

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2010 and 2009

(With Independent Auditors' Report Thereon)

Contents

	Page
Independent Auditors' Report	1
Consolidated Statements of Financial Position	3
Consolidated Statements of Income	6
Consolidated Statements of Changes in Stockholders' Equity	8
Consolidated Statements of Cash Flows	9
Notes to Consolidated Financial Statements	12

Independent Auditors' Report

Based on a report originally issued in Korean

The Board of Directors and Stockholders
Lotte Shopping Co., Ltd.;

We have audited the accompanying consolidated statements of financial position of Lotte Shopping Co., Ltd. (the "Company") and its subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of income, changes in equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of certain subsidiaries including Lotte.Com Inc., whose financial statements represent 13.9% and 9.1% of the consolidated total assets as of December 31, 2010 and 2009, respectively, and 22.1% and 15.4% of the consolidated total sales for the years then ended, respectively. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for those companies, is based solely on the reports of the other auditors.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Lotte Shopping Co., Ltd. and its subsidiaries as of December 31, 2010 and 2009, and the results of their operations, the changes in their equity, and their cash flows for the years then ended in conformity with accounting principles generally accepted in the Republic of Korea.

The accompanying consolidated financial statements as of and for the year ended December 31, 2010 have been translated into United States dollars solely for the convenience of the reader. We have audited the translation and, in our opinion, the consolidated financial statements expressed in Korean won have been translated into dollars on the basis set forth in note 3 to the consolidated financial statements.

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

As discussed in note 2(a) to the consolidated financial statements, accounting principles and auditing standards and their application in practice vary among countries. The accompanying 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 consolidated financial statements are for use by those knowledgeable about Korean accounting principles and auditing standards and their application in practice.

As discussed in note 35 to the non-consolidated financial statements, the Company changed its accounting estimates for the useful lives of property, plant and equipment in the current year. As a result of this change in accounting estimates, the Company's depreciation expense under the new useful lives was ₩108,804 million lower than it would have been under the previous useful lives for the year ended December 31, 2010, and the Company's unappropriated retained earnings increased by ₩82,367 million as of December 31, 2010.

KPMG Samjong Accounting Corp.
Seoul, Korea
March 22, 2011

This report is effective as of March 22, 2011, 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 consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Financial Position

As of December 31, 2010 and 2009

Assets	Korean won (millions)		U.S. dollars (thousands) (note 3)
	2010	2009	2010
Current assets:			
Cash and cash equivalents (notes 12 and 16)	₩ 1,419,616	843,449	\$ 1,246,480
Short-term deposits (notes 4 and 15)	535,854	520,200	470,502
Short-term held-to-maturity securities (note 8)	-	124	-
Trade accounts receivable, net of allowance for doubtful accounts of ₩13,856 million in 2010 and ₩10,359 million in 2009 (notes 11 and 16)	432,023	382,057	379,335
Loans, net of allowance for doubtful accounts of ₩8,848 million in 2010 and ₩8,877 million in 2009 (note 16)	33,361	39,913	29,292
Other accounts receivable, net of allowance for doubtful accounts of ₩7,507 million in 2010 and ₩6,035 million in 2009 (note 16)	208,358	135,803	182,946
Accrued income, net of allowance for doubtful for doubtful accounts of ₩394 million in 2010 and ₩304 million in 2009	40,024	26,967	35,142
Advance payments, net of allowance for doubtful accounts of ₩2,511 million in 2010 and ₩2,265 million in 2009	108,462	100,236	95,233
Inventories (notes 5 and 12)	1,713,852	1,251,349	1,504,831
Deferred income tax assets (note 29)	120,147	90,388	105,494
Other current assets (note 9)	239,236	72,694	210,059
Total current assets	4,850,933	3,463,180	4,259,314
Card assets:			
Card assets, net of allowance for doubtful accounts of ₩141,571 million in 2010 and ₩94,674 million in 2009, and deferred loan income of ₩6,605 million in 2010 and ₩13,012 million in 2009 (notes 7 and 16)	5,109,582	3,570,305	4,486,419
Non-current assets:			
Available-for-sale securities (notes 8 and 15)	440,689	365,010	386,942
Equity method investment securities (note 8)	982,345	1,635,787	862,539
Non-current derivative assets (note 22)	56,430	177,137	49,547
Other investment assets	7,859	5,554	6,900
Property, plant and equipment, net of accumulated depreciation of ₩3,342,868 million in 2010 and ₩2,794,735 million in 2009 (notes 12, 15 and 35)	14,440,096	12,896,552	12,678,985
Intangible assets, net of amortization (note 13)	2,225,650	856,147	1,954,211
Long-term prepaid expenses	519,402	271,618	456,056
Long-term advance payments	102,072	76,960	89,623
Guarantee deposits (notes 20 and 32)	1,431,687	1,041,859	1,257,079
Other assets (note 14)	83,142	63,269	73,002
Total non-current assets	20,289,372	17,389,893	17,814,884
Total assets	₩ 30,249,887	24,423,378	\$ 26,560,617

See accompanying notes to consolidated financial statements.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Financial Position, Continued

As of December 31, 2010 and 2009

<u>Liabilities</u>	Korean won (millions)		U.S. dollars (thousands) (note 3)
	2010	2009	2010
Current liabilities:			
Trade accounts payable (notes 11 and 16)	₩ 2,902,435	2,283,837	\$ 2,548,455
Short-term borrowings (notes 18 and 32)	1,617,626	955,222	1,420,341
Other accounts payable (note 16)	1,142,772	841,205	1,003,400
Accrued expenses (note 16)	298,407	309,857	262,013
Gift certificates	409,062	378,780	359,173
Short-term debentures, net of discount of ₩132 million in 2010 of ₩149 million in 2009 (notes 16 and 19)	180,703	321,389	158,664
Current portion of long-term borrowings (note 18)	44,697	70,532	39,245
Current portion of debentures, net of discount of ₩2,369 million in 2010 and ₩239 million in 2009 (notes 16 and 19)	1,353,231	707,338	1,188,191
Income tax payable (note 29)	306,573	164,271	269,183
Provision for bonus points reward program (note 21)	103,617	89,573	90,980
Other provisions (note 32)	226,659	192,536	199,016
Other current liabilities (note 17)	626,364	303,698	549,974
Total current liabilities	9,212,146	6,618,238	8,088,635
Long-term liabilities:			
Long-term borrowings (notes 16 and 18)	1,124,632	472,533	987,472
Long-term debentures, net of discount of ₩6,740 million in 2010 and ₩8,364 million in 2009 (notes 16 and 19)	3,971,870	2,514,812	3,487,461
Rental guarantee deposits	374,851	335,085	329,134
Provision for retirement and severance benefits, net (note 20)	90,473	78,521	79,438
Deferred income tax liabilities (note 29)	1,277,136	1,227,063	1,121,377
Other non-current liabilities	50,262	11,859	44,133
Total long-term liabilities	6,889,224	4,639,873	6,049,015
Total liabilities	₩ 16,101,370	11,258,111	\$ 14,137,650

See accompanying notes to consolidated financial statements.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Financial Position, Continued

As of December 31, 2010 and 2009

<u>Stockholders' Equity</u>	Korean won (millions)		U.S. dollars (thousands) (note 3)
	2010	2009	2010
Stockholders' equity:			
Common stock of ₩5,000 par value			
Authorized - 60,000,000 shares			
Issued and outstanding - 29,043,374 shares (notes 1 and 23)	₩ 145,217	145,217	\$ 127,506
Capital surplus (note 23)	4,650,895	4,652,244	4,083,673
Capital adjustments (note 24)	(162,761)	(124,533)	(142,910)
Accumulated other comprehensive income (note 25)	2,834,283	2,973,632	2,488,615
Retained earnings (note 26)	5,647,821	4,684,995	4,959,014
Minority interests in consolidated subsidiaries	1,033,062	833,712	907,069
Total stockholders' equity	14,148,517	13,165,267	12,422,967
Total liabilities and stockholders' equity	₩ 30,249,887	24,423,378	\$ 26,560,617

See accompanying notes to consolidated financial statements.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Income

For the years ended December 31, 2010 and 2009

	Korean won (millions, except for earnings per share)		U.S. dollars (thousands, except for earnings per share) (note 3)
	2010	2009	2010
Continuing operations			
Sales (notes 11, 27 and 39)	₩ 20,330,572	16,010,345	\$ 17,851,061
Cost of sales (notes 11 and 27)	<u>13,972,421</u>	<u>10,788,271</u>	<u>12,268,348</u>
Gross profit	6,358,151	5,222,074	5,582,713
Selling and administrative expenses (notes 12, 13, 20, 28, 32 and 36)	<u>4,931,297</u>	<u>4,073,757</u>	<u>4,329,877</u>
Operating income (note 39)	<u>1,426,854</u>	<u>1,148,317</u>	<u>1,252,836</u>
Non-operating income:			
Interest income	69,347	60,244	60,889
Dividend income	5,071	2,364	4,453
Gain on foreign currency transactions	49,230	9,412	43,226
Gain on foreign currency translation	30,254	111,557	26,564
Equity in earnings of equity method accounted investments (note 8)	85,735	142,095	75,279
Gain on disposition of equity method accounted investments	6,223	5,630	5,464
Gain on valuation of derivative instruments (note 22)	57,657	1	50,625
Gain on disposition of derivative instruments	10,052	2,861	8,826
Gain on disposition of property, plant and equipment	216,333	3,937	189,949
Others	<u>56,218</u>	<u>92,550</u>	<u>49,362</u>
	<u>586,120</u>	<u>430,651</u>	<u>514,637</u>
Non-operating expenses:			
Interest expense	195,392	100,241	171,562
Loss on foreign currency transactions	61,733	18,180	54,204
Loss on foreign currency transaction	108,907	29,929	95,625
Equity in loss of equity method accounted investments (note 8)	28,751	32,548	25,244
Loss on valuation of derivative instruments (note 22)	22,600	103,717	19,844
Loss on disposition of property, plant and equipment	13,748	7,591	12,072
Loss on revaluation of land	-	8,268	-
Others	<u>82,005</u>	<u>85,931</u>	<u>72,004</u>
	<u>513,136</u>	<u>386,405</u>	<u>450,555</u>
Income before income taxes	₩ <u>1,499,838</u>	<u>1,192,563</u>	\$ <u>1,316,918</u>

See accompanying notes to consolidated financial statements.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Income, Continued

For the years ended December 31, 2010 and 2009

	Korean won (millions, except for earnings per share)		U.S. dollars (thousands, except for earnings per share) (note 3)
	2010	2009	2010
Income taxes (note 29)	₩ 449,917	360,371	\$ 395,045
Net income from subsidiaries before acquisition	<u>6,087</u>	<u>70,777</u>	<u>5,345</u>
Income from continuing operations	1,043,834	761,415	916,528
Discontinued operations			
Income from discontinued operations, net of income tax of ₩1,416 million in 2009 (note 37)	<u>-</u>	<u>4,435</u>	<u>-</u>
Net income (note 40)	1,043,834	765,850	916,528
Net income in minority interest (note 40)	<u>43,318</u>	<u>50,158</u>	<u>38,035</u>
Consolidated net income	₩ <u>1,000,516</u>	<u>715,692</u>	\$ <u>878,493</u>
Earnings per share (notes 30 and 37)			
Basic earnings per share from continuing operations in won and U.S. dollars	34,449	24,489	30.25
Basic earnings per share in won and U.S. dollars	₩ <u>34,449</u>	<u>24,642</u>	\$ <u>30.25</u>

See accompanying notes to consolidated financial statements.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2010 and 2009

		Korean won (millions)						U.S. dollars	
		Capital stock	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Minority interests	Total equity	Total equity
Balance at January 1, 2009	₩	145,217	4,652,244	-	28,400	4,005,563	325,206	9,156,630	\$ 8,039,889
Net income		-	-	-	-	715,692	50,158	765,850	672,447
Payment of cash dividends (note 31)		-	-	-	-	(36,304)	-	(36,304)	(31,877)
Change in equity of equity method investments, net of tax		-	-	-	29,783	-	(479)	29,304	25,730
Change in fair value of available-for-sale securities, net of tax		-	-	-	33,365	-	(48)	33,317	29,254
Effective portion of changes in fair value of cash flow hedges, net of tax		-	-	-	14,648	-	457	15,105	13,262
Change in fair value of land, net of tax		-	-	-	2,879,199	-	23,558	2,902,757	2,548,737
Foreign operation currency translation gain (loss), net of tax		-	-	-	(11,763)	-	2,243	(9,520)	(8,359)
Initial consolidation of subsidiary		-	-	(124,533)	-	-	440,711	316,178	277,617
Others		-	-	-	-	44	(8,094)	(8,050)	(7,066)
Balance at December 31, 2009	₩	<u>145,217</u>	<u>4,652,244</u>	<u>(124,533)</u>	<u>2,973,632</u>	<u>4,684,995</u>	<u>833,712</u>	<u>13,165,267</u>	<u>\$ 11,559,634</u>
Balance at January 1, 2010	₩	145,217	4,652,244	(124,533)	2,973,632	4,684,995	833,712	13,165,267	\$ 11,559,634
Net income		-	-	-	-	1,000,516	43,318	1,043,834	916,528
Payment of cash dividends (note 31)		-	-	-	-	(36,304)	-	(36,304)	(31,877)
Change in equity of equity method investments, net of tax		-	-	-	(105,959)	-	43,842	(62,117)	(54,541)
Change in fair value of available-for-sale securities, net of tax		-	-	-	120,178	-	60,999	181,177	159,081
Effective portion of changes in fair value of cash flow hedges, net of tax		-	-	-	(7,931)	-	(225)	(8,156)	(7,161)
Change in fair value of land, net of tax		-	-	-	(156,038)	-	1,056	(154,982)	(136,081)
Foreign operation currency translation gain (loss), net of tax		-	-	-	5,852	-	(13,646)	(7,794)	(6,844)
Initial consolidation of subsidiary		-	-	-	4,549	-	59,282	63,831	56,046
Others		-	(1,349)	(38,228)	-	(1,386)	4,724	(36,239)	(31,818)
Balance at December 31, 2010	₩	<u>145,217</u>	<u>4,650,895</u>	<u>(162,761)</u>	<u>2,834,283</u>	<u>5,647,821</u>	<u>1,033,062</u>	<u>14,148,517</u>	<u>\$ 12,422,967</u>

See accompanying notes to consolidated financial statements.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2010 and 2009

	Korean won (millions)		U.S. dollars (thousands) (note 3)
	2010	2009	2010
Cash flows from operating activities:			
Net income	₩ 1,043,834	765,850	\$ 916,528
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	490,315	431,307	430,517
Amortization of intangible assets	255,448	122,991	224,294
Bad dept expenses	6,020	10,969	5,285
Accrual for retirement and severance benefits	84,945	61,538	74,585
Loss on inventory shrinkage	17,560	12,822	15,418
Loss on valuation of inventory	(293)	555	(258)
Amortization of discount on debentures	25,361	4,916	22,268
Cost of card business	126,907	77,856	111,429
Loss on foreign currency translation	105,271	9,015	92,432
Gain on foreign currency translation	(29,929)	(102,175)	(26,279)
Equity in earnings of equity method accounted investments, net	(57,444)	(51,045)	(50,438)
Loss (gain) on disposition of property, plant and equipment, net	(203,032)	1,402	(178,269)
Gain on disposition of equity method accounted investments	(6,223)	(1,730)	(5,464)
Loss (gain) on valuation of derivative instruments, net	(35,057)	103,717	(30,781)
Loss on revaluation of land	-	8,268	-
Accrual for other provisions	-	45,429	-
Others	7,910	14,522	6,943
	1,831,593	1,516,207	1,608,210
Changes in operating assets and liabilities:			
Trade accounts receivable	(116,227)	(36,600)	(102,052)
Other accounts receivable	(27,923)	(14,525)	(24,518)
Accrued interest income	(11,147)	(1,632)	(9,787)
Advance payments	(14,560)	(20,880)	(12,784)
Inventories	(292,041)	(101,069)	(256,424)
Other current assets	13,651	31,651	11,987
Card assets	(1,689,136)	(722,540)	(1,483,130)
Long-term prepaid expenses	(91,136)	(76,398)	(80,021)
Deferred income tax assets	(19,615)	(12,945)	(17,222)
Trade accounts payable	422,854	185,150	371,283
Other accounts payable	197,861	108,141	173,730
Advances from customers	88,760	22,329	77,935
Accrued expenses	35,207	14,438	30,914
Income taxes payable	137,785	(123,366)	120,980
Accrual for gift certificates	30,282	38,616	26,589
Accrual for mileage	13,959	7,723	12,256
Deferred income tax liabilities	18,406	15,863	16,161
Payment of retirement and severance benefits	(95,379)	(47,948)	(83,746)
Increase in severance benefit deposit	3,915	(17,994)	3,438
Others	106,337	190,062	93,368
Net cash provided by operating activities	₩ 543,446	954,283	\$ 477,167

See accompanying notes to consolidated financial statements.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Cash Flows, Continued

For the years ended December 31, 2010 and 2009

	Korean won (millions)		U.S. dollars (thousands) (note 3)
	2010	2009	2010
Cash flows from investing activities:			
Cash inflows from investing activities:			
Maturity of short-term deposits	₩ 1,173,227	584,113	\$ 1,030,141
Sale of available-for-sale securities	9,065	43,699	7,960
Sale of short-term held-to-maturity securities	1,013	179,350	889
Collection of short-term loans	68,491	38,965	60,138
Sale of equity method accounted investments	1,355	60	1,190
Proceeds from disposition of property, plant and equipment	488,038	41,919	428,518
Proceeds from disposition of intangible assets	588	674	516
Collection of long-term loans	1,905	692	1,672
Refund of guarantee deposits	98,863	42,158	86,805
Sale of assets and liabilities on the discontinued operations	-	24,339	-
Others	10,156	24,336	8,917
	<u>1,852,701</u>	<u>980,305</u>	<u>1,626,746</u>
Cash outflows for investing activities:			
Purchase of short-term deposits	(1,141,059)	(781,744)	(1,001,896)
Increase in short-term loans	(39,635)	(16,255)	(34,801)
Purchase of available-for-sale securities	(36,941)	(108,039)	(32,436)
Purchase of equity method investment securities	(50,653)	(820,920)	(44,475)
Purchase of held-to-maturity securities	(1)	-	(1)
Purchase of derivative assets	-	-	-
Purchase of property, plant and equipment	(1,496,895)	(1,041,131)	(1,314,336)
Additions to intangible assets	(47,383)	(19,444)	(41,604)
Payment of guarantee deposits	(242,920)	(116,486)	(213,294)
Payment of long-term advance payments	(54,674)	(44,768)	(48,006)
Acquisition of stores	(1,372,905)		(1,205,466)
Others	(51,470)	(23,080)	(45,190)
	<u>(4,534,536)</u>	<u>(2,971,867)</u>	<u>(3,981,505)</u>
Net cash used in investing activities	₩ <u>(2,681,835)</u>	<u>(1,991,562)</u>	\$ <u>(2,354,759)</u>

See accompanying notes to consolidated financial statements.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Cash Flows, Continued

For the years ended December 31, 2010 and 2009

	Korean won (millions)		U.S. dollars (thousands) (note 3)
	2010	2009	2010
Cash flows from financing activities:			
Cash inflows from financing activities:			
Proceeds from short-term borrowings	₩ 14,806,865	4,857,331	\$ 13,001,023
Proceeds from long-term borrowings	658,806	442,699	578,458
Proceeds from issuance of debentures	2,931,990	1,741,465	2,574,405
Receipt of leasehold deposits	52,377	64,449	45,989
Cash inflow regarding consolidated equity transaction	127,494		111,945
Other non-current liabilities	34,037	947	29,886
	<u>18,611,569</u>	<u>7,106,891</u>	<u>16,341,706</u>
Cash outflows for financing activities:			
Repayment of short-term borrowings	(14,296,105)	(5,380,306)	(12,552,555)
Repayment of current portion of long-term debt	(68,236)	(2,500)	(59,914)
Redemption of debentures	(1,024,333)	(547,725)	(899,406)
Refund of leasehold deposits received	(76,506)	(55,059)	(67,175)
Dividends for minority shareholders paid	(9,699)	(7,940)	(8,517)
Cash outflow regarding consolidated equity transaction	(155,650)	(95,413)	(136,667)
Dividends paid	(36,304)	(36,304)	(31,877)
Other non-current liabilities	(60,254)	(4,138)	(52,904)
	<u>(15,727,087)</u>	<u>(6,129,385)</u>	<u>(13,809,015)</u>
Net cash provided by financing activities	<u>2,884,482</u>	<u>977,506</u>	<u>2,532,691</u>
Increase (decrease) in cash and cash equivalents due to change in consolidating subsidiary	(156,749)	148,151	(137,632)
Change in foreign operation currency translation gain	<u>(13,177)</u>	<u>(3,668)</u>	<u>(11,569)</u>
Net increase in cash and cash equivalents	576,167	84,710	505,898
Cash and cash equivalents at beginning of year	<u>843,449</u>	<u>758,739</u>	<u>740,582</u>
Cash and cash equivalents at end of year	₩ <u>1,419,616</u>	<u>843,449</u>	\$ <u>1,246,480</u>

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(1) Consolidated Companies

(a) Description of Controlling Company

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 business includes, a chain of multiplex movie theaters under the brand name of Lotte Cinema, a clothing retail division and construction division. The Company was listed on the Korea Stock Exchange and the London Stock Exchange through an initial public offering in February 2006.

