income	₩1,024,882	₩729,037	₩425,890
Net income	₩744,276	₩548,061	₩305,602

STORE NETWORK

as of December 31, 2006

- Department Stores\* [23]
- Discount Stores [50]
- Supermarkets [52]

\* Includes three stores managed under contract.





# M

## MILESTONES

1979~2007

### 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 preparing to enter 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

DECEMBER 2006  
Operated 23 department stores, 50 discount stores, and 52 supermarkets nationwide

MARCH 2007  
Acquired Big-Mart supermarket chain

# G

## LOTTE GROUP

as of March 2007

### 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.

#### RETAIL

Lotte Shopping  
Lotte Station Building  
Lotte Midopa  
Korea Seven  
Lotte Trading  
Lotte Logistics  
Lotte.com  
Lotte Asahi Liquor  
Cinema Trading  
FRL Korea  
Lotte Cold Storage  
Woori Home Shopping

#### HEAVY CHEMICALS

Honam Petrochemical  
Lotte Daesan Petrochemical  
Korea Fuji Film  
KP Chemical  
KP Chemtech  
Seetec

#### FOOD & BEVERAGE

Lotte Confectionery  
Lotte Chilsung Beverage  
Lotte Samkang  
Food Star  
Lotteria  
Lotte Ham & Milk  
Lotte Fresh Delica  
Daesun Distilling  
Lotte Boulangerie  
Wellga  
Lotte Pharmaceutical

#### TOURISM & LEISURE

Hotel Lotte  
Busan Lotte Hotel  
Lotte Moolsan

#### OTHER SECTORS

Lotte Engineering & Construction  
Lotte Engineering & Machinery Mfg.  
Canon Korea Business Solutions  
Daehong Communications  
Lotte Aluminium  
Lotte Data Communication  
Lotte Giants  
Lotte Card  
Lotte Capital  
Daesun Engineering & Construction  
Cheongna Energy

LOTTE IS LOOKING AHEAD  
TO A GLOBAL FUTURE



## NEW FOR YOU

There's always something new on the horizon at Lotte Shopping. We're now just months away from our international retail debut. When our first Lotte department store opens in Moscow this summer, it will elevate our retail strategy to a whole new level. We believe that there's a world of new customers out there looking for a new kind of shopping and leisure experience. And we're prepared to deliver that and much, much more as we take our unique brand of value and satisfaction to Moscow, Beijing, Ho Chi Minh City, and beyond in the years ahead.



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[www.lotteshopping.com](http://www.lotteshopping.com)

ALWAYS  
NEW



LS

 LOTTE SHOPPING