The stockholders of the Company as of December 31, 2010 are as follows:

<u>Stockholder</u>	<u>Number of shares</u>	<u>Ownership (%)</u>
Shin, Dong Bin	4,237,627	14.6
Shin, Dong Ju	4,235,883	14.6
Shin, Kyuk Ho	293,877	1.0
Shin, Young Ja	228,962	0.8
Hotel Lotte Co., Ltd.	2,781,947	9.6
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	0.9
Others	9,016,328	31.0
Total	<u>29,043,374</u>	<u>100.0</u>

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(1) Consolidated Companies, Continued

(b) Description of Subsidiaries

(i) A summary of the subsidiaries of the Company as of December 31, 2010 and 2009 is as follows:

Subsidiaries	Location	Products or services	2010	
			Fiscal year	Percentage of ownership in parent interest (%)
Lotte Midopa Co., Ltd.	Korea	Distribution	Dec. 31	79.01
Lotte Card Co., Ltd.	Korea	Card, capital	Dec. 31	92.54
eB Card Co., Ltd.	Korea	Electronic banking business	Dec. 31	89.06
Gyeonggi Smartcard Co., Ltd.	Korea	Electronic banking business	Dec. 31	89.06
Inchon Smartcard Co., Ltd.	Korea	Electronic banking business	Dec. 31	89.06
Woori Home Shopping & Television Co., Ltd.	Korea	Distribution	Dec. 31	53.03
Korea Seven Co., Ltd.	Korea	Distribution	Dec. 31	51.44
Buy the way Inc.	Korea	Distribution	Dec. 31	51.44
Lotte.Com Inc.	Korea	Distribution	Dec. 31	40.76
Lotte Boulangerie Co., Ltd.	Korea	Bakery	Dec. 31	90.54
Lotteria Co., Ltd.	Korea	Restaurant chain	Dec. 31	38.66
Daehong Communications Co., Ltd.	Korea	Advertisement agency	Dec. 31	34.83
Lotte Data Communication Company	Korea	Computer programming, consultancy	Dec. 31	23.13
KIBANK	Korea	Electronic financial transaction service	Dec. 31	17.65
Mybi Co., Ltd.	Korea	Electronic banking business	Dec. 31	15.05
Busan HanaroCard Co., Ltd.	Korea	Electronic banking business	Dec. 31	9.03
Lotte Square Co., Ltd.	Korea	Distribution	Dec. 31	100.00
NCF Co., Ltd.	Korea	Apparel manufacturing	Dec. 31	94.50
Lotte Europe Holdings B.V.	Netherlands	Holding company	Dec. 31	32.05
ZAO Lotte Rus	Russia	Hotel	Dec. 31	32.05
Lotte KF Rus LLC	Russia	Distribution	Dec. 31	32.05
Lotte Shopping Rus LLC	Russia	Distribution	Dec. 31	32.05
Confectionary Rus Kaluga LLC	Russia	Confectionary manufacturing	Dec. 31	32.05
Lotte Vietnam Shopping Co., Ltd.	Vietnam	Distribution	Dec. 31	80.00
Qingdao Lottemart Commercial Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Mart Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Shopping Holdings (Singapore), Ltd.	Singapore	Holding company	Dec. 31	100.00
PT Lotte Shopping Indonesia	Indonesia	Distribution	Dec. 31	80.00
PT Lotte Mart Indonesia	Indonesia	Distribution	Dec. 31	99.80

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(1) Consolidated Companies, Continued

(b) Description of Subsidiaries, Continued

(i) A summary of the subsidiaries of the Company as of December 31, 2010 and 2009 is as follows:

Subsidiaries	Location	Products or services	2010	
			Fiscal year	Percentage of ownership in parent interest (%)
Lotte Shopping Holdings (Hongkong), Ltd.	Hong Kong	Holding company	Dec. 31	100.00
Lotte Mart China Co., Ltd. and its subsidiaries	China	Distribution	Dec. 31	100.00
Lotte Home Shopping Company Limited	Cayman	Holding company	Dec. 31	74.05
Lucky Pai Ltd. and its subsidiaries	China	Distribution	Dec. 31	46.81
Coralis S.A.	Luxemburg	Holding company	Dec. 31	45.00
Coralis Vietnam Co., Ltd.	Vietnam	Real estate development	Dec. 31	45.00
Liaoning Lotte Mart Co., Ltd.	China	Distribution	Dec. 31	100.00
Burger King Japan Co., Ltd.	Japan	Restaurant chain	Mar. 31	38.66
Vietnam Lotteria Co., Ltd.	Vietnam	Restaurant chain	Dec. 31	35.72

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(1) Consolidated Companies, Continued

(b) Description of Subsidiaries, Continued

Subsidiaries	Location	Products or services	2009	
			Fiscal year	Percentage of ownership in parent interest (%)
Lotte Midopa Co., Ltd	Korea	Distribution	Dec. 31	79.01
Lotte Card Co., Ltd.	Korea	Card, capital	Dec. 31	92.54
Woori Home Shopping & Television Co., Ltd.	Korea	Distribution	Dec. 31	53.03
Korea Seven Co., Ltd.	Korea	Distribution	Dec. 31	50.12
Lotte.Com Inc.	Korea	Distribution	Dec. 31	40.53
Lotte Boulangerie Co., Ltd.	Korea	Bakery	Dec. 31	95.71
Lotte Krispy Kreme Doughnuts Co., Ltd.	Korea	Food manufacturing	Dec. 31	100.00
Lotteria Co., Ltd.	Korea	Restaurant chain	Dec. 31	28.75
Daehong Communications Co., Ltd.	Korea	Advertisement agency	Dec. 31	33.59
Lotte Data Communication Company	Korea	Computer programming, consultancy	Dec. 31	19.36
KIBANK	Korea	Electronic financial transaction service	Dec. 31	16.54
Mybi Co., Ltd.	Korea	Electronic banking business	Dec. 31	13.35
Busan HanaroCard Co., Ltd.	Korea	Electronic banking business	Dec. 31	8.01
Lotte Europe Holdings B.V.	Nederland	Holding company	Dec. 31	31.73
ZAO Lotte Rus	Russia	Hotel	Dec. 31	31.73
Lotte KF Rus LLC	Russia	Distribution	Dec. 31	31.73
Lotte Shopping Rus LLC	Russia	Distribution	Dec. 31	31.73
Confectionary Rus Kaluga LLC	Russia	Confectionary manufacturing	Dec. 31	31.73
Operator-Lotte-DutyFree LLC	Russia	Distribution	Dec. 31	31.73
Lotte Vietnam Shopping Co., Ltd.	Vietnam	Distribution	Dec. 31	80.00
Qingdao Lottemart Commercial Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Mart Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Shopping Holdings (Singapore), Ltd.	Singapore	Holding company	Dec. 31	100.00
PT Lotte Shopping Indonesia	Indonesia	Distribution	Dec. 31	80.00
PT Lotte Mart Indonesia	Indonesia	Distribution	Dec. 31	99.80
Vietnam Lotteria Co., Ltd.	Vietnam	Restaurant chain	Dec. 31	25.33

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(1) Consolidated Companies, Continued

(ii) Description of change in the extent of subsidiaries for consolidation is as follows:

Description	Subsidiaries
Established entities in 2010	Lotte Square Co., Ltd. Lotte Home Shopping Company Limited
Acquired shares in 2010	eB Card Co., Ltd. Gyeonggi Smartcard Co., Ltd. Inchon Smartcard Co., Ltd. Buy the way Inc. NCF Co., Ltd. Lucky Pai Ltd. and its subsidiaries Coralis S.A. Coralis Vietnam Co., Ltd. Burger King Japan Co., Ltd.
Other	Lotte Shopping Holdings (Hongkong), Ltd. Lotte Mart China Co., Ltd. and its subsidiaries Liaoning Lotte Mart Co., Ltd.

(iii) Financial statements of subsidiaries

In preparing the consolidated financial statements, the Company used unaudited financial statements of Lotte Europe Holdings B.V. and Lotte Home Shopping Company Limited and, alternatively, confirmed that significant transactions in operation and financial events were properly included in the subsidiaries' financial statements. Therefore, the Company's management believes that the possible change of the unaudited financial statements will not have a material effect on the consolidated financial statements.

(iv) Discrepancy of net income and net asset between non-consolidated financial statements and consolidated financial statements

In preparing the non-consolidated financial statements of the Company, the Company discontinued the application of the equity method to its investment in Burger King Japan Co., Ltd., a subsidiary, because the book value of investment was reduced to zero. However, in the consolidated financial statements, further loss from the operation of Burger King Japan Co., Ltd. was reflected and caused discrepancy of net income and net asset between non-consolidated financial statements and consolidated financial statements.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

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

The significant accounting policies followed by the Company and its subsidiaries in the preparation of the accompanying consolidated financial statements are summarized below.

(a) Basis of Presenting Financial Statements

The Company maintains its accounting records in Korean won and prepares statutory 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 consolidated financial statements are intended solely for use by only those who are informed about Korean accounting principles and practices. The accompanying consolidated financial statements have been condensed, restructured and translated into English from the Korean language consolidated financial statements. Certain information included in the Korean language consolidated financial statements, but not required for a fair presentation of the Company's financial position, results of operations or cash flows or changes in stockholders' equity is not presented in the accompanying consolidated financial statements.

The Company and its subsidiaries prepare the financial statements in accordance with generally accepted accounting principles in the Republic of Korea. The Company and its subsidiaries applied the same accounting policies that were adopted in the previous year's consolidated financial statements.

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

As explained in note 35, the Company changed its accounting estimates for the useful lives of property, plant and equipment in 2010.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

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

(b) Principles of Consolidation

The investment accounts of the Company and the corresponding capital accounts of the subsidiaries have been eliminated in consolidation. Differences between the investment accounts and the corresponding capital accounts are presented as goodwill. Goodwill is amortized over a period not exceeding 20 years using the straight-line method. Investments, except those in subsidiaries, in which the Company has an over 20 percent voting interest or exercise significant influence on the financial and operating policy decision of the investee, are accounted for using the equity method.

Inter-company receivables, payables, revenues and expenses arising from transactions between the Company and its subsidiaries or among subsidiaries are eliminated against each other in the consolidated financial statements.

Details of eliminated significant inter-company transactions for the years ended December 31, 2010 and 2009 are as follows:

Consolidated company	Korean won (millions)				U.S. dollars (thousands) (note 3)	
	2010		2009		2010	
	Revenues	Expenses	Revenues	Expenses	Revenues	Expenses
Lottel Shopping Co., Ltd.	₩ 57,769	427,765	16,168	240,084	\$ 50,724	375,595
Lotte Midopa Co., Ltd.	9,024	15,471	7,737	16,013	7,924	13,584
Lotte Card Co., Ltd.	185,046	74,190	150,779	8,144	162,478	65,142
eB Card Co., Ltd.	6,530	2,825	-	-	5,734	2,480
Gyeonggi Smartcard Co., Ltd.	754	3,998	-	-	662	3,510
Inchon Smartcard Co., Ltd.	440	1,926	-	-	386	1,691
Woori Home Shopping & Television Co., Ltd.	38,618	82,143	23,372	14,587	33,908	72,125
Korea Seven Co., Ltd.	8,078	20,023	282	513	7,093	17,581
Buy the way Inc.	1,113	4,339	-	-	977	3,810
Lotte.Com Inc.	61,232	16,226	50,353	689	53,764	14,247
Lotte Boulangerie Co., Ltd.	48,759	4,217	35,222	3,883	42,813	3,703
Lotte Krispy Kreme Doughnuts Co., Ltd.	84	1,836	-	-	73	1,612
Lotteria Co., Ltd.	1,739	34,533	-	-	1,527	30,321
Daehong Communications Co., Ltd.	116,925	18,602	-	-	102,664	16,334
Lotte Data Communication Company	207,156	15,386	-	-	181,891	13,510
Subtotal	₩ 743,267	723,480	283,913	283,913	\$ 652,618	635,245

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

(b) Principles of Consolidation, Continued

	Korean won (millions)		U.S. dollars (thousands) (note 3)	
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LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

Consolidated company	2010		2009		2010	
	Revenues	Expenses	Revenues	Expenses	Revenues	Expenses
KIBANK	₩ 3,997	1,657	-	-	\$ 3,509	1,455
Mybi Co., Ltd.	2,568	9,327	-	-	2,255	8,190
Busan HanaroCard Co., Ltd.	1,841	1,050	-	-	1,616	922
Lotte Square Co., Ltd.	222	11,509	-	-	195	10,105
Lotte Europe Holdings B.V.	673	-	-	-	591	-
ZAO Lotte Rus	15,363	611	-	-	13,489	536
Lotte KF Rus LLC	142	899	-	-	125	790
Lotte Shopping Rus LLC Confectionary Rus	8	16,348	-	-	7	14,353
Kaluga LLC	900	1,311	-	-	791	1,151
Lotte Vietnam Shopping Co., Ltd.	288	1,205	-	-	253	1,058
Qingdao Lotte Mart Commercial Co., Ltd.	6	76	-	-	5	67
Lotte Mart Co., Ltd.	-	41	-	-	-	36
PT Lotte Shopping Indonesia	28	-	-	-	25	-
PT Lotte Mart Indonesia	-	1,138	-	-	-	1,000
Lotte Mart China Co., Ltd.	-	6	-	-	-	5
Liaoning Lotte Mart Co., Ltd.	-	373	-	-	-	327
Vietnam Lotteria Co., Ltd.	-	272	-	-	-	239
Subtotal	26,036	45,823	-	-	22,861	40,234
Total	₩ 769,303	769,303	283,913	283,913	\$ 675,479	675,479

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

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

(b) Principles of Consolidation, Continued

Details of eliminated significant account balances with consolidated companies as of December 31, 2010 and 2009 are as follows:

Consolidated company	Korean won (millions)				U.S. dollars (thousands) (note 3)	
	2010		2009		2010	
	Receivables	Payables	Receivables	Payables	Receivables	Payables
Lotte Shopping Co., Ltd.	₩ 175,816	140,290	141,467	77,830	\$ 154,373	123,180
Lotte Midopa Co., Ltd.	5,508	48,617	3,830	49,881	4,836	42,688
Lotte Card Co., Ltd.	120,620	81,784	54,491	63,754	105,909	71,809
eB Card Co., Ltd.	6,063	1,032	-	-	5,323	907
Gyeonggi Smartcard Co., Ltd.	473	3,698	-	-	415	3,247
Inchon Smartcard Co., Ltd.	76	1,824	-	-	67	1,602
Woori Home Shopping & Television Co., Ltd.	4,381	21,798	1,761	29,713	3,846	19,140
Korea Seven Co., Ltd.	2,241	8,529	2,387	4,843	1,968	7,489
Buy the way Inc.	243	2,787	-	-	213	2,447
Lotte.Com Inc.	3,585	21,312	4,560	17,256	3,148	18,712
Lotte Boulangerie Co., Ltd.	7,422	6,387	6,416	4,348	6,517	5,608
Lotte Krispy Kreme Doughnuts Co., Ltd.	-	-	3	3	-	-
Lotteria Co., Ltd.	13,207	6,056	15,977	4,154	11,597	5,318
Daehong Communications Co., Ltd.	21,598	2,892	28,493	3,263	18,964	2,539
Lotte Data Communication Company	43,213	23,832	37,062	10,011	37,943	20,925
KIBANK	460	362	349	139	404	318
Mybi Co., Ltd.	2,670	1,839	9	604	2,345	1,615
Busan HanaroCard Co., Ltd.	177	609	532	13	156	535
Lotte Square Co., Ltd.	2,820	13,073	-	-	2,476	11,479
NCF Co., Ltd.	6,561	-	-	-	5,761	-
Lotte Europe Holdings B.V.	22,655	-	-	-	19,892	-
ZAO Lotte Rus	18,827	23,787	-	-	16,531	20,886
Lotte KF Rus LLC	5,801	636	-	-	5,093	558
Lotte Shopping Rus LLC	785	18,857	-	-	689	16,557
Confectionary Rus Kaluga LLC	636	5,775	-	-	558	5,071
Subtotal	₩ 465,838	435,776	297,337	265,812	\$ 409,024	382,630

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

(b) Principles of Consolidation, Continued

	Korean won (millions)	U.S. dollars (thousands) (note 3)
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LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

<u>Consolidated company</u>	<u>2010</u>		<u>2009</u>		<u>2010</u>	
	<u>Receivables</u>	<u>Payables</u>	<u>Receivables</u>	<u>Payables</u>	<u>Receivables</u>	<u>Payables</u>
Lotte Vietnam Shopping Co., Ltd.	49	29,713	-	29,190	43	26,089
PT Lotte Shopping Indonesia	38	-	-	-	34	-
PT Lotte Mart Indonesia	-	38	-	-	-	34
Liaoning Lotte Mart Co., Ltd.	-	442	-	-	-	388
Vietnam Lotteria Co., Ltd.	63	19	-	2,335	55	15
Subtotal	150	30,212	-	31,525	132	26,526
Total	₩ 465,988	465,988	297,337	297,337	\$ 409,156	409,156

The accounting methods adopted by the Company and its subsidiaries for similar transactions and under similar circumstances are generally consistent. However, different accounting methods may be applied unless the methods result in a significant difference in amount.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

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

(b) Principles of Consolidation, Continued

The Company and its subsidiaries have provided guarantees for consolidated companies as of December 31, 2010 as follows:

Consolidated company	Provided by	Guarantee recipient	2010	
			Type of borrowings	Guaranteed amount (thousands)
Lotte Vietnam Shopping Co., Ltd.	Lotte Shopping Co., Ltd.	Citibank N.A. Hochiminh	Working capital	US\$60,000 and interest thereon
		Australia and New Zealand Bank	Working capital	VND 260,000,000
Liaoning Lotte Mart Co., Ltd.	Lotte Shopping Co., Ltd.	Australia and New Zealand Bank	Working capital	RMB100,000
Lotte Shopping Rus LLC	Lotte Shopping Co., Ltd.	Korea Development Bank	Working capital	USD 10,000
PT Lotte Mart Indonesia	Lotte Shopping Co., Ltd.	Korea Exchange Bank	Working capital	IDR 350,000,000
Vietnam Lotteria Co., Ltd.	Lotteria Co., Ltd.	Korea Exchange Bank	Working capital	USD 6,000
		Industrial Bank of Korea	Working capital	USD 6,000
		Korea Exchange Bank	Working capital	USD 12,000
Burger King Japan Co., Ltd.	Lotteria Co., Ltd.	Korea Exchange Bank	Working capital	JPY 200,000
		Korea Exchange Bank	Working capital	JPY 600,000
		Sumitomo Mitsui Banking Corporation	Working capital	JPY 1,450,000

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

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

(c) Revenue Recognition

The Company recognizes revenue from the sale of goods upon purchase by end-customers or delivery. Revenues from 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 and its subsidiaries' earnings process is either complete or nearly complete in substance, the amount of revenue can be reliably measured, and it is probable that the Company and its subsidiaries will receive the economic benefits associated with the transaction.

Pursuant to Statements of Korea Accounting Standards ("SKAS") No. 4 *Revenue Recognition*, the Company, Lotte Midopa Co., Ltd. and Lotte Square Co., Ltd. recognize sales on a gross basis for merchandise which the Company, Lotte Midopa Co., Ltd. and Lotte Square Co., Ltd. bear the overall inventory risk in connection with purchase contracts with vendors where 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). The Company and its subsidiaries recognize sales on a net basis for merchandise that may be returned to vendors at any time.

Interest, dividend and other income from card assets are recognized on an accrual basis when it can be measured reliably and it is highly probable that economic benefits will flow into the Company and its subsidiaries. Also, deferred loan income from card assets is presented as a deduction from card assets and recognized as revenue over the loan period using the effective interest method. Income is recognized on a cash basis when collectability of card assets is doubtful.

When the Company and its subsidiaries act in the capacity of an agent rather than as the principal in a transaction, the revenue recognized is the net amount of commission made by the Company and its subsidiaries.

(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 Company by a court, such as on commencement of reorganization, or by mutual agreement and the difference between nominal value and present value is material, the difference is recognized as bad debt expense.

Lotte Card Co., Ltd., one of the Company's subsidiaries, provides an allowance for doubtful accounts determined by the experience loss method or the guidelines established by the Financial Supervisory Service (FSS), whichever is greater, as described below:

(i) Experience Loss Method

Lotte Card Co., Ltd. estimates allowance for doubtful accounts through loss ratio migration analysis based on historical charges-off and recoveries for loans previously charged off.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

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

(d) Allowance for Doubtful Accounts, Continued

(ii) Financial Supervisory Service (FSS) Guideline

Lotte Card Co., Ltd. classifies its credit card assets and other accounts receivable into five categories; normal, precautionary, substandard, doubtful and estimated loss. Effective December 31, 2007, Lotte Card Co., Ltd. applies the prescribed minimum levels of reserve % per the FSS guidelines under the Specialized Credit Financial Business Act, as revised on February 11, 2008, to each classification of credit card assets. (note 7) The prescribed minimum levels of reserve for each asset classification are as follows:

	<u>Normal</u>	<u>Precautionary</u>	<u>Substandard</u>	<u>Doubtful</u>	<u>Estimated loss</u>
Credit card assets	1.5%	15%	20%	60%	100%
Other accounts receivable	0.5%	1%	20%	75%	100%

(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 by the weighted average method and retail method except for goods-in-transit and unfinished apartment units. The cost of goods-in-transit and unfinished apartment units is determined by the specific identification method.

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

The Company and its subsidiaries recognize 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.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

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

(f) Investments in Securities (Excluding Investments in Associates and Joint Ventures)

(i) Classification

Upon acquisition, the Company and its subsidiaries classify debt and equity securities into the following categories: held-to-maturity, available-for-sale or trading securities. This classification is reassessed at the end of each reporting period.

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

(ii) Initial recognition

Investments in securities are initially recognized at cost.

(iii) Subsequent measurement and income recognition

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

(iv) Fair value information

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

(v) Presentation

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

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

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

(f) Investments in Securities (Excluding Investments in Associates and Joint Ventures), Continued

(vi) Impairment

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

An impairment loss is reversed if the reversal is objectively related to an event occurring after the impairment loss was recognized and a reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized in the asset in prior years. For held-to-maturity securities measured at amortized cost and available-for-sale securities that are debt securities, the reversal is recognized in profit or loss. For available-for-sale securities that are equity securities, the reversal is recognized directly in equity.

(g) Investments in Associates

Associates are entities where the Company and its subsidiaries have the ability to significantly influence its financial and operating policies. It is presumed to have significant influence if the Company holds directly or indirectly 20 percent or more of the voting power unless it can be clearly demonstrated that this is not the case. Subsidiaries are entities controlled by the Company and its subsidiaries.

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

The Company and its subsidiaries' investments in associates include goodwill identified on the acquisition date (net of any accumulated impairment loss). Goodwill is calculated as the excess of the acquisition cost of an investment in an associate over the Company and its subsidiaries' share of the fair value of the identifiable net assets acquired. Goodwill is amortized using the straight-line method over 10 years. Amortization of goodwill is recorded together with equity in earnings (losses).

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

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

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

(g) Investments in Associates, Continued

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

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

Amount of gain or loss from the inter-company transactions multiplied by the interest of parent company, which is recognized in the assets held as of December 31, 2008 is regarded as unrealized gain or loss and reflected in the equity method accounted investment.

(h) Joint Venture Investments

Joint ventures are those entities or assets over whose activities the Company and its subsidiaries have joint control.

In respect to jointly controlled operations, the Company and its subsidiaries include in its consolidated financial statements, the assets that it controls and the liabilities and expenses it has incurred, plus its share of the income (loss) from the joint operation. For its interest in jointly controlled assets, the Company and its subsidiaries recognize in the consolidated financial statements, its share of the assets it jointly controls, the liabilities jointly incurred and net income (loss), plus the liabilities and expenses it has solely incurred, if any. In addition, the Company and its subsidiaries account for its interest in a jointly controlled entity using the equity method of accounting.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

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

(i) Property, Plant and Equipment

Property, plant and equipment are stated at cost net of accumulated depreciation, except for revaluations made in accordance with the Asset Revaluation Law prior to the Law being revoked on December 2000 and revaluation for land in accordance with the revised SKAS No.5 *Property, Plant and Equipment* (the “Standard”) as of January 1, 2009.

The book value of land is accounted at fair value as of the date of the revaluation less accumulated impairment loss. If an asset’s book value increases as a result of the revaluation, the amount of the increase is recognized in other comprehensive income, of which, the amount of the increase that reverses a revaluation decrease of the same asset previously recognized in profit and loss is recognized in profit and loss in the current period. On the other hand, if an asset’s book value decreases as a result of the revaluation, that decrease is recognized as a loss for the current period, and the portion of the amount of decrease included in the credit balance in the revaluation surplus recorded in other comprehensive income is deducted from other comprehensive income.

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

Depreciation is computed by the straight-line method over their respective estimated useful lives for buildings, structures and by the declining-balance method for vehicles, display fixtures and other furniture and fixtures. Estimated useful lives are as follows:

	<u>Useful lives (years)</u>
Buildings	10 – 50
Structures	5 – 48
Machinery	4 – 30
Vehicles	3 – 10
Display fixtures	4 – 15
Other furniture and fixtures	1 – 20

As discussed in note 35 to the consolidated financial statements, the Company, Lotte Midopa Co., Ltd., Woori Home Shopping & Television Co., Ltd., Lotte Boulangerie Co., Ltd. and Korea Seven Co., Ltd. changed their accounting estimates for the useful lives of property, plant and equipment in the current year.

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

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

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

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

(j) Intangible Assets

Intangible assets are stated at cost, net of accumulated amortization. Subsequent expenditures, which enable the assets to generate future economic benefits that can be measured and reliably attributed to the assets, are treated as additions to intangible assets.

The copyright on film is stated at cost and amortized over the estimated period the related revenue will be recognized. Estimated realization period is evaluated on a periodic basis. In addition, impairment loss on intangible assets is recognized when the realization of revenue is uncertain.

The Company and its subsidiaries account for acquisition of a business assuming the transaction occurred as of the most recent quarter end (the deemed acquisition date). Goodwill, which represents the excess of the acquisition cost over the fair value of net identifiable assets acquired, is amortized on a straight-line basis over the estimated useful life not to exceed 20 years. Impairment loss on goodwill is recognized when the recoverable amount declines below its carrying amount and its amount is material.

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

	<u>Useful lives (years)</u>
Industrial property rights	5 – 10
Rights to use facility	10 – 20
Film copyrights	Duration of related revenue to be realized
Others	5 – 10

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

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

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

(k) Bond and stock issuance cost

Stock issuance cost is adjusted in outstanding capital and deducted from paid in capital in excess of par value. Bond issuance cost is adjusted in the issued price reflected by deducting discount or adding premium of the bond.

(l) Leases

The Company and its subsidiaries account for and classify its lease transactions as either an operating or capital lease, depending on the terms of the lease.

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

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

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

Payments made under operating leases are charged to the statement of income on a straight-line basis over the period of the lease.

(m) Discount on Debentures

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

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

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

(n) Retirement and Severance Benefits

The Company, Woori Home Shopping & Television Co., Ltd. and Daehong Communications Co., Ltd. introduced a defined benefit pension plan on December 31, 2010, where each eligible employee receives a fixed amount of pension after retirement. The Company accrued, as a provision for retirement and severance benefits, lump-sum payments payable to employees who are currently in service, assuming that they left the Company as of the end of the reporting period. All employees with a minimum of one year of service are eligible to participate and must elect to participate in the plan. Retirement benefits will be paid, depending on the choice of an employee, as a pension plan or a lump-sum payment. Therefore, the Company has no additional obligation to pay retirement and severance benefits, after employees leave the Company. Pension plan assets are reflected in the accompanying consolidated statements of financial position as a reduction of the liability for retirement and severance benefits.

For other subsidiaries which have not implemented pension plans, employees who have been with the subsidiaries for more than one year are entitled to lump-sum payments based on salary rates and length of service at the time they leave the subsidiaries. The Company and its subsidiaries' estimated liability under the plan, which would be payable if all employees left on the end of reporting period, is accrued in the accompanying consolidated statements of financial position. A portion of the liability is covered by an employees' severance benefits trust where the employees have a vested interest in the deposit with the insurance company in trust. The deposit for severance benefits held in trust is, therefore, reflected in the accompanying consolidated statements of financial position as a reduction of the liability for retirement and severance benefits.

(o) Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into Korean won at the foreign exchange rate on the end of the reporting period, with the resulting gains or losses recognized in the statement of income. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated into Korean won at the foreign exchange rate on the date of the transaction.

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

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

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

(p) Derivatives and Hedge Accounting

The Company and its subsidiaries hold derivative financial instruments to hedge its foreign currency and interest rate risk exposures.

Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Attributable transaction costs are recognized in profit or loss when incurred.

(i) Hedge accounting

Where a derivative, which meets certain criteria, is used for hedging the exposure to changes in the fair value of a recognized asset, liability or firm commitment, it is designated as a fair value hedge. Where a derivative, which meets certain criteria, is used for hedging the exposure to the variability of the future cash flows of a forecasted transaction it is designated as a cash flow hedge.

The Company and its subsidiaries document, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Company and its subsidiaries also document its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting the changes in fair values or cash flows of hedged items.

(ii) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the statement of income, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

(iii) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in equity. The gain or loss relating to any ineffective portion is recognized immediately in the statement of income. Amounts accumulated in equity are recycled to the income statement in the periods in which the hedged item will affect profit or loss. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at the time remains in equity and is recognized when the forecast transaction is ultimately recognized in the statement of income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the consolidated statement of income.

(iv) Derivatives that do not qualify for hedge accounting

Changes in the fair value of derivative instruments that are not designated as fair value or cash flow hedges are recognized immediately in current operations.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

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

(q) Provisions and Contingent Liabilities

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

Where the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognized as a separate asset only when it is virtually certain that the Company and its subsidiaries will receive reimbursement upon settlement of the obligation. The expense relating to a provision is presented net of the reimbursement.

(r) Allowance for Unused Credit Commitments

The Company and its subsidiaries provides an allowance for unused credit commitments to credit card assets by applying the credit conversion factor and the minimum provision rate prescribed by Supervisory Regulation of Credit-Specialized Finance Business for each loan classification (1.5% or more for normal, 15% or more for precautionary, 20% or more for substandard, 60% or more for doubtful and 100% for estimated loss).

(s) Liability for Gift Certificates

Gift certificates are recognized as liabilities when they are sold and subsequently recognized as sales when redeemed. When the exercise period (five years after sale) of gift certificates expires, the Company and its subsidiaries recognize the income as other non-operating income.

(t) Income Taxes

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

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

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

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

(t) Income Taxes, Continued

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.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

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 carry-forwards and tax credit carry-forwards. The deferred tax amounts are presented as a net current asset or liability and a net non-current asset or liability.

(u) Use of Estimates

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

(v) Income from Discontinued Operations

Operating and non-operating income, net of income tax effect are reported as income from discontinued operations in the consolidated statements of income for the period in which an initial disclosure for discontinued operations occurred. The prior period consolidated financial statements, presented comparatively, are reclassified to show the discontinued operations separately from continuing operations.

(w) Offsetting of equity method accounted investments and subsidiaries' equity

Equity method accounted investment was offset against subsidiaries' equity when the Company can exercise significant influence over the investee. Minority interest's share of subsidiaries' is shown separately in stockholders' equity. The Company and its subsidiaries account for acquisition of a business assuming the transaction occurred as of the most recent year end (the deemed acquisition date). When offsetting equity method accounted investments of the parent company and subsidiaries' equity, purchase method or pooling method was used based on the substances of transaction. Applying purchase method, the differential is recognized either as goodwill or negative goodwill.

(3) Basis of Translating the Consolidated Financial Statements

The 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 ₩1,138.9 to US\$1, the basic exchange rate on December 31, 2010 posted by Seoul Money Brokerage Services. This translation should not be constructed as a representation that any or all of the amounts shown could be converted into U.S. dollars at this or any other rate.

(4) Restricted Deposits

Restricted deposits included in short-term and long-term financial instruments as of December 31, 2010 and 2009 are as follows:

Account	Depository	Korean won (millions)		U.S. dollars
		2010	2009	(thousands) (note 3) 2010
Short-term:				
Guarantee deposits for performance of contracts	Kookmin Bank and others	₩ 30,425	22,873	\$ 26,714

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

Guarantee deposits for checking accounts	Industrial Bank of Korea	40,000	-	35,122
Long-term: Guarantee deposits for performance of contracts	Shinhan Bank and others	<u>120</u>	<u>12,676</u>	<u>106</u>
Total		₩ <u>70,545</u>	<u>35,549</u>	\$ <u>61,942</u>

(5) Inventories

(a) Inventories as of December 31, 2010 and 2009 are as follows:

Description	Korean won (millions)		U.S. dollars (thousands) (note 3)
	2010	2009	2010
Merchandise, net of allowance for valuation losses of ₩5,657 million in 2010 and ₩5,951 million in 2009	₩ 1,626,443	1,235,422	\$ 1,428,083
Finished goods	61,027	25	53,584
Goods in process	565	160	496
Raw materials	12,404	7,145	10,891
Subsidiary materials	2,261	1,654	1,985
Supplies	8,427	4,552	7,399
Materials-in-transit	115	634	101
Finished apartment units	<u>2,610</u>	<u>1,757</u>	<u>2,292</u>
Total	₩ <u>1,713,852</u>	<u>1,251,349</u>	\$ <u>1,504,831</u>

(b) Loss on inventory shrinkage for the years ended December 31, 2010 and 2009 are ₩17,560 million and ₩12,822 million, respectively.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(6) Asset-backed Securitization

- (a) Lotte Card Co., Ltd. transferred certain card assets to a Special Purpose Company (“SPC”) pursuant to the Asset-Backed Securitization Law of the Republic of Korea, and outstanding balance of transferred card assets, excluding trust assets, is ₩725,000 million as of December 31, 2010.
- (b) Lotte Card Co., Ltd. has transferred some of its receivables to special purpose companies (“SPC”) pursuant to the Asset Securitization Law. Details of transferred trust assets as of December 31, 2010 are as follows:

SPC	Underlying asset	Cut-off date	Transfer date	Korean won (millions)	
				Principal amounts	Transfer amounts
The 1st Supreme	Credit card asset	2008.02.29	2008.05.14	₩ 553,875	504,620
The 4th Sprint	Credit card asset	2009.04.30	2009.06.02	337,853	370,811
The 2nd Supreme	Credit card asset	2010.01.31	2010.03.23	401,451	401,350
				₩ 1,293,179	1,276,781

- (c) Lotte Card Co., Ltd. will assume the liability to pay the outstanding card assets when the transferred card assets cannot meet the prescribed qualification in the contract or fall into arrears. As for asset-backed securitization through the trust, transferees can demand Lotte Card Co., Ltd. to additionally transfer its card assets more than the minimum required when the transferred assets cannot meet a certain qualification.
- (d) As prescribed by the assets transfer agreement, the SPC has an obligation of early redemption of the asset-backed securities when the average portfolio earning ratio during three consecutive settlement periods is lower than the average primary cost ratio or when the outstanding balance of the adjusted securitized assets is less than the minimum principals balance as of the closing date of each settlement period and others.
- (e) Lotte Card Co., Ltd. has entered into an agreement with an SPC and a trust company to provide asset management services for the transferred assets. Under the agreement, Lotte Card Co., Ltd. provides various services, such as billing for payment, collecting and dealing with delinquencies, and Lotte Card Co., Ltd. receives a certain management fee from each of the SPC and trust company.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(7) Card Assets

Card assets as of December 31, 2010 and 2009 consist of the following:

Description	Korean won (millions)		U.S. dollars (thousands) (note 3)
	2010	2009	2010
Card members' receivables	₩ 3,258,733	2,570,166	\$ 2,861,299
Card loans	1,401,751	746,291	1,230,794
Trust assets	597,274	361,534	524,431
	<u>5,257,758</u>	<u>3,677,991</u>	<u>4,616,524</u>
Less:			
Allowance for doubtful accounts	(141,571)	(94,674)	(124,306)
Deferred loan income	(6,605)	(13,012)	(5,799)
	<u>(148,176)</u>	<u>(107,686)</u>	<u>(130,105)</u>
Total	₩ <u>5,109,582</u>	<u>3,570,305</u>	\$ <u>4,486,419</u>

Card members' receivables represent cash advance lent to card members, lump-sum payment and installment payment due from card members after pre-payment to membership stores.

The full amounts paid in a lump sum to membership stores are collected at the contracted payment date from card members. Installment payment is equally collected from card members per month over certain periods (2~18 months) and interest is charged on remaining installment payment from card members. The Company and its subsidiaries charge certain commission upon pre-payment to membership stores. The full amount of cash advance is collected from card members with certain interests on the contracted payment date.

Card loans represent the balance of amounts lent to card members over certain terms (6 months ~ 2 years) and are subject to certain commission and interest, which are billed to card members.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(8) Investment in Securities

Investments in securities as of December 31, 2010 and 2009 are as follows:

(a) Available-for-sale securities

(i) Equity securities

Description	Korean won (millions)				U.S. dollars (thousands) (note 3)
	Cost	2010		2009	2010
		Fair value/net asset value	Book value	Book value	Book value
Marketable securities (*1):					
Busan Bank (*2)	₩ 26,788	80,824	80,824	74,208	\$ 70,967
Shinhan Financial Group	2,247	16,458	16,458	13,440	14,451
Eyesvision Corporation	491	22	22	25	20
SBI Global Investment Co., Ltd.	100	5	5	10	4
Korea Express Co., Ltd. (*3)	6,690	31,279	31,279	18,827	27,464
Lotte Chilsung Beverage Co., Ltd. (common stock)	99,180	96,983	96,983	85,163	85,155
Lotte Chilsung Beverage Co., Ltd. (preferred stock)	179	149	149	135	131
Lotte Samkang Co., Ltd.	10,167	12,880	12,880	11,701	11,309
Tbroad Hanvit Broadcasting Co., Ltd.	5,179	4,415	4,415	4,873	3,877
SamkwangGlass Co., Ltd.	335	3,302	3,302	6,411	2,900
Hyundai Department Store Co., Ltd.	320	7,466	7,466	6,021	6,556
Hyundai Green Food Co., Ltd.	80	1,505	1,505	1,089	1,322
Lotte Non-Life Insurance Co., Ltd.	28,725	15,678	15,678	15,289	13,766
Subtotal	₩ 180,481	270,966	270,966	237,192	\$ 237,922

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(8) Investment in Securities, Continued

(a) Available-for-sale securities, continued

(i) Equity securities, continued

Description	Korean won (millions)			U.S. dollars (thousands) (note 3)
	2010	2009	2010	
	Cost	Book value	Book value	
Non-marketable securities (*4):				
Lotte Giants (*6)	₩ 31	30	30	\$ 26
The Korea Economic Daily	32	32	32	28
V Bank Consulting	13	-	-	-
Incheon United Football Club	2	-	-	-
Agentrics	346	346	346	304
M-cieta Development Co., Ltd.	2,499	2,499	2,499	2,194
M-cieta Co., Ltd.	15	15	15	13
Corona Development (formerly Incheon PF)	860	860	860	755
Lakepark AMC (*6)	72	72	72	63
Saerom Sungwon Industrial Co., Ltd.(formerly STX Construction Industrial Co., Ltd)	1	1	1	1
Union Ark Development Co., Ltd.	1,815	1,815	1,815	1,594
Union Ark Co., Ltd.	15	15	15	13
Biche-Nuri Development Co., Ltd.	858	858	858	753
Biche-Nuri Co., Ltd.	15	15	15	13
Daol Union Ark Private equity real estate 1 investment Co.	1,320	1,320	1,320	1,159
Herald Media Inc.	60	-	-	-
Lotte Properties (Shenyang) Limited	41,919	41,919	41,919	36,805
Cosmo Investment Management Co., Ltd. (*5)	29,694	44,754	29,781	39,296
I Venture Media Investment Union	-	-	700	-
CJ Venture Investment No. 12 Global Contents Fund	1,500	1,500	1,500	1,317
So Big 5 Contents Investment Union	1,800	1,800	1,800	1,580
East Gate Media Contents & Technology Fund	5,000	5,000	-	4,390
Hundai F&G Co. Ltd. (*5)	349	1,003	836	881
Daenong Corporation (*7)	-	-	-	-
Korea Credit-card Electronic-settlement Service Co., Ltd.	214	214	214	188
Korea Smart Card Co., Ltd.	530	530	298	465
KIBNET Inc.	2,500	2,012	1,679	1,767
HAYO TECHNOLOGY Co., Ltd.	315	315	315	276
CJ Hellovision Broadcasting Co., Ltd. (*5)	299	708	285	622
Youngdong Broadcasting System, Inc. (*5)	3,500	2,400	555	2,107
SK Telink, Corp. (*5,8)	575	653	-	573
TU Media Co., Ltd. (*8)	-	-	142	-
FUBON Multimedia Technology Co., Ltd.	1,728	1,196	372	1,050
W- media	174	-	-	-
Korea Association of Convenience Stores	10	10	10	9
CVS Net Co., Ltd.	540	903	-	793
ORION REPORTS	145	74	-	65
Subtotal	₩ 98,746	112,869	88,284	\$ 99,100

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(8) Investment in Securities, Continued

(a) Available-for-sale securities, continued

(i) Equity securities, continued

Description	Korean won (millions)			U.S. dollars (thousands) (note 3)
	2010	2009	2010	
	Cost	Book value	Book value	Book value
Korea Fuji Film Co., Ltd.	1,098	14,637	11,439	12,852
LEE & DDB INC	20	20	20	18
ATEVO INC	1,110	-	-	-
Korea Specialty Contractor Financial Cooperative	41	41	41	37
Kiwoom investment Co., Ltd.	2,000	966	966	848
Auto Cube Co., Ltd.	700	-	-	-
Wonju Enterprise City Co., Ltd.	1,800	1,800	1,800	1,580
Korea Software Financial Cooperative	30	30	-	26
Information & Communication Financial Cooperative	15	15	-	13
Electric Contractors' Financial Cooperative	50	50	-	44
KOFAD	100	100	-	88
Lotte Shopping India Pvt., Ltd. (*6)	17	17	-	15
PT. Lotte Logistics Indonesia	11	11	-	10
Subtotal	6,992	17,687	14,266	15,531
Total	₩ 286,219	401,522	339,742	\$ 352,553

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

(*2) As of December 31, 2010, the Company and its subsidiaries have pledged 2,103,140 shares of Busan Bank to Gyeongsangnam-do province as a performance guarantee for the construction of a large retail complex. The Company and its subsidiaries have also pledged 1,313,827 shares of Busan Bank to Busan Metropolitan City as a construction performance guarantee.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(8) Investment in Securities, Continued

(a) Available-for-sale securities, continued

(i) Equity securities, continued

- (*3) The Company and its subsidiaries participated in the Kumho Asiana Consortium (“KAC”) which acquired Korea Express Co., Ltd.’s stocks in March 2008. According to the shareholders’ agreement with Asiana Airlines Inc., a participant of KAC, the Company and its subsidiaries are prohibited to sell, assign or pledge the stocks as collateral to any 3rd party without prior permission of Asiana Airlines Inc. for two years after acquisition, and after two years, Asiana Airlines Inc. has the right of first refusal to purchase the stocks. If Asiana Airlines Inc. is no longer the majority stockholder by assigning stocks to 3rd parties, it will provide the Company and its subsidiaries with right of first refusal with the same terms and conditions. Also, according to the agreement with Kumho RAC Co., Ltd. (formerly known as Kumho rent-a-car Co., Ltd.), another participant of KAC, as the Company and its subsidiaries hold a put option to sell its stock at acquisition cost plus interest after three years of acquisition, the Company and its subsidiaries have recorded the fair value of the put option of ₩34,879 million as a non-current derivative asset. (see note 22)
- (*4) As of December 31, 2010 and 2009, unmarketable securities were recorded at cost less impairment as invested companies which are not subject to a statutory audit because they have total assets of less than ₩10,000 million and were established after 2004 and the fair value of invested companies is not available or readily determinable because they do not have other comparable securities with similarity. The Company and its subsidiaries accounted for its investment in unlisted companies by using the equity method of accounting based on the unaudited financial statements as it was unable to obtain the audited financial statements and performed procedures to verify the unaudited financial statements.
- (*5) Details of fair value of unlisted securities estimated based on Korea Accounting Institute Opinion 06-5 are summarized as follows:

Company	Korean won		Investment management company
	Fair value per common stock	Estimate model	
Cosmo Investment Management Co., Ltd.	298,744		
Hundai F&G Co. Ltd.	1,694		Korea Bond Pricing & Korea Management Consulting Credit Co., Ltd.
Youngdong Broadcasting System, Inc.	18,352	Discounted cash flow model, IMV model	
CJ Hellovision Broadcasting Co., Ltd.	12,210		
SK Telink, Corp.	341,952		

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(8) Investment in Securities, Continued

(a) Available-for-sale securities, continued

(i) Equity securities, continued

- (*6) As described in note 2(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, investments in small affiliates and subsidiaries with total assets amounting to less than ₩10,000 million as of the prior fiscal year-end are recorded at cost within available-for-sale securities in accordance with SKAS No. 15 *Equity Method of Accounting*, except where the effect of applying the equity method of accounting is material.
- (*7) The Company and its subsidiaries acquired the investment in Daenong Corporation with transfer of receivables to securities. Fair value at the acquisition date was zero and recorded at the acquisition cost because the uncertainty of projection of future value was high.
- (*8) As a result of the merger of SK Telink, Corp. with TU Media Co., Ltd., the Company and its subsidiaries acquired the shares of SK Telink, Corp.

(ii) Debt securities

	Korean won (millions)		U.S. dollars (thousands) (note 3)
	2010	2009	2010
Current assets (note 9):			
Government and public bonds	₩ 4,826	8,161	\$ 4,238
Convertible bond(*)	-	-	-
Subtotal	4,826	8,161	4,238
Non-current assets:			
Government and public bonds	39,167	25,268	34,389
Subtotal	39,167	25,268	34,389
Total	₩ 43,993	33,429	\$ 38,627

- (*) The debt securities are stated at acquisition cost since their fair values are not available or readily determinable.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(8) Investment in Securities, Continued

(a) Available-for-sale securities, continued

(iii) Changes in unrealized holding gains

Changes in unrealized gains for the years ended December 31, 2010 and 2009 are summarized as follows:

	Korean won (millions)		U.S. dollars (thousands) (note 3)
	2010	2009	2010
Balance at beginning of year	₩ 41,196	7,832	\$ 36,172
Realized losses on disposition of securities	-	(11,463)	-
Unrealized gains on valuation of securities, net of tax	181,177	44,780	159,081
Other increase (decrease)	(60,827)	47	(53,409)
Balance at end of year	₩ <u>161,546</u>	<u>41,196</u>	\$ <u>141,844</u>

(b) Held-to-maturity Securities

Held-to-maturity securities as of December 31, 2010 and 2009 are summarized as follows:

	Korean won (millions)		U.S. dollars (thousands) (note 3)
	2010	2009	2010
Current assets:			
Government and public bonds	₩ -	124	\$ -
Subtotal	-	124	-
Non-current assets (note 14):			
Government and public bonds	187	75	165
Corporate debt securities	-	1,000	-
Investment in capital	-	95	-
Subtotal	187	1,170	165
Total	₩ <u>187</u>	<u>1,294</u>	\$ <u>165</u>

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(8) Investment in Securities, Continued

(c) Equity method accounted investments

(i) Investments in associates accounted for using the equity method as of December 31, 2010 and 2009 are as follows:

Affiliate	Owned shares	Percentage of ownership	2010		
			Korean won (millions)		Balance at December 31, 2010
			Cost	Net asset value	
Lotte Station Building Co., Ltd.	1,012,800	28.13%	₩ 23,366	200,384	199,744
Lotte Capital Co., Ltd.	11,062,586	33.23%	109,712	134,971	131,071
FRL Korea Co., Ltd.	2,352,000	49.00%	11,760	45,372	45,372
Lotte Asset Development Co., Ltd.	10,085,693	38.35%	52,015	40,028	40,028
Lotte Trading Co., Ltd. (*1)	154,439	17.24%	45,656	76,106	92,149
Lotte Aluminium Co., Ltd. (*1)	177,560	17.11%	76,394	150,687	127,045
Lotte Logistics Co., Ltd.	313,677	21.95%	8,446	40,888	29,140
Lotte Jeju Resort Co., Ltd.	2,000,000	25.00%	10,000	10,135	10,057
Lotte Buyeo Resort Co., Ltd.	3,333,333	22.22%	16,667	14,678	14,678
Lakepark Co., Ltd.	860,400	23.90%	4,302	4,034	4,034
Isu Entertainment Investment Union	30	37.50%	3,000	2,023	2,023
D-Cinema of Korea Co., Ltd. (*2)	300,000	50.00%	1,500	-	-
Zara Retail Korea Co., Ltd.	302,600	20.00%	15,130	17,759	17,759
M-Venture Culture Investment L.P.	250	25.00%	2,500	2,524	2,524
Lotte Gimhae Development Co., Ltd.	60,000	100.00%	300	335	335
Lotte Suwon Station Shopping Town Co., Ltd. (*2)	475,000	95.00%	48	-	-
Bliss Co., Ltd.	30,000	30.00%	150	150	150
Capital One Diversity Cinema Fund	100	20.00%	1,000	966	966
Lotte Cinema Vietnam Co., Ltd.	-	90.00%	5,488	(144)	1,758
Intime Lotte Department Store Co., Ltd. (*2)	-	50.00%	10,339	-	-
Shenyang SL Cinema Investment Management Co., Ltd.	-	49.14%	752	699	699
KKD Lotte Holdings Co., Ltd.	6,000,000	100.00%	4,934	3,966	3,966
Lotte (Beijing) Restaurants Co., Ltd.	-	85.00%	10,086	3,992	3,992
Lotte Confectionery Co., Ltd. (*1)	52,962	3.73%	59,886	95,422	74,655
Prototype Ltd.	20,000	20.00%	600	149	342
Lotte JTB Co., Ltd. (*2)	1,000,000	50.00%	5,000	-	-
Lotte Engineering & Construction Co., Ltd. (*1)	1,820,963	6.79%	99,412	132,715	132,884
Lotte.com Japan Inc.	9,000	100.00%	6,268	4,436	4,436
Chungnam Smartcard Co., Ltd.	2,000	100.00%	2,806	(2,235)	2,443
Canon Korea Business Solution Inc. (*1)	100,000	5.60%	4,263	9,192	9,185
Lotte Data Communication Company (China)	-	100.00%	726	705	705
Hanpaysys Co., Ltd.	511,000	51.10%	7,299	4,627	6,440
Subtotal			₩ 599,805	994,564	958,580

(8) Investment in Securities, Continued

(c) Equity method accounted investments, continued

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(i) Investments in associates accounted for using the equity method as of December 31, 2010 and 2009 are as follows:

Affiliate	Owned shares	Percentage of ownership	2010		
			Korean won (millions)		Balance at December 31, 2010
			Cost	Net asset value	
LDCC Vietnam	-	100.00%	₩ 627	452	452
PT LDCC Indonesia	-	100.00%	385	385	385
Lotte Business Management (Tianjin) Co., Ltd.	-	100.00%	23,803	19,927	19,927
LotteMart Global Sourcing Center Co., Ltd.	-	100.00%	557	557	557
Shandong Lepai Commercial Co., Ltd.	-	49.00%	1,489	2,444	2,444
Subtotal			26,861	23,765	23,765
Total			626,666	1,018,329	982,345

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(8) Investment in Securities, Continued

(c) Equity method accounted investments, continued

Affiliate	Owned shares	Percentage of ownership	2009		
			Cost	Net asset value	Balance at December 31, 2009
Lotte Station Building Co., Ltd.	1,012,800	28.13%	₩ 23,366	176,908	176,246
Lotte Capital Co., Ltd.	11,062,586	33.23%	110,897	115,405	110,940
FRL Korea Co., Ltd.	2,352,000	49.00%	11,760	24,827	24,827
Lotte Asset Development Co., Ltd.	10,085,693	38.35%	52,015	44,380	44,442
Lotte Trading Co., Ltd. (*1)	154,439	17.24%	45,656	73,267	89,439
Lotte Aluminium Co., Ltd. (*1)	177,560	17.11%	76,394	140,272	121,012
Lotte Logistics Co., Ltd.	313,677	21.95%	8,446	36,815	25,067
Lotte Jeju Resort Co., Ltd.	2,000,000	25.00%	10,000	10,157	10,000
Lotte Buyeo Resort Co., Ltd.	2,000,000	22.22%	10,000	10,006	10,006
Lakepark Co., Ltd.	860,400	23.90%	4,302	5,636	5,636
KTB Media Investment Union	15	30.00%	1,500	978	978
Isu Entertainment Investment Union	30	37.50%	3,000	1,962	1,962
D-Cinema of Korea Co., Ltd. (*2)	300,000	50.00%	1,500	-	-
Zara Retail Korea Co., Ltd.	302,600	20.00%	15,130	16,106	16,106
M-Venture Culture Investment L.P.	250	25.00%	2,500	2,492	2,500
Shenyang Lotte Mart Commercial Co., Ltd.	-	100.00%	12,161	10,841	10,841
Lotte Shopping Holdings (Hongkong), Ltd.	-	100.00%	740,569	743,870	743,870
Lotte Cinema Vietnam Co., Ltd.	-	90.00%	4,459	63	2,219
Intime Lotte Department Store Co., Ltd. (*2)	-	50.00%	10,339	-	-
Coralis S.A.	99,960	24.99%	17,418	8,788	17,418
KKD Lotte Holdings Co., Ltd.	3,007,312	100.00%	3,231	3,231	2,314
Lotte Confectionery Co., Ltd. (*1)	52,962	3.73%	70,367	83,049	68,268
Prototype Ltd.	20,000	20.00%	600	110	400
Lotte JTB Co., Ltd.	1,000,000	50.00%	5,000	679	454
Lotte Engineering & Construction Co., Ltd. (*1)	1,820,963	6.81%	99,412	141,494	139,668
Lotte (Beijing) Restaurants Co., Ltd.	-	70.00%	4,466	2,879	2,879
Canon Korea Business Solution Inc. (*1)	100,000	5.60%	4,263	7,839	7,831
Lotte Data Communication Company (China)	-	100.00%	464	464	464
Total			₩ 1,349,215	1,662,518	1,635,787

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(8) Investment in Securities, Continued

(c) Equity method accounted investments, continued

(*1) The ownership percentage of the company is under 20 percent; however, since the Company and its subsidiaries are able to exercise significant influence over their operations, the Company and its subsidiaries apply the equity method of accounting to these investments.

(*2) The Company and its subsidiaries discontinued the application of the equity method due to its investment being reduced to zero.

(ii) Changes in the differentials between the acquisition cost and the Company's share of the investee's identifiable net assets for the years ended December 31, 2010 and 2009 are as follows:

Affiliate	2010			Balance at December 31, 2010
	Beginning balance	Increase	Amortization	
Lotte Station Building Co., Ltd.	₩ (662)	-	22	(640)
Lotte Capital Co., Ltd.	(4,465)	-	565	(3,900)
Lotte Asset Development Co., Ltd.	62	-	(62)	-
Lotte Trading Co., Ltd.	16,173	-	(130)	16,043
Lotte Aluminium Co., Ltd.	(19,260)	(7,074)	2,692	(23,642)
Lotte Logistics Co., Ltd.	(11,748)	-	-	(11,748)
Lotte Jeju Resort Co., Ltd.	(157)	-	79	(78)
M-Venture Culture Investment L.P.	8	-	(8)	-
Lotte Cinema Vietnam Co., Ltd.	2,156	-	(254)	1,902
Coralis S.A.	8,630	(8,630)	-	-
KKD Lotte Holdings Co., Ltd.	(917)	-	917	-
Lotte Confectionery Co., Ltd.	(14,781)	(7,277)	1,291	(20,767)
Prototype Ltd.	290	-	(97)	193
Lotte Engineering & Construction Co., Ltd.	(1,724)	1,996	(30)	242
Chungnam Smartcard Co., Ltd.	-	4,976	(298)	4,678
Hanpaysys Co., Ltd.	-	2,191	(291)	1,900
Total	₩ (26,395)	(13,818)	4,396	(35,817)

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(8) Investment in Securities, Continued

(c) Equity method accounted investments, continued

Affiliate	2009			
	Beginning balance	Increase	Amortization	Balance at December 31, 2009
Lotteria Co., Ltd.	₩ 2,896	-	(2,896)	-
Lotte Station Building Co., Ltd.	-	(662)	-	(662)
Lotte Capital Co., Ltd.	149	(4,222)	(392)	(4,465)
Lotte Asset Development Co., Ltd.	-	62	-	62
Lotte Trading Co., Ltd.	16,531	608	(966)	16,173
Lotte Aluminium Co., Ltd.	(2,927)	(12,567)	(3,766)	(19,260)
Lotte Logistics Co., Ltd.	(916)	(10,832)	-	(11,748)
Lotte Jeju Resort Co., Ltd.	-	(157)	-	(157)
M-Venture Culture Investment L.P.	-	8	-	8
Lotte Cinema Vietnam Co., Ltd.	2,410	-	(254)	2,156
Coralis S.A.	-	8,630	-	8,630
KKD Lotte Holdings Co., Ltd.	-	(917)	-	(917)
Lotte Confectionery Co., Ltd.	-	(14,781)	-	(14,781)
Prototype Ltd.	386	-	(96)	290
KI Bank Co., Ltd.	539	-	(539)	-
Lotte Engineering & Construction Co., Ltd.	-	(1,724)	-	(1,724)
Total	₩ 19,068	(36,554)	(8,909)	(26,395)

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(8) Investment in Securities, Continued

(c) Equity method accounted investments, continued

(iii) Eliminated net unrealized losses (gains) from inter-company transactions as of December 31, 2010 and 2009 are as follows:

Affiliate	2010		
	Korean won (millions)		
	Inventories	Goodwill	Total
Lotte JTB Co., Ltd.	₩ -	(135)	(135)
Canon Korea Business Solution Inc.	(1)	(6)	(7)
Lotte Engineering & Construction Co., Ltd.	-	(73)	(73)
Hanpaysys Co., Ltd.	-	(87)	(87)
Total	₩ (1)	(301)	(302)

Affiliate	2009		
	Korean won (millions)		
	Allowance for doubtful accounts	Goodwill	Total
Lotte JTB Co., Ltd.	₩ -	(225)	(225)
Canon Korea Business Solution Inc.	(1)	(7)	(8)
Lotte Engineering & Construction Co., Ltd.	-	(102)	(102)
Lotte Trading Co., Ltd.	-	(1)	(1)
Total	₩ (1)	(335)	(336)

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(8) Investment in Securities, Continued

(c) Equity method accounted investments, continued

(iv) Details of changes in investments in associates accounted for using the equity method for the years ended December 31, 2010 and 2009 are as follows:

Affiliate	Percentage of ownership	2010					Balance at December 31, 2010
		Beginning balance	Korean won (millions)			Balance at December 31, 2010	
			Net income (loss)	Capital adjustment	Other(*1)		
Lotte Station Building Co., Ltd.	28.13%	₩ 176,246	21,278	3,738	(1,518)	199,744	
Lotte Capital Co., Ltd.	33.23%	110,940	21,842	1,055	(2,766)	131,071	
FRL Korea Co., Ltd.	49.00%	24,827	20,545	-	-	45,372	
Lotte Asset Development Co., Ltd.	38.35%	44,442	(5,016)	602	-	40,028	
Lotte Trading Co., Ltd.	17.24%	89,439	2,847	(137)	-	92,149	
Lotte Aluminium Co., Ltd. (*4)	17.11%	121,012	5,243	832	(42)	127,045	
Lotte Logistics Co., Ltd.	21.95%	25,067	4,517	(286)	(158)	29,140	
Lotte Jeju Resort Co., Ltd.	25.00%	10,000	57	8	(8)	10,057	
Lotte Buyeo Resort Co., Ltd.	22.22%	10,006	(1,963)	(32)	6,667	14,678	
Lakepark Co., Ltd.	23.90%	5,636	67	-	(1,669)	4,034	
KTB Media Investment Union	-	978	(208)	-	(770)	-	
Isu Entertainment Investment Union	37.50%	1,962	61	-	-	2,023	
D-Cinema of Korea Co., Ltd.	50.00%	-	-	-	-	-	
Zara Retail Korea Co., Ltd.	20.00%	16,106	1,654	(2)	1	17,759	
M-Venture Culture Investment L.P.	25.00%	2,500	24	-	-	2,524	
Lotte Gimhae Development Co., Ltd.	100.00%	-	35	-	300	335	
Lotte Suwon Station Shopping Town Co., Ltd.	95.00%	-	(48)	-	48	-	
Capital One Diversity Cinema Fund	20.00%	-	(34)	-	1,000	966	
Bliss Co.,Ltd.	30.00%	-	-	-	150	150	
Liaoning Lotte Mart Co., Ltd.	-	10,841	-	-	(10,841)	-	
Lotte Shopping Holdings (Hongkong), Ltd.	-	743,870	-	-	(743,870)	-	
Lotte Cinema Vietnam Co., Ltd.	90.00%	2,219	(1,695)	205	1,029	1,758	
Intime Lotte Department Store Co., Ltd.	50.00%	-	-	-	-	-	
Coralis S.A.	-	17,418	-	-	(17,418)	-	
Shenyang SL Cinema Investment Management	49.14%	-	(65)	12	752	699	
KKD Lotte Holdings Co., Ltd.	100.00%	2,314	(2,624)	(89)	4,365	3,966	
Lotte (Beijing) Restaurants Co., Ltd.	85.00%	2,879	(3,504)	(127)	4,744	3,992	
Lotte Confectionery Co., Ltd.	3.73%	68,268	5,221	1,352	(186)	74,655	
Prototype Ltd.	20.00%	400	(58)	-	-	342	
Lotte JTB Co., Ltd.	50.00%	454	(454)	-	-	-	
Lotte Engineering & Construction Co., Ltd.	6.79%	139,668	(6,883)	116	(17)	132,884	
Lotte.com Japan Inc.	100.00%	-	(1,822)	(10)	6,268	4,436	
Chungnam Smartcard Co., Ltd.	100.00%	-	(363)	-	2,806	2,443	
Bongil Logis	-	-	(50)	-	50	-	
Canon Korea Business Solution Inc.	5.60%	7,831	1,415	-	(61)	9,185	
Lotte Data Communication Company (China)	100.00%	464	(25)	5	261	705	
Subtotal		₩ 1,635,787	59,994	7,242	(750,883)	952,140	

(8) Investment in Securities, Continued

(c) Equity method accounted investments, continued

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(iv) Details of changes in investments in associates accounted for using the equity method for the years ended December 31, 2010 and 2009 are as follows:

Affiliate	Percentage of ownership	2010				Balance at December 31, 2010
		Beginning balance	Korean won (millions)			
			Net income (loss)	Capital adjustment	Other(*1)	
Hanpaysys Co., Ltd.	51.10%	-	(860)	-	7,300	6,440
LDCC Vietnam	100.00%	-	(144)	(31)	627	452
PT LDCC Indonesia	100.00%	-	-	-	385	385
Lotte Business Management (Tianjin) Co., Ltd.	100.00%	-	(2,475)	(48)	22,450	19,927
LotteMart Global Sourcing Center Co., Ltd.	100.00%	-	-	-	557	557
Shandong Lepai Commercial Co., Ltd.	49.00%	-	929	-	1,515	2,444
Subtotal		-	(2,550)	(79)	32,834	30,205
Total		₩ 1,635,787	57,444	7,163	(718,049)	982,345

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(8) Investment in Securities, Continued

(c) Equity method accounted investments, continued

Affiliate	Percentage of ownership	2009				Balance at December 31, 2009
		Beginning balance	Korean won (millions)			
			Net income (loss)	Capital adjustment	Other(*1)	
Lotteria Co., Ltd. (*2,3)	-	₩ 75,316	12,459	(30,959)	(56,816)	-
Daehong Communications Co., Ltd. (*2)	-	60,921	8,876	(42,507)	(27,290)	-
Lotte Station Building Co., Ltd.	28.13%	143,441	15,925	2,290	14,590	176,246
Foodstar Inc. (*3)	-	-	5,844	(135)	(5,709)	-
Lotte Capital Co., Ltd.	33.23%	62,964	14,024	424	33,528	110,940
FRL Korea Co., Ltd.	49.00%	17,127	7,700	-	-	24,827
Lotte Asset Development Co., Ltd.	38.35%	37,337	(1,631)	(4,579)	13,315	44,442
Lotte Engineering & Machinery Manufacturing Co., Ltd. (*4)	-	3,179	2,785	(1,699)	(4,265)	-
Lotte Trading Co., Ltd.	17.24%	47,073	1,725	5,649	34,992	89,439
Lotte Aluminium Co., Ltd. (*4)	17.11%	61,547	2,108	24,054	33,303	121,012
Lotte Logistics Co., Ltd.	21.95%	4,110	520	1,279	19,158	25,067
Lotte Jeju Resort Co., Ltd.	25.00%	-	-	-	10,000	10,000
Lotte Buyeo Resort Co., Ltd.	22.22%	-	46	(39)	9,999	10,006
Lakepark Co., Ltd.	23.90%	3,727	1,909	-	-	5,636
KTB Media Investment Union	30.00%	932	46	-	-	978
Isu Entertainment Investment Union	37.50%	1,882	80	-	-	1,962
D-Cinema of Korea Co., Ltd.	50.00%	798	(798)	-	-	-
Zara Retail Korea Co., Ltd.	20.00%	8,133	1,073	(101)	7,001	16,106
M-Venture Culture Investment L.P.	25.00%	-	-	-	2,500	2,500
Lotte Europe Holdings B.V. (*2)	-	68,707	(8,057)	(21,541)	(39,109)	-
Shenyang Lotte Mart Commercial Co., Ltd.	100.00%	2,495	(780)	(928)	10,054	10,841
Lotte Shopping Holdings (Hongkong), Ltd.	100.00%	259	(1,470)	4,770	740,311	743,870
Lotte Cinema Vietnam Co., Ltd.	90.00%	3,620	(2,148)	(82)	829	2,219
Intime Lotte Department Store Co., Ltd.	50.00%	3,980	(5,033)	1,053	-	-
Coralis S.A.	24.99%	-	-	-	17,418	17,418
Lotte Shopping India Pvt., Ltd.	-	-	-	-	-	-
KKD Lotte Holdings Co., Ltd.	100.00%	-	(1,461)	-	3,775	2,314
Lotte Confectionery Co., Ltd.	3.73%	-	-	-	68,268	68,268
Prototype Ltd.	20.00%	477	(77)	-	-	400
Lotte JTB Co., Ltd.	50.00%	2,413	(1,959)	-	-	454
KI Bank Co., Ltd. (*2)	-	1,250	(661)	22	(611)	-
Lotte Engineering & Construction Co., Ltd.	6.81%	-	-	-	139,668	139,668
Lotte (Beijing) Restaurants Co., Ltd.	70.00%	-	-	-	2,879	2,879
Canon Korea Business Solution Inc.	5.60%	-	-	-	7,831	7,831
Lotte Data Communication Company (China)	100.00%	-	-	-	464	464
Total		₩ 611,688	51,045	(63,029)	1,036,083	1,635,787

(8) Investment in Securities, Continued

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(c) Equity method accounted investments, continued

(*1) Include dividends from equity method accounted investments, changes in the scope of consolidation, acquisitions, reclassification from available-for-sale securities to equity method investments, and reclassification from other investment assets.

(*2) These companies were consolidated from the year ended December 31, 2009.

(*3) Lotteria Co., Ltd. merged with Foodstar, Inc. on May 26, 2009.

(*4) Lotte Aluminium Co., Ltd. merged with Lotte Engineering & Machinery Manufacturing Co., Ltd. on April 15, 2009.

(v) Summarized financial information of equity-accounted investments as of and for the year ended December 31, 2010 is as follows:

Affiliate	2010			
	Korean won (millions)			
	Total assets	Total liabilities	Sales	Net income (loss)
Lotte Station Building Co., Ltd.	₩ 948,170	243,176	691,561	75,541
Lotte Capital Co., Ltd.	3,335,236	2,929,168	430,987	63,936
FRL Korea Co., Ltd.	145,955	53,359	267,796	39,436
Lotte Asset Development Co., Ltd.	170,495	66,868	12,635	(13,285)
Lotte Trading Co., Ltd.	1,415,211	922,745	802,881	3,992
Lotte Aluminium Co., Ltd.	1,460,888	621,570	937,929	9,471
Lotte Logistics Co., Ltd.	326,005	136,492	870,465	14,067
Lotte Jeju Resort Co., Ltd.	114,752	74,209	-	(85)
Lotte Buyeo Resort Co., Ltd.	160,470	94,421	1,964	(8,834)
Lotte Gimhae Development Co., Ltd.	515	180	901	35
Lotte Suwon Station Shopping Town Co., Ltd.	2,807	2,825	-	81
Lakepark Co., Ltd.	35,939	19,059	13,354	(1,783)
Isu Entertainment Investment Union	5,395	-	166	162
D-Cinema of Korea Co., Ltd.	68,139	70,964	9,944	(2,530)
Zara Retail Korea Co., Ltd.	114,237	25,444	129,242	8,272
M-Venture Culture Investment L.P.	10,100	3	283	77
Capital One Diversity Cinema Fund	4,868	38	121	(169)
Bliss Co., Ltd.	500	-	-	-
Lotte Cinema Vietnam Co., Ltd.	7,199	7,360	2,553	(1,602)
Intime Lotte Department Store Co., Ltd.	44,231	103,837	69,764	(33,626)
Subtotal	8,371,112	5,371,718	4,242,546	153,156

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(8) Investment in Securities, Continued

(c) Equity method accounted investments, continued

Affiliate	2010			
	Korean won (millions)			
	Total assets	Total liabilities	Sales	Net income (loss)
Shenyang SL Cinema Investment Management Co., Ltd.	3,735	2,312	-	(133)
KKD Lotte Holdings Co., Ltd.	₩ 4,301	335	(554)	(692)
Lotte Confectionery Co., Ltd.	3,725,629	1,119,045	1,549,847	142,771
Prototype Ltd.	1,634	892	5,320	191
Lotte JTB Co., Ltd.	13,547	13,803	14,130	(1,614)
Lotte Engineering & Construction Co., Ltd.	5,687,056	3,465,483	3,664,606	(96,489)
Lotte.com Japan Inc.	4,793	357	-	(1,822)
Chungnam Smartcard Co., Ltd.	2,383	4,618	462	(750)
Lotte (Beijing) Restaurants Co., Ltd.	11,503	6,741	4,338	(5,172)
Canon Korea Business Solution Inc.	251,564	87,470	537,492	25,056
Lotte Data Communication Company (China)	2,913	2,208	3,139	17
Hanpaysys Co., Ltd.	13,981	4,924	25	(944)
LDCC Vietnam	486	33	360	(144)
PT LDCC Indonesia	385	-	-	-
Lotte Business Management (Tianjin) Co., Ltd.	20,756	829	-	(2,476)
LotteMart Global Sourcing Center Co., Ltd.	557	-	-	-
Shandong Lepai Commercial Co., Ltd.	23,064	14,365	51,951	2,113
Subtotal	9,768,287	4,723,415	5,831,116	59,912
Total	18,139,399	10,095,133	10,073,662	213,068

The Company and its subsidiaries used unaudited financial statements as of December 31, 2010 of the companies when applying the equity method of accounting.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(9) Other Current Assets

Other current assets as of December 31, 2010 and 2009 are as follows:

	Korean won (millions)		U.S. dollars
	2010	2009	(thousands) (note 3)
Available-for-sale securities (note 8)	₩ 4,826	8,161	\$ 4,238
Prepaid expenses	69,429	34,283	60,962
Prepaid income taxes	16,750	25,248	14,707
Current derivative assets (note 22)	126,755	1	111,296
Others	21,476	5,001	18,856
Total	₩ <u>239,236</u>	<u>72,694</u>	\$ <u>210,059</u>

(10) Joint Venture Investments

Details of joint venture investments as of December 31, 2010 are as follows:

<u>Joint venture investment</u>	<u>Ownership</u>	<u>Equity holder</u>	<u>Principal business</u>
Intime Lotte Department Store Co., Ltd.	50.00%	Zhejiang Intime Department Store Co., Ltd.	Department stores
D-Cinema of Korea Co., Ltd.	50.00%	CJ CGV Co., Ltd.	Cineprojector rental service
Kookge Building	6.00%	Honam Petro Chemical and others	Building leasing services
Busan Underground Shopping Center	45.00%	Hotel Lotte Co., Ltd.	Building leasing services

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(11) Transactions and Balances with Related Companies

(a) Details of investor and subsidiary relationships with the Company as of December 31, 2010 are as follows:

Related company	Ownership (%)	Control relationship (*1)
Hotel Lotte Co., Ltd.	9.3	Affiliate of Lotte group
Korea Fuji Film Co., Ltd.	8.5	
Lotte Confectionery Co., Ltd.	8.5	
Lotte Chilsung Beverage Co., Ltd.	4.3	
Lotte Engineering & Construction Co., Ltd.	1.0	
Hotel Lotte Pusan Co., Ltd.	0.9	

Controlled subsidiary (*2)	Ownership (%)	Principal business
Lotte Gimhae Development Co., Ltd.	100.0	Service company
Lotte Suwon Station Shopping Town Co., Ltd.	95.0	Real estate development
Lotte Cinema Vietnam Co., Ltd.	90.0	Cinema
KKD Lotte Holdings Co., Ltd.	100.0	Holding company
Lotte (Beijing) Restaurants Co., Ltd.	85.0	Restaurant chain
Lotte.com Japan Inc.	100.0	Distribution
Chungnam Smartcard Co., Ltd.	100.0	Electronic banking business
Lotte Data Communication Company (China)	100.0	Computer programming, consultancy
Hanpaysys Co., Ltd.	51.1	Computer programming, consultancy
LDCC Vietnam	100.0	Computer programming, consultancy
PT LDCC Indonesia	100.0	Computer programming, consultancy
Lotte Business Management (Tianjin) Co., Ltd.	100.0	Department stores
LotteMart Global Sourcing Center Co., Ltd.	100.0	Trading company

(*1) Lotte Group represents a group of entities as defined and restricted by the Monopoly Regulation and Fair Trade Act in Korea.

(*2) Controlled subsidiaries are not consolidated because total assets of those companies as of December 31, 2009 were less than ₩10,000 million.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(11) Transactions and Balances with Related Companies, Continued

(b) Significant transactions which occurred in the normal course of business with related companies for the years ended December 31, 2010 and 2009 are summarized as follows:

Related company	Korean won (millions)				U.S. dollars (thousands) (note 3)	
	2010		2009		2010	
	Revenue	Expenses	Revenue	Expenses	Revenue	Expenses
Hotel Lotte Co., Ltd.	₩ 77,417	75,278	69,537	62,385	\$ 67,975	66,097
Lotte Confectionery Co., Ltd.	47,256	120,588	45,852	82,678	41,492	105,881
Lotte Chilsung Beverage Co., Ltd.	35,832	83,030	29,639	53,441	31,462	72,904
Lotte Engineering & Construction Co., Ltd.	31,097	473,802	31,882	496,142	27,304	416,017
Hotel Lotte Pusan Co., Ltd.	9,695	20,030	8,689	13,135	8,513	17,587
Lotte Station Building Co., Ltd.	32,167	7,779	29,967	8,580	28,244	6,830
Lotte Trading Co., Ltd.	9,956	201,984	10,863	190,715	8,742	177,350
Lotte Aluminium Co., Ltd.	5,364	143,150	8,810	91,858	4,710	125,692
Lotte Samkang Co., Ltd.	7,379	73,326	37,208	55,065	6,479	64,383
Lotte Ham Co., Ltd.	11,816	107,881	13,295	74,148	10,375	94,724
Lotte Fresh Delica Co., Ltd.	8,447	53,758	5,878	41,953	7,417	47,202
Others	118,172	632,467	112,354	503,472	103,759	555,332
Total	₩ 394,598	1,993,073	403,974	1,673,572	\$ 346,472	1,749,999

(c) Account balances with related companies as of December 31, 2010 and 2009 are summarized as follows:

Related company	Korean won (millions)				U.S. dollars (thousands) (note 3)	
	2010		2009		2010	
	Receivables	Payables	Receivables	Payables	Receivables	Payables
Hotel Lotte Co., Ltd.	₩ 32,280	11,500	31,773	11,064	\$ 28,343	10,097
Lotte Confectionery Co., Ltd.	19,963	16,132	18,293	11,336	17,528	14,165
Lotte Chilsung Beverage Co., Ltd.	6,448	9,859	17,710	4,665	5,662	8,657
Lotte Engineering & Construction Co., Ltd.	54,234	236,239	67,111	170,343	47,619	207,427
Hotel Lotte Pusan Co., Ltd.	2,980	1,923	2,797	1,967	2,616	1,688
Lotte Station Building Co., Ltd.	28,558	9,409	31,126	7,300	25,075	8,262
Lotte Trading Co., Ltd.	4,540	16,745	5,625	14,111	3,986	14,703
Lotte Aluminium Co., Ltd.	16,190	34,372	13,550	28,605	14,215	30,180
Lotte Logistics Co., Ltd.	1,107	74,425	713	61,726	972	65,348
Lotte Samkang Co., Ltd.	636	18,812	5,472	16,638	558	16,517
Lotte Ham Co., Ltd.	5,583	2,307	6,438	7,757	4,903	2,026
Others	132,281	80,819	45,528	54,277	116,149	70,962
Total	₩ 304,800	512,542	246,136	389,789	\$ 267,626	450,032

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(11) Transactions and Balances with Related Companies, Continued

- (d) The Company and its subsidiaries have provided guarantees for related companies as of December 31, 2010 as follows:

<u>Related company</u>	<u>Guarantee recipient</u>	<u>2010</u>	
		<u>Type of borrowings</u>	<u>Guaranteed amount (thousand)</u>
Intime Lotte Department Store Co., Ltd.	Woori Bank	Working capital	RMB 78,000
Lotte (Beijing) Restaurants Co., Ltd.	Korea Exchange Bank	Working capital	CNY 65,000
	Woori Bank	Working capital	CNY 26,000

The fulfillment of the VPF contract between D-Cinema of Korea Co., Ltd. and Twentieth Century Fox Film Corporation is equally guaranteed by CGV and the Company and its subsidiaries in October 2008.

- (e) Long-term loans to executives and employees for housing amount to ₩2,882 million and ₩2,938 million as of December 31, 2010 and 2009, respectively.

(12) Property, Plant and Equipment

- (a) The Company and its subsidiaries 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, in other capital surplus.
- (b) Land was stated at revalued amounts as of December 31, 2009. The fair value of the assets was based on the results of an appraisal by the Korea Appraisal Board, an independent appraiser.

Before 2009, as mentioned above, the Company and its subsidiaries had adopted the revaluation model for land and buildings in 1998 only one time. As the Company and its subsidiaries adopted the revaluation model in accordance with revised SKAS No.5 *Property, Plant and Equipment* in 2009, other comprehensive income of ₩2,902,757 million, net of tax effect of ₩818,726 million, and revaluation loss of ₩8,268 million were recognized. Revaluated land would have been recognized under the cost model at ₩3,529,396 million as of December 31, 2009.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(12) Property, Plant and Equipment, Continued

(c) Changes in property, plant and equipment for the years ended December 31, 2010 and 2009 are as follows:

		2010						
		Korean won (millions)						
		Book value as of January 1, 2010	Acquisitions	Disposals	Revaluation	Depreciation	Transfers	Book value as of December 31, 2010
Land	₩	7,242,611	25,965	(320,895)	-	-	391,963	7,339,644
Buildings		3,867,655	99,680	(148,125)	-	(124,975)	1,124,273	4,818,508
Structures		256,712	29,111	(9,466)	-	(13,609)	(28,491)	234,257
Machinery		95,873	72,329	(574)	-	(33,980)	104,064	237,712
Vehicles		1,685	1,468	(143)	-	(1,012)	1,367	3,365
Furniture and equipment		38,456	33,786	(1,034)	-	(24,376)	40,679	87,511
Other		403,802	233,184	(4,965)	(8,098)	(292,363)	460,335	791,895
Construction-in-progress		989,758	1,001,372	(82)	-	-	(1,063,844)	927,204
Total	₩	12,896,552	1,496,895	(485,284)	(8,098)	(490,315)	1,030,346	14,440,096

		2009						
		Korean won (millions)						
		Book value as of January 1, 2009	Acquisitions	Disposals	Revaluation	Depreciation	Transfers	Book value as of December 31, 2009
Land	₩	3,199,473	53,571	(16,098)	3,713,215	-	292,450	7,242,611
Buildings		3,149,471	17,640	(19,390)	-	(164,062)	883,996	3,867,655
Structures		200,844	6,982	(2,136)	-	(9,602)	60,624	256,712
Machinery		57,138	5,454	(887)	-	(13,031)	47,199	95,873
Vehicles		1,405	574	(110)	-	(676)	492	1,685
Furniture and equipment		20,106	7,742	(1,059)	-	(16,034)	27,701	38,456
Other		367,576	89,638	(3,641)	-	(227,759)	177,988	403,802
Construction-in-progress		852,051	859,530	-	-	(143)	(721,680)	989,758
Total	₩	7,848,064	1,041,131	(43,321)	3,713,215	(431,307)	768,770	12,896,552

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(12) Property, Plant and Equipment, Continued

(d) The officially declared value and book value of land as of December 31, 2010 are as follows:

		Korean won (millions)	
		2010	
		Book value	Declared value
Land	₩	7,339,644	5,742,522

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

(e) The Company and its subsidiaries have insurance policies insured by Lotte Insurance Co., Ltd. Details of coverage under major insurance policies carried by the Company and its subsidiaries as of December 31, 2010 and 2009 are as follows:

Type of insurance	Covered assets	Korean won (millions)		U.S. dollars (thousands) (note 3)
		Amount covered		Amount covered
		2010	2009	2010
Burglary insurance	Cash	₩ 133,446	107,954	\$ 117,171
Fire insurance	Merchandise, buildings and tools	8,621,907	6,522,063	7,570,381
Engine and machinery insurance	Machinery and equipment	429,219	369,833	376,872
Business liability insurance	Facilities and products	585,268	492,882	513,889
Directors & officers liability insurance	-	210,000	140,000	184,388
Others	Other utilities	169,997	41,265	149,264
Total		₩ <u>10,149,837</u>	<u>7,673,997</u>	\$ <u>8,911,965</u>

In addition, as of December 31, 2010, the Company and its subsidiaries maintained a comprehensive insurance policy and insurance policies covering loss and liability arising from automobile accidents.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(13) Intangible Assets

Changes in intangible assets for the years ended December 31, 2010 and 2009 are as follows:

		2010					
		Korean won (millions)					
		Book value as of January 1, 2010	Acquisition	Acquisition of stores	Amortization	Others	Book value as of December 31, 2010
Goodwill	₩	721,310	3,939	553,479	(205,076)	903,480	1,977,132
Negative goodwill		(178,076)	-	-	3,650	22,808	(151,618)
Industrial property rights		867	656	-	(360)	12	1,175
Rights to use facility		289,392	1	-	(11,938)	22,336	299,791
Copyrights		98	28,833	-	(27,427)	-	1,504
Others		22,556	13,954	18	(10,647)	71,785	97,666
Total	₩	<u>856,147</u>	<u>47,383</u>	<u>553,497</u>	<u>(251,798)</u>	<u>1,020,421</u>	<u>2,225,650</u>

		2009				
		Korean won (millions)				
		Book value as of January 1, 2009	Acquisition	Amortization	Others	Book value as of December 31, 2009
Goodwill	₩	719,832	542	(93,383)	94,319	721,310
Negative goodwill		-	-	631	(178,707)	(178,076)
Industrial property rights		543	419	(254)	159	867
Rights to use facility		277,865	-	(10,092)	21,619	289,392
Copyrights		2,112	14,089	(16,103)	-	98
Others		8,962	4,394	(3,790)	12,990	22,556
Total	₩	<u>1,009,314</u>	<u>19,444</u>	<u>(122,991)</u>	<u>(49,620)</u>	<u>856,147</u>

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(14) Other Assets

Other assets as of December 31, 2010 and 2009 are as follows:

		Korean won (millions)		U.S. dollars (thousands) (note 3)
		2010	2009	2010
Long-term deposits (note 4)	₩	1,159	13,353	\$ 1,017
Held-to-maturity securities (note 8(b))		187	1,170	165
Long-term loans (note 16)		80,794	47,325	70,940
Others		1,002	1,421	880
Total	₩	<u>83,142</u>	<u>63,269</u>	<u>\$ 73,002</u>

(15) Pledged Assets and Guarantees

(a) The following assets are pledged as collateral for the Company and its subsidiaries' contract performance as of December 31, 2010:

Assets		Korean won (millions)	U.S. dollars (thousands) (note 3)	Guarantee for
Trade accounts receivable	₩	4,699	\$ 4,126	Payment guarantees
Short-term financial instruments		27,891	24,489	Guarantee deposits for performance of contracts
Available-for-sale securities (note 8(a))		49,033	43,053	Completion of construction
Land, buildings, machinery		<u>144,772</u>	<u>127,115</u>	Payment guarantees
Total	₩	<u>226,395</u>	<u>\$ 198,783</u>	

(b) Guarantees provided by the Company for third parties as of December 31, 2010 are as follows:

Third party		Korean won (millions)	U.S. dollars (thousands) (note 3)	Guarantor	Guarantee for
Seoheung Co., Ltd.	₩	1,491	\$ 1,309	Seoul Guarantee Insurance Company	Performance of contracts

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(15) Pledged Assets and Guarantees, Continued

(c) Guarantees provided by third parties for the Company and its subsidiaries as of December 31, 2010 are as follows:

Guarantor	Korean won (millions)	U.S. dollars (thousands) (note 3)	Guarantee for
Seoul Guarantee Insurance Co., Ltd.	₩ 117,983	\$ 103,594	Guarantee deposits for performance of contracts
Kookmin Bank	5,900	5,180	Guarantee deposits for performance of goods sold
Shinhan Bank	13,593	11,935	Guarantee deposits for performance of goods sold
Lotteria franchise stores	90,679	79,620	Guarantee deposits for performance of goods sold
Chungho Comnet Co., Ltd.	47	41	Guarantee deposits for performance of lease liabilities
Total	₩ <u>228,202</u>	\$ <u>200,370</u>	

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(16) Assets and Liabilities Denominated in Foreign Currency

Assets and liabilities denominated in foreign currency as of December 31, 2010 and 2009 are summarized as follows:

		2010		2009	
		Foreign currency (thousands)	Won equivalent (millions)	Foreign currency (thousands)	Won equivalent (millions)
Assets:					
Cash and cash equivalents	USD	160	₩ 183	30,269	35,343
	JPY	15,000	210	15,000	189
	RMB	-	-	963	164,669
	RUB	338	13	2,728	105
Trade accounts receivable	RUB	4,537	169	1,418	55
Other accounts receivable	USD	260	296	584	682
Short-term loans	USD	13,320	15,170	7,320	8,547
Long-term loans	USD	1,500	1,708	1,500	1,751
Card assets	USD	1,717	1,951	2,143	2,502
Total	USD	16,957	₩ 19,308	41,816	48,825
	JPY	15,000	210	15,000	189
	RMB	-	-	963	164,669
	RUB	4,875	182	4,146	160
Liabilities:					
Trade accounts payable	USD	-	₩ -	242	2,016
	EUR	488	739	587	982
	JPY	-	-	3,726	1,372
	RUB	4,264	159	6,211	240
Other accounts payable	USD	3,253	3,706	2,788	3,255
	EUR	1	2	4	7
	RUB	587	22	90	3
Accrued expenses	USD	440	501	366	428
Short-term debentures	JPY	-	-	12,000,000	151,538
	USD	150,000	170,853	-	-
Current portion of debentures	USD	400,000	455,560	185,000	216,006
	JPY	31,000,000	433,095	2,500,000	31,571
Long-term borrowings	JPY	30,000,000	419,124	30,000,000	378,846
	USD	100,000	113,890	-	-
	EUR	66	100	-	-
Long-term debentures	USD	410,000	466,949	450,000	525,420
	JPY	13,500,000	188,606	41,000,000	517,756
Total	USD	1,063,693	₩ 1,211,441	638,396	747,125
	EUR	555	841	591	989
	JPY	74,500,000	1,040,825	85,503,726	1,081,083
	RUB	4,851	181	6,301	243

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(17) Other Current Liabilities

Other current liabilities as of December 31, 2010 and 2009 are as follows:

		Korean won (millions)		U.S. dollars (thousands) (note 3)
		2010	2009	2010
Advance from customers	₩	354,231	147,886	\$ 311,029
Unearned income		2,356	1,025	2,068
Withholdings		165,300	96,306	145,140
Value-added tax withholdings		19,489	37,739	17,112
Investment withholdings		20,230	1,509	17,763
Guaranty money received		16,316	4,580	14,326
Provision for sales returns		5,350	2,901	4,697
Current derivative liabilities (note 22)		32,268	3,220	28,332
Lease payable		10,166	7,729	8,926
Others		658	803	581
Total	₩	<u>626,364</u>	<u>303,698</u>	<u>\$ 549,974</u>

(18) Borrowings

(a) Short-term borrowings as of December 31, 2010 and 2009 are summarized as follows:

Lender	Purpose of borrowings	Annual interest rate (%)	Korean won (millions)		U.S. dollars (thousands) (note 3)
			2010	2009	2010
Shinhan Bank and others	Bank overdrafts	5.30~6.86	₩ 1,387	17,559	\$ 1,218
Woori Bank and others	Financial notes	3.28~7.15	164,600	438,000	144,525
Kookmin Bank and others	General	2.86~11.80	<u>1,451,639</u>	<u>499,663</u>	<u>1,274,598</u>
Total			₩ <u>1,617,626</u>	<u>955,222</u>	<u>\$ 1,420,341</u>

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(18) Borrowings, Continued

(b) Long-term borrowings as of December 31, 2010 and 2009 are summarized as follows:

Lender	Purpose of borrowings	Annual interest rate (%)	Korean won (millions)		U.S. dollars (thousands) (note 3)
			2010	2009	2010
Korea Development Bank and others	Working capital	2.86~5.80	₩ 185,250	23,750	\$ 162,657
Lotte Co., Ltd. (Japan) and others	Working capital	3.40~5.60	984,079	519,315	864,060
Subtotal			1,169,329	543,065	1,026,717
Less current portion			(44,697)	(70,532)	(39,245)
Total			₩ 1,124,632	472,533	\$ 987,472

(c) Aggregate maturities of long-term borrowings as of December 31, 2010 are as follows:

Period		Korean won (millions)		U.S. dollars (thousands) (note 3)
2011.1.1~2011.12.31	₩	44,697	\$	39,245
2012.1.1~2012.12.31		756,688		664,402
2013.1.1~2013.12.31		95,797		84,113
2014.1.1~2014.12.31		-		-
2015.1.1~2015.12.31		272,147		238,957
Total	₩	1,169,329	\$	1,026,717

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(19) Debentures

(a) Short-term debentures as of December 31, 2010 and 2009 are summarized as follows:

Description	Maturity	Interest rate (%)	Korean won (millions)		U.S. dollars (thousands) (note 3)	
			2010	2009	2010	
52nd placed	Sep. 30, 2010	3M Euro Yen Libor+1.60	₩	-	126,282 \$	-
56th placed	Sep. 30, 2011	3M USD Libor+1.05		113,890	-	100,000
118th placed	Jan. 06, 2010	7.54		-	30,000	-
119th placed	Jan. 08, 2010	7.32		-	10,000	-
122nd placed	Jan. 18, 2010	5.48		-	40,000	-
123rd placed	Jan. 19, 2010	5.20		-	50,000	-
129th placed	May 29, 2010	3.82		-	10,000	-
146th placed	Nov. 05, 2010	3.79		-	25,256	-
175th placed	Jul. 20, 2011	3.49		56,945	-	50,000
Lotteria Co., Ltd. Korea Seven Co., Ltd.	Feb. 12, 2010 Mar. 05, 2010	6.39 6.54		-	20,000	-
Korea Seven Co., Ltd.	Mar. 05, 2011	5.75		10,000	-	8,780
Subtotal				180,835	321,538	158,780
Less:						
Discount on debentures issued				(132)	(149)	(116)
			₩	<u>180,703</u>	<u>321,389</u>	<u>\$ 158,664</u>

(b) Long-term debentures as of December 31, 2010 and 2009 are summarized as follows:

Description	Maturity	Interest rate (%)	Korean won (millions)		U.S. dollars (thousands) (note 3)	
			2010	2009	2010	
Denominated in won						
50th placed	Feb. 05, 2012	5.10	₩	200,000	200,000 \$	175,608
1-1st placed	Aug. 29, 2011	5.30		20,000	20,000	17,561
1-1st placed	Aug. 29, 2012	5.80		20,000	20,000	17,561
53rd placed	Dec. 03, 2014	5.30		250,000	250,000	219,510
54-1st placed	Mar. 12, 2013	4.44		200,000	-	175,608
54-2nd placed	Mar. 12, 2015	4.82		400,000	-	351,216
7th placed	Mar. 19, 2013	5.35		100,000	-	87,804

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(19) Debentures, Continued

Description	Maturity	Interest rate (%)	Korean won (millions)		U.S. dollars (thousands) (note 3)
			2010	2009	2010
Denominated in foreign currency					
46th placed	Apr. 29, 2011	6M Libor+1.00 ₩	113,890	116,760	\$ 100,000
47th placed	May 29, 2011	6M Euro Yen Tibor+1.20	251,474	227,308	220,805
48th placed	Sep. 29, 2011	3M Euro Yen Libor+1.60	153,679	138,910	134,936
49th placed	Oct. 17, 2011	3M USD Libor+1.75	341,670	350,280	300,000
51st placed	Jun. 26, 2012	3M Euro Yen Libor+1.50	139,708	126,282	122,669
55th placed	May 20, 2013	3M USD Libor+0.8	113,890	-	100,000
92nd placed	Dec. 15, 2011	5.22	30,000	30,000	26,341
93rd placed	Apr. 10, 2010	5.25	-	20,000	-
94th placed	Jun. 05, 2010	5.47	-	50,000	-
95th placed	Jun. 13, 2010	5.59	-	40,000	-
96th placed	Jun. 21, 2010	5.58	-	10,000	-
97th placed (foreign currency)	Aug. 31, 2010	5.73	-	140,112	-
98th placed (foreign currency)	Sep. 20, 2010	5.63	-	75,894	-
103rd placed	Oct. 25, 2011	6.04	20,000	20,000	17,561
104th placed	Oct. 25, 2010	5.96	-	50,000	-
105th placed	Nov. 01, 2010	6.11	-	40,000	-
106th placed	Nov. 08, 2010	6.10	-	50,000	-
107-2nd placed	Nov. 23, 2010	6.45	-	20,000	-
108th placed (foreign currency)	Dec. 26, 2010	1.86	-	31,571	-
110th placed (foreign currency)	Feb. 20, 2011	5.69	56,945	58,380	50,000
111th placed	Feb. 25, 2011	5.88	10,000	10,000	8,780
112th placed	Mar. 11, 2011	5.89	70,000	70,000	61,463
113th placed	Mar. 11, 2010	5.84	-	30,000	-
114th placed	Jul. 03, 2010	6.99	-	50,000	-
115th placed	Jan. 03, 2010	6.81	-	50,000	-
117th placed	Nov. 11, 2011	8.59	70,000	70,000	61,463
120th placed	Jul. 15, 2010	6.36	-	30,000	-
121st placed	Jan. 15, 2011	6.79	20,000	20,000	17,561
124th placed	Jan. 28, 2011	5.70	30,000	30,000	26,341

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(19) Debentures, Continued

Description	Maturity	Interest rate (%)	Korean won (millions)		U.S. dollars (thousands) (note 3)	
			2010	2009	2010	
125th placed	Jan. 29, 2011	5.68	₩	20,000	20,000	\$ 17,561
126th placed	Mar. 10, 2011	6.02		30,000	30,000	26,341
127th placed	Sep. 10, 2010	5.61		-	20,000	-
128th placed	Apr. 17, 2012	5.80		60,000	60,000	52,682
130th placed	Jun. 09, 2012	5.49		50,000	50,000	43,902
131st placed	Jun. 23, 2012	5.68		30,000	30,000	26,341
132nd placed	Jul. 01, 2012	5.76		30,000	30,000	26,341
133rd placed	Jul. 02, 2012	5.70		20,000	20,000	17,561
134th placed	Jul. 06, 2012	5.66		30,000	30,000	26,341
135th placed	Jul. 16, 2011	5.18		10,000	10,000	8,780
136th placed	Jul. 20, 2012	5.77		20,000	20,000	17,561
137th placed	Aug. 06, 2011	5.62		20,000	20,000	17,561
138th placed	Mar. 21, 2012	5.50		50,000	50,000	43,902
139th placed	Sep. 21, 2012	5.74		50,000	50,000	43,902
140th placed (foreign currency)	Oct. 07, 2011	5.07		27,942	25,256	24,537
141st placed	Apr. 16, 2012	5.53		10,000	10,000	8,780
142nd placed	Oct. 19, 2012	5.89		20,000	20,000	17,561
143rd placed	Oct. 20, 2012	5.88		20,000	20,000	17,561
144th placed	Oct. 22, 2012	5.86		20,000	20,000	17,561
145th placed	Oct. 26, 2012	5.94		10,000	10,000	8,780
147th placed	Nov. 05, 2012	5.84		50,000	50,000	43,902
148th placed	May 05, 2012	5.63		20,000	20,000	17,561
149th placed	Nov. 10, 2012	5.86		60,000	60,000	52,682
150th placed	May 20, 2012	5.40		50,000	50,000	43,902
151st placed	Nov. 20, 2011	5.11		10,000	10,000	8,780
152nd placed	Dec. 01, 2012	5.50		30,000	30,000	26,341
153rd placed	Dec. 01, 2011	5.03		20,000	20,000	17,561
154th placed	Jan. 12, 2013	5.66		60,000	-	52,682
155th placed (foreign currency)	Jan. 28, 2012	5.04		48,898	-	42,934
156th placed (foreign currency)	Feb. 09, 2012	4.99		68,334	-	60,000
157th placed	Feb. 08, 2013	5.56		50,000	-	43,902
158th placed	Feb. 19, 2013	5.37		50,000	-	43,902
159th placed	Mar. 05, 2012	4.53		60,000	-	52,682
160th placed	Mar. 05, 2013	4.91		20,000	-	17,561
161st placed	Apr. 06, 2013	4.59		30,000	-	26,341
162nd placed	Apr. 07, 2013	4.56		50,000	-	43,902
163rd placed	Apr. 20, 2013	4.38		40,000	-	35,122
164th placed	May 11, 2014	4.96		50,000	-	43,902
165th placed	Dec. 14, 2011	4.24		20,000	-	17,561

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(19) Debentures, Continued

Description	Maturity	Interest rate (%)		Korean won (millions)		U.S. dollars (thousands) (note 3)
				2010	2009	2010
166-1st placed	Dec.15, 2011	4.27	₩	10,000	-	\$ 8,780
166-2nd placed	Jun.15, 2012	4.50		10,000	-	8,780
167th placed (foreign currency)	Jun. 28, 2012	4.21		68,334	-	60,000
168th placed	Jun. 18, 2013	4.83		30,000	-	26,341
169th placed	Jun. 22, 2013	3.50		50,000	-	43,902
170th placed	Jun. 25, 2013	5.03		40,000	-	35,122
171-1st placed	Jan .07, 2012	4.33		40,000	-	35,122
171-2nd placed	Jan. 07, 2014	5.11		10,000	-	8,780
172nd placed	Jan. 08, 2014	5.17		40,000	-	35,122
173-1st placed	Jul. 15, 2013	5.07		60,000	-	52,682
173-2nd placed	Jan .15, 2014	5.23		30,000	-	26,341
174th placed (foreign currency)	Jul. 20, 2012	4.41		45,556	-	40,000
176th placed	Jul. 23, 2013	4.90		30,000	-	26,341
177th placed (foreign currency)	Aug. 02, 2013	4.74		34,167	-	30,000
178th placed (foreign currency)	Aug. 03, 2012	4.25		22,778	-	20,000
179th placed	Aug. 04, 2013	4.85		40,000	-	35,122
180th placed	Aug. 12, 2013	4.77		50,000	-	43,902
181st placed	Feb. 25, 2014	4.65		50,000	-	43,902
182nd placed	Sep. 03, 2013	4.49		50,000	-	43,902
183rd placed	Sep. 16, 2013	4.28		60,000	-	52,682
184th placed	Sep. 30, 2013	4.18		60,000	-	52,682
185th placed	Oct. 04, 2013	4.08		50,000	-	43,902
186th placed	Oct. 07, 2013	4.13		30,000	-	26,341
187th placed	Oct. 12, 2013	4.11		40,000	-	35,122
188th placed	Oct. 18, 2013	3.89		70,000	-	61,463
189th placed	Apr. 19, 2014	4.07		40,000	-	35,122
190th placed	Apr. 21, 2014	4.25		100,000	-	87,804
191-1st placed	Nov. 02, 2013	4.21		40,000	-	35,122
191-2nd placed	Nov. 02, 2012	3.86		10,000	-	8,780

(19) Debentures, Continued

Description	Maturity	Interest rate (%)		Korean won (millions)		U.S. dollars (thousands) (note 3)
				2010	2009	2010
192-1st placed	Nov. 19, 2013	4.22	₩	50,000	-	\$ 43,902
192-2nd placed	Nov. 19, 2012	3.89		10,000	-	8,780

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

193rd placed (foreign currency)	Nov. 27, 2013	3.87	56,945	-	50,000
194th placed	Dec. 03, 2013	4.11	60,000	-	52,682
195th placed	Jun. 10, 2014	4.40	20,000	-	17,561
Subtotal			5,334,210	3,230,753	4,683,650
Less:					
Discount on debentures issued			(9,109)	(8,603)	(7,998)
Total book value			5,325,101	3,222,150	4,675,652
Less:					
Current portion of debentures, net of discount			(1,353,231)	(707,338)	(1,188,191)
			<u>₩ 3,971,870</u>	<u>2,514,812</u>	<u>\$ 3,487,461</u>

(c) Aggregate maturities of debentures as of December 31, 2010 are as follows:

<u>Period</u>	<u>Korean won (millions)</u>	<u>U.S. dollars (thousands) (note 3)</u>
2011.01.01~2011.12.31	₩ 1,536,435	\$ 1,349,050
2012.01.01~2012.12.31	1,373,608	1,206,083
2013.01.01~2013.12.31	1,615,002	1,418,037
2014.01.01~2014.12.31	590,000	518,044
2015.01.01~2015.12.31	400,000	351,216
Total	<u>₩ 5,515,045</u>	<u>\$ 4,842,430</u>

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(20) Retirement and Severance Benefits

Changes in retirement and severance benefits for the years ended December 31, 2010 and 2009 are summarized as follows:

	Korean won (millions)		U.S. dollars (thousands) (note 3)
	2010	2009	2010
Estimated retirement and severance benefits at beginning of year	₩ 229,596	169,769	\$ 201,594
Accrual for retirement and severance benefits	84,945	61,538	74,585
Payments	(95,379)	(47,948)	(83,746)
Transfer of severance benefits from affiliated companies and other	34,440	46,237	30,240
Estimated retirement and severance benefits at end of year	253,602	229,596	222,673
Transfer to National Pension Fund	(206)	(193)	(181)
Deposit for severance benefit insurance	(162,923)	(150,882)	(143,054)
Net balance at end of year	₩ <u>90,473</u>	<u>78,521</u>	\$ <u>79,438</u>

The Company and Woori Home Shopping & Television Co., Ltd. and Daehong Communications Co., Ltd. maintain pension arrangements with Lotte Non-Life Insurance Co., Ltd. from December 31, 2010. Pension plan assets are presented as a reduction of the retirement and severance benefits liability.

Other subsidiaries maintain severance benefit insurance arrangements with Lotte Insurance Co., Ltd.

(21) Accrual for Bonus Points Reward Program

The Company and its subsidiaries recognize an accrual for bonus points reward program which provides free services and mileage for customers registered with and who make purchases with various Lotte Membership Cards. The accrual is based on the historical redemption experience of the points compared to the customers' purchases. Changes in the accrual for the reward program for the years ended December 31, 2010 and 2009 are summarized as follows:

	Korean won (millions)		U.S. dollars (thousands) (note 3)
	2010	2009	2010
Beginning of year	₩ 89,573	80,263	\$ 78,649
Provision	119,129	82,685	104,600
Payment	(105,085)	(75,065)	(92,269)
Other	-	1,690	-
End of year	₩ <u>103,617</u>	<u>89,573</u>	\$ <u>90,980</u>

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(22) Derivative Instruments and Hedge Accounting

(a) Details of derivatives outstanding as of December 31, 2010 are as follows:

Type	Description	Description
Trade	Put option	Right to exercise selling common stock in Korea Express. Co., Ltd at a specified price
Cash flow hedge	Currency swap	At the maturity of the swap, the principal amounts of the debentures in USD and JPY are exchanged back
	Interest rate swap	Exchanging a fixed amount in KRW per payment period for a payment that is floating in USD and JPY

(b) Fair value of derivatives outstanding as of December 31, 2010 and 2009 are summarized as follows:

Type	Korean won (millions)			
	2010		2009	
	Assets	Liabilities	Assets	Liabilities
Current:				
Interest rate swap	₩ 126,712	32,268	1	905
Currency swap	43	-	-	2,315
Subtotal	126,755	32,268	1	3,220
Non-current:				
Put option	34,879	-	31,817	-
Currency swap	21,551	13,227	145,320	-
Subtotal	56,430	13,227	177,137	-
Total	₩ 183,185	45,495	177,138	3,220

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(22) Derivative Instruments and Hedge Accounting, Continued

(c) Changes in the fair value of derivative instruments for the year ended December 31, 2010 are as follows:

Type of derivatives	Description	Related accounts	Korean won (millions)	U.S. dollars (thousands) (note 3)
Trade	Put option	Gain on valuation of derivative instruments	₩ 3,062	\$ 2,689
Fair value hedge	Currency forwards	Gain on valuation of derivative instruments	43	38
Cash flow hedge	Currency swap	Gain on valuation of derivative instruments	31,951	28,053
		Gain on valuation of derivatives instrument (Revenue of card business)	40,537	35,594
		Loss on valuation of derivatives instrument (Cost of card business)	(54,872)	(48,180)
		Unrealized loss on valuation of derivative instruments, net of tax effect	(8,702)	(7,642)
	Interest swap	Unrealized loss on valuation of derivative instruments, net of tax effect	547	480

(23) 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 consist of common shares and preferred shares each with a par value of ₩5,000 per share. The Company is authorized to issue non-voting preferred shares of up to one-fourth of the Company's total issued and outstanding capital stock. Holders of preferred shares may, upon a resolution of the board of directors at the time of the issuance of the preferred shares, be entitled to receive dividends prior to the holders of common shares. The preferred shares will be automatically converted to common shares 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, the prescribed conversion date will be extended to the time when all such minimum dividend amount is paid to the holders of preferred shares. As of December 31, 2010, the Company has not issued any preferred stock and 29,043,374 shares of common stock were issued and outstanding as of December 31, 2010.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(23) Capital Stock and Capital Surplus, Continued

(b) Capital surplus as of December 31, 2010 and 2009 consists of the following:

	Korean won (millions)		U.S. dollars (thousands) (note 3)
	2010	2009	2010
Paid-in capital in excess of par value	₩ 3,605,117	3,605,117	\$ 3,165,438
Gain on capital reduction	1,793	1,793	1,575
Other capital surplus	1,043,985	1,045,334	916,660
	₩ <u>4,650,895</u>	<u>4,652,244</u>	\$ <u>4,083,673</u>

(i) Gain on capital reduction

The Company retired 745,470 shares of treasury stock (₩1,934 million) in 1995, which were acquired in connection with 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.

(ii) Other capital surplus

Details of other capital surplus are summarized as follows:

① Gain on merger

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

② Asset revaluation

The Company revalued its property, plant and equipment on July 1, 1998 in accordance with the then Assets Revaluation Law. Details of the asset revaluation surplus included in stockholders' equity 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

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(24) Capital Adjustments

Lotte Data Communication Company, one of the Company's subsidiaries, has 1,515,653 shares of the Company. Therefore, the Company and its subsidiaries recorded those shares (~~₩~~148,790 million) as treasury stock (capital adjustments).

(25) Accumulated Other Comprehensive Income

Details of accumulated other comprehensive income as of December 31, 2010 and 2009 are as follows:

Account	Korean won (millions)		U.S. dollars (thousands) (note 3)
	2010	2009	2010
Unrealized gain on valuation of available-for-sale securities, net of tax effect	₩ 161,546	41,196	\$ 141,844
Unrealized gain on investments under equity method, net of tax effect	(47,369)	58,590	(41,592)
Unrealized loss on valuation of derivative instruments, net of tax effect	(22,634)	(14,703)	(19,874)
Cumulative effect of foreign currency translation, net of tax effect	19,579	9,350	17,191
Unrealized gain on revaluation of land, net of tax effect	<u>2,723,161</u>	<u>2,879,199</u>	<u>2,391,046</u>
	₩ <u>2,834,283</u>	<u>2,973,632</u>	\$ <u>2,488,615</u>

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(26) Retained Earnings

Retained earnings as of December 31, 2010 and 2009 are summarized as follows:

Account	Korean won (millions)		U.S. dollars (thousands) (note 3)
	2010	2009	2010
Appropriated:			
Legal reserve (*)	₩ 166,594	162,963	\$ 146,276
Discretionary reserve	4,460,052	3,790,052	3,916,105
	<u>4,626,646</u>	<u>3,953,015</u>	<u>4,062,381</u>
Unappropriated	<u>1,021,175</u>	<u>731,980</u>	<u>896,633</u>
	<u>₩ 5,647,821</u>	<u>4,684,995</u>	<u>\$ 4,959,014</u>

(*) 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.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(27) Sales and Cost of Sales

Details of sales and cost of sales for the years ended December 31, 2010 and 2009 are as follows:

	Korean won (millions)		U.S. dollars (thousands) (note 3)
	2010	2009	2010
Sales:			
Sales of merchandise	₩ 17,041,612	12,985,182	\$ 14,963,221
Sales of products	1,102,168	936,302	967,748
Revenue of card business	1,075,621	938,473	944,438
Sales of apartments	15,137	51,734	13,291
Other operating revenue	2,003,169	1,863,600	1,758,863
Deduction:			
Cost of specific sales	(674,652)	(567,849)	(592,372)
Sales allowance	(232,483)	(197,097)	(204,128)
	<u>20,330,572</u>	<u>16,010,345</u>	<u>17,851,061</u>
Cost of sales:			
Cost of merchandise sold	11,879,372	9,554,922	10,430,567
Cost of products sold	823,864	119,018	723,386
Cost of card business	684,633	619,094	601,135
Cost of sales of apartments	10,598	44,846	9,305
Cost of other operating revenue	573,954	450,391	503,955
	<u>13,972,421</u>	<u>10,788,271</u>	<u>12,268,348</u>
Gross profit	₩ <u>6,358,151</u>	<u>5,222,074</u>	\$ <u>5,582,713</u>

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(28) Selling and Administrative Expenses

Details of selling and administrative for the years ended December 31, 2010 and 2009 are as follows:

	Korean won (millions)		U.S. dollars (thousands) (note 3)
	2010	2009	2010
Salaries	₩ 962,359	755,266	\$ 844,990
Accrual for retirement and severance benefits	78,621	68,940	69,032
Other employee benefits	170,152	129,892	149,400
Education and training	13,947	9,930	12,246
Travel	30,129	21,042	26,454
Service contract expenses	8,411	4,984	7,385
Advertising	172,653	217,631	151,596
Sales promotion and commissions	657,080	516,708	576,943
Supplies	71,714	54,403	62,968
Communications	7,086	5,273	6,222
Utilities	235,431	170,238	206,718
Maintenance	11,194	30,265	9,828
Commissions and fees	517,806	520,706	454,655
Insurance	11,567	9,713	10,156
Transportation	3,132	2,663	2,750
Depreciation	459,266	459,580	403,254
Amortization of intangible assets	231,263	112,188	203,058
Taxes and dues	132,507	109,403	116,346
Bad debts	4,065	3,019	3,569
Rent	396,006	276,754	347,709
Electronic data processing	27,249	34,207	23,925
Decoration	18,132	13,471	15,920
Others	711,527	547,481	624,753
	₩ <u>4,931,297</u>	<u>4,073,757</u>	\$ <u>4,329,877</u>

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(29) Income Taxes

- (a) The Company and its subsidiaries were subject to income taxes on taxable income at the following normal tax rates:

Taxable income	Tax rate			
	2009	2010	2011	Thereafter
Up to ₩200 million	12.1%	11.0%	11.0%	11.0%
Over ₩200 million	24.2%	24.2%	24.2%	22.0%

- (b) The components of income tax expense for the years ended December 31, 2010 and 2009 are summarized as follows:

		Korean won (millions)		U.S. dollars (thousands) (note 3)
		2010	2009	2010
Current income tax expense	₩	457,323	315,134	\$ 401,548
Deferred income tax expense		23,152	881,533	20,328
Accumulated deficit		(447)	(76)	(392)
Income taxes directly credited to equity		(30,111)	(834,804)	(26,439)
Discontinued operating income taxes		-	(1,416)	-
Income tax expense	₩	<u>449,917</u>	<u>360,371</u>	<u>\$ 395,045</u>

- (c) Deferred tax assets and liabilities are measured using the tax rates to be applied for the year in which temporary differences are expected to be realized.
- (d) The income tax expense calculated by applying statutory tax rates to the Company and its subsidiaries' taxable income for the year differs from the actual tax expense in the statement of income for the years ended December 31, 2010 and 2009 for the following reasons:

		Korean won (millions)		U.S. dollars (thousands) (note 3)
		2010	2009	2010
Income before income taxes	₩	1,499,838	1,192,563	\$ 1,316,918
Expense for income taxes at normal tax rates		440,123	345,533	386,446
Adjustments		9,794	14,838	8,599
Non-taxable income		(4,821)	(4,866)	(4,233)
Non-deductible expense		18,471	19,568	16,218
Tax credit		(7,603)	(2,054)	(6,676)
Other		3,747	2,190	3,290
Income tax expense	₩	<u>449,917</u>	<u>360,371</u>	<u>\$ 395,045</u>
Effective tax rate		<u>30.00%</u>	<u>30.22%</u>	<u>30.00%</u>

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(29) Income Taxes, Continued

- (e) The tax effects of temporary differences that result in significant portions of the deferred tax assets and liabilities as of December 31, 2010 and 2009 are presented below:

	Korean won (millions)		U.S. dollars (thousands) (note 3)
	<u>2010</u>	<u>2009</u>	<u>2010</u>
Deferred tax assets:			
Allowance for doubtful accounts	₩ 14,171	5,647	\$ 12,442
Impairment losses on available-for-sale securities	1,722	1,773	1,512
Inventory	2,025	1,463	1,778
Accrued expenses	36,906	30,309	32,405
Negative other comprehensive income due to equity method of accounting	4,367	4,261	3,834
Loss on foreign currency translation	41,571	35,580	36,501
Loss on revaluation of land	1,819	1,819	1,597
Others	<u>32,573</u>	<u>16,491</u>	<u>28,601</u>
Total deferred tax assets	<u>135,154</u>	<u>97,343</u>	<u>118,670</u>
Deferred tax liabilities:			
Depreciation	(1,897)	(4,946)	(1,666)
Accrued interest income	(3,779)	(2,613)	(3,318)
Disallowed financing costs capitalized	(12,972)	(13,177)	(11,390)
Available-for-sale securities	(5,095)	(118,939)	(4,474)
Equity method investment securities	(221,570)	(187,016)	(194,548)
Unrealized gain on valuation of available-for-sale securities	(178,995)	(14,021)	(157,165)
Unrealized gain on valuation of derivative instruments	(22,435)	(28,529)	(19,698)
Other comprehensive income due to equity method of accounting	(68,718)	(44,626)	(60,337)
Unrealized gain on revaluation of land	(775,157)	(818,726)	(680,619)
Others	<u>(1,524)</u>	<u>(1,425)</u>	<u>(1,338)</u>
Total deferred tax liabilities	<u>(1,292,142)</u>	<u>(1,234,018)</u>	<u>(1,134,553)</u>
Net deferred tax liability	₩ <u>(1,156,988)</u>	<u>(1,136,675)</u>	\$ <u>(1,015,883)</u>

- (f) A deferred tax asset is recognized since it is expected to be probable that future taxable income will be available against which the deductible temporary differences can be utilized.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(29) Income Taxes, Continued

(g) As of December 31, 2010 and 2009, details of aggregate deferred tax assets (liabilities) are as follows:

		Korean won (millions)		
		2010		
		Temporary differences at December 31, 2010	Deferred tax assets (liabilities)	
			Current	Non-current
Deferred tax assets	₩	868,813	156,201	79,349
Deferred tax liabilities		(6,988,721)	(36,054)	(1,356,485)
Net deferred income tax asset (liability)	₩	<u>(6,119,908)</u>	<u>120,147</u>	<u>(1,277,136)</u>
		Korean won (millions)		
		2009		
		Temporary differences at December 31, 2009	Deferred tax assets (liabilities)	
			Current	Non-current
Deferred tax assets	₩	720,586	109,042	67,419
Deferred tax liabilities		(6,783,642)	(18,654)	(1,294,482)
Net deferred income tax asset (liability)	₩	<u>(6,063,056)</u>	<u>90,388</u>	<u>(1,227,063)</u>

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(29) Income Taxes, Continued

(h) The deferred tax assets (liabilities) that were directly charged (credited) to other comprehensive income for the year ended December 31, 2010 are as follows:

	Korean won (millions)		U.S. dollars (thousands) (note 3)	
	Temporary difference	Deferred tax assets (liabilities)	Temporary difference	Deferred tax assets (liabilities)
Unrealized gain on valuation of available-for-sale securities	₩ 232,368	(51,191)	\$ 204,029	(44,948)
Unrealized gain on investments under equity method, net	(38,203)	(23,914)	(33,544)	(20,998)
Unrealized loss on valuation of derivative instruments	(10,732)	2,577	(9,423)	2,263
Foreign operation currency translation gain	(7,794)	-	(6,844)	-
Unrealized gain on revaluation of land	(198,551)	43,569	(174,336)	38,255
Other capital adjustments	(15,417)	97	(13,536)	85
Change in equity method accounted investments	(18)	(1,249)	(16)	(1,096)
	₩ <u>(38,347)</u>	<u>(30,111)</u>	\$ <u>(33,670)</u>	<u>(26,439)</u>

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(30) Earnings per Share

(a) Earnings per share for the years ended December 31, 2010 and 2009 are as follows:

	Korean won (millions, except per share amount)		U.S. dollars (thousands, except per share amount) (note 3)
	2010	2009	2010
Net income	₩ 1,000,516	715,692	\$ 878,493
Weighted-average number of common shares outstanding	<u>29,043,374</u>	<u>29,043,374</u>	<u>29,043,374</u>
Earnings per share in won and U.S. dollars	₩ <u>34,449</u>	<u>24,642</u>	\$ <u>30.25</u>

(b) Earnings per share from continuing operations for the years ended December 31, 2010 and 2009 are as follows:

	Korean won (millions, except per share amount)		U.S. dollars (thousands, except per share amount) (note 3)
	2010	2009	2010
Income from continuing operations	₩ 1,000,516	711,257	\$ 878,493
Weighted-average number of common shares outstanding	<u>29,043,374</u>	<u>29,043,374</u>	<u>29,043,374</u>
Earnings per share from continuing operations in won and U.S. dollars	₩ <u>34,449</u>	<u>24,489</u>	\$ <u>30.25</u>

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(31) Dividends

(a) Dividends as a percentage of net income and par value for the years ended December 31, 2010 and 2009 are as follows:

		Korean won (millions, except par value per share)			U.S. dollars (thousands, except par value per share) (note 3)
		2010	2009		2010
Dividend amount (cash dividends)	₩	43,565	36,304	\$	38,252
Net income	₩	1,000,516	715,692	\$	878,493
Dividends as a percentage of net income		4.35%	5.07%		4.35%
Par value per share	₩	5,000	5,000	\$	4.39
Dividends as a percentage of par value		30.00%	25.00%		30.00%

(b) Dividend yield ratio for the years ended December 31, 2010 and 2009 are as follows:

		Korean won			U.S. dollars (note 3)
		2010	2009		2010
Dividend per share	₩	1,500	1,250	\$	1.32
Market price as of year end		473,000	346,000		415
Dividend yield ratio		0.32%	0.36%		0.32%

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(32) Commitments and Contingencies

(a) As of December 31, 2010, the Company and its subsidiaries have various forms of credit facility commitments with financial institutions as follows:

		Credit line Korean won (millions), U.S. dollars (thousands)		Amount used under credit facility Korean won (millions), U.S. dollars (thousands)
Overdraft	₩	230,800	₩	1,387
	IDR	350,000,000	IDR	92,300,000
General loan	₩	1,543,200	₩	550,310
	CNY	1,318,272	CNY	939,229
	US\$	650,000	US\$	370,000
	HKD		HK	
		169,900	D	169,900
Buyer's credit	₩	641,550	₩	122,828
Other	₩	122,000	₩	23,228
	JPY	200,000	JPY	200,000
Letter of credit	US\$	15,500	US\$	2,201
Foreign note	US\$	100	US\$	-
	₩	2,537,550	₩	697,753
	US\$	665,600	US\$	372,201
	IDR	350,000,000	IDR	92,300,000
	CNY	1,318,272	CNY	939,229
	HKD		HK	
		169,900	D	169,900
	JPY	200,000	JPY	200,000

(b) The Company entered into operating lease contracts with Lotte Midopa Co., Ltd. and Lotte Station Building Co., Ltd. Details of the lease as of December 31, 2010 are as follows:

Lessor	Location	Korean won (millions)		Guarantee deposit amount	Monthly rent
		Beginning date	Expiration date		
Lotte Midopa Co., Ltd.	Namdaemun-ro, Jung-gu, Seoul	Nov. 18, 2003	Nov. 17, 2023	₩ 36,500	355
Lotte Station Building Co., Ltd.	Nammoon-ro, Sangdang-gu, Cheongju	Feb. 23, 2007	Feb. 22, 2027	5,800	231
				₩ 42,300	586

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(32) Commitments and Contingencies, Continued

(c) Material contracts of the Company and its subsidiaries are as follows:

<u>Company</u>	<u>Contractor</u>	<u>Description of contract</u>
Lotte Shopping Co., Ltd.	International Business Center Corporation (IBCC)	Providing management services
Lotte Card Co., Ltd.	American Express Company, MasterCard International, Visa International and JCB International	Commissions based on the credit card transaction amount
Woori Home Shopping & Television Co., Ltd.	BC card and Shinhan card	Business tie-up and issuing credit cards
	Korea Express Co., Ltd.	Logistics services
	Cable TV operators	Providing broadcast programs
Korea Seven Co., Ltd.	7-Eleven, Inc.	Using the registered trademark and operating know-how
Lotte Boulangerie Co., Ltd.	Shikishima Baking Co., Ltd.	Bread baking skills and techniques
Lotteria Co., Ltd.	1,092 franchise stores	Supplying of goods
Daehong Communications Co., Ltd.	Korean Broadcasting System	Providing commercial services

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(32) Commitments and Contingencies, Continued

(d) Other provisions

Details of other provisions as of December 31, 2010 are summarized as follows:

		Korean won (millions)			
		2010			
		Beginning balance	Provision	Reversal/ payment	Ending balance
Allowance for unused credit commitments	₩	188,563	37,078	-	225,641
Allowance for finance		1,000	-	-	1,000
Reserve for loss from litigation		2,973	-	2,955	18
		₩	192,536	37,078	226,659

(e) As of December 31, 2010, the Company and its subsidiaries are the plaintiff in various lawsuits claiming damages totaling ₩20,457 million and the Company and its subsidiaries are the defendant in various lawsuits with damage claims totaling ₩9,607 million.

(f) Lotte Card Co., Ltd. has sold certain card assets to SPCs pursuant to the Assets-Backed Securitization Law of the Republic of Korea and assumed the liability to pay the outstanding card assets when the transferred card assets cannot meet the prescribed qualifications in the contract or fall into arrears in accordance with the terms of assets transfer agreement and other contracts. Accordingly, as prescribed in the assets transfer agreement and other contracts, the SPCs have obligations of early redemption of the assets-backed securities when average portfolio earning ratio during three consecutive settlement periods is lower than the average primary cost ratio or when outstanding balance of adjusted securitized assets is less than the minimum principal balance as of closing date of each settlement period and others. (see note 6)

(g) As of December 31, 2010, the Company and its subsidiaries have provided two notes totaling ₩921 million and 21 blank notes as collateral for borrowings (from Korea Agro-Fisheries Trade Corporation and Lotte Capital Co., Ltd.) and several other performance guarantees.

Lotte Midopa Co., Ltd. did not recover 93 blank checks and 654 blank notes from related customers, which had been pledged as collateral for its debt. Management believes that the possibilities of payment are extremely low.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(33) Consolidated Statements of Comprehensive Income

Comprehensive income for the years ended December 31, 2010 and 2009 was as follows:

	Korean won (millions)		U.S. dollars (thousands) (note3)
	2010	2009	2010
Net income	₩ 1,043,834	765,850	\$ 916,528
Change in unrealized gain on valuation of available-for-sale securities, net of tax effect of ₩(51,191) million in 2010, ₩(9,885) million in 2009	181,177	33,317	159,081
Change in unrealized gain on valuation of equity method investments, net of tax effect of ₩(23,914) million in 2010, ₩(8,774) million in 2009	(62,117)	29,304	(54,542)
Change in unrealized loss on valuation of derivative, net of tax effect of ₩2,577 million in 2010, ₩(4,120) million in 2009	(8,156)	15,105	(7,160)
Change in foreign operation currency translation gain, net of tax effect of ₩6,701 million in 2009	(7,794)	(9,520)	(6,844)
Change in unrealized gain on revaluation of land, net of tax effect of ₩43,569 million in 2010, ₩(818,726) million in 2009	(154,982)	2,902,757	(136,081)
Consolidated comprehensive income	991,962	3,736,813	870,982
Minority interest in comprehensive income	135,343	75,889	118,836
Parent company interest in comprehensive income	₩ 856,619	3,660,924	\$ 752,146

(34) Non-cash Investing Activities

Significant non-cash investing activities for the years ended December 31, 2010 and 2009 are summarized as follows:

	Korean won (millions)		U.S. dollars (thousands) (note3)
	2010	2009	2010
Construction-in-progress transferred to property, plant and equipment and intangible assets	₩ 672,559	963,582	\$ 590,534
Other investment assets transferred to equity method investment securities	-	65,885	-

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(35) Effect of Change in Accounting Estimates

The Company, Lotte Midopa Co., Ltd., Woori Home Shopping & Television Co., Ltd., Lotte Boulangerie Co., Ltd. and Korea Seven Co., Ltd. changed their accounting estimates for the useful lives of property, plant and equipment to reflect the economic substance as of January 1, 2010, and estimated useful lives are as follows:

	Useful lives (years)	
	Before	After
Buildings	10 – 60	20 – 50
Structures	10 – 30	10 – 45
Machinery	4 – 30	4 – 30
Vehicles	4	5
Display fixtures	4 – 10	5
Other furniture and fixtures	4 – 10	5

This change in accounting estimates resulted in decrease in depreciation expense by ₩108,804 million and increase in income tax expense by ₩26,437 million for the year ended December 31, 2010, respectively. In addition, this resulted in increases in property, plant and equipment by ₩108,804 million and unappropriated retained earnings by ₩82,367 million as of December 31, 2010.

(36) Acquisition of Stores

On February 9, 2010, the Company and its subsidiaries entered into an agreement to acquire the department store division and discount store division of GS Retail Co., Ltd. In accordance with the agreement, the Company completed the acquisition of the department stores and discount stores on April 30, 2010 and May 31, 2010, respectively. Acquired assets and liabilities and goodwill which resulted from the acquisition were as follows:

	Korean won (millions)	U.S. dollars (thousands) (note 3)
Fair value of assets	₩ 947,158	\$ 831,642
Fair value of liabilities	127,732	112,153
Net assets acquired	819,426	719,489
Acquisition cost	1,372,905	1,205,466
Goodwill (*)	₩ 553,479	\$ 485,977

(*) Goodwill is amortized on a straight-line basis over 10 years.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(37) Discontinued Operations

The Board of Directors of the Company committed to a plan to sell the foods manufacturing division by September 30, 2009 and announced the plan on September 18, 2009. This decision was made due to a long-term business plan to focus more on retail business. In accordance with the approved plan, the Company made an agreement to sell the foods manufacturing division to Lotte Samkang Co., Ltd. on September 18, 2009, and sold the assets and liabilities of the foods manufacturing division for ₩24,339 million to Lotte Samkang Co., Ltd. on September 30, 2009. The book value of assets and liabilities of the foods manufacturing division as of September 30, 2009 was ₩24,968 million and ₩3,984 million, respectively.

The results of the discontinued operation were calculated as follows:

	Korean won (millions, except for earnings per share)		U.S. dollars (thousands, except for earnings per share) (note 3)
	2010	2009	2010
Sales	₩ -	38,001	\$ -
Cost of sales	-	34,361	-
Gross profit	-	3,640	-
Selling and administrative expenses	-	1,759	-
Operating income	-	1,881	-
Non-operating income	-	638	-
Non-operating expenses	-	23	-
Income of foods manufacturing division	-	2,496	-
Gain on disposition of the discontinued operations	-	3,355	-
Income taxes	-	1,416	-
Results of discontinued operations	-	4,435	-
Basic earnings per share in won and U.S. dollars	₩ -	153	\$ -

In relation to the discontinued operation, net cash from operating and investing activities was ₩1,310 million and ₩1,160 million, respectively, for the nine-month period ended September 30, 2009.

The comparative consolidated statement of income has been restated to show the discontinued operation separately from continuing operations.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(38) Value Added Information

The components of manufacturing costs and selling and administrative expenses which are necessary in calculating added value for the years ended December 31, 2010 and 2009 are as follows:

		Korean won (millions)		U.S. dollars
		2010	2009	(thousands) (note 3)
Salaries	₩	985,384	631,524	\$ 865,206
Accrual for retirement and severance benefits		84,945	61,538	74,585
Other employee benefits		173,482	100,816	152,325
Rent		379,342	182,638	333,078
Depreciation		490,315	431,307	430,517
Taxes and dues		132,583	103,825	116,413

(39) Segment Information

- (a) The Company and its subsidiaries' major business segments consist of department stores (retail), marts (retail) and others (supermarkets, movie theaters, clothing retail).
- (b) Financial information by business segment for the years ended December 31, 2010 and 2009 are summarized as follows:

		2010		
		Korean won (millions)		
		Sales	Operating income	Total assets
Department stores	₩	6,616,955	794,821	12,954,974
Marts		5,301,914	312,464	7,249,135
Others		1,598,059	41,097	1,018,062
Subtotal		13,516,928	1,148,382	21,222,171
Subsidiaries		7,572,185	378,538	14,653,409
Total		21,089,113	1,526,920	35,875,580
Consolidated adjustment		(758,541)	(100,066)	(5,625,693)
After consolidated adjustment	₩	20,330,572	1,426,854	30,249,887

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(39) Segment Information, Continued

		2009		
		Korean won (millions)		
		Sales	Operating income	Total assets
Department stores	₩	5,904,468	676,809	11,485,082
Marts		4,327,792	167,872	6,362,152
Others		1,303,021	31,794	811,122
Subtotal		11,535,281	876,475	18,658,356
Subsidiaries		4,758,871	353,859	9,010,932
Total		16,294,152	1,230,334	27,669,288
Consolidated adjustment		(283,807)	(82,017)	(3,245,910)
After consolidated adjustment	₩	<u>16,010,345</u>	<u>1,148,317</u>	<u>24,423,378</u>

(c) The consolidated statements of financial position as of December 31, 2010 and 2009, by industry of which the Company and its subsidiaries' business are classified, are as follows:

		Korean won (millions)				U.S. dollars (thousands) (note 3)	
		2010		2009		2010	
		Non-financial industry	Financial industry	Non-financial industry	Financial industry	Non-financial industry	Financial industry
Assets							
Current assets:	₩	4,528,038	322,895	3,243,637	219,543	\$ 3,975,799	283,515
Non-current assets:							
Investment, net of unamortized present value discount		1,405,854	163,608	2,142,771	102,566	1,234,397	143,654
Property, plant and equipment, net of accumulated depreciation		14,391,966	48,130	12,837,365	59,187	12,636,725	42,260
Intangibles, net of amortization		2,199,415	26,235	822,345	33,802	1,931,175	23,036
Others		1,996,580	57,584	1,343,494	48,363	1,753,076	50,561
Total non-current assets		19,993,815	295,557	17,145,975	243,918	17,555,373	259,511
Other financial business assets:		-	5,109,582	-	3,570,305	-	4,486,419
Total assets	₩	<u>24,521,853</u>	<u>5,728,034</u>	<u>20,389,612</u>	<u>4,033,766</u>	<u>\$ 21,531,172</u>	<u>5,029,445</u>
Liabilities							
Current liabilities		7,296,796	1,915,350	4,746,750	1,871,488	6,406,881	1,681,754
Non-current liabilities		4,225,666	2,663,558	3,541,122	1,098,751	3,710,305	2,338,710
Total liabilities	₩	<u>11,522,462</u>	<u>4,578,908</u>	<u>8,287,872</u>	<u>2,970,239</u>	<u>\$ 10,117,186</u>	<u>4,020,464</u>

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(39) Segment Information, Continued

(d) The consolidated statements of income for the years then ended, by industry of which the Company and its subsidiaries' business are classified, are as follows:

	Korean won (millions)				U.S. dollars (thousands) (note 3)	
	2010		2009		2010	
	Non-financial industry	Financial industry	Non-financial industry	Financial industry	Non-financial industry	Financial industry
Sales	₩ 19,259,215	1,071,357	15,071,872	938,473	\$ 16,910,366	940,695
Cost of sales	13,297,865	674,556	10,169,177	619,094	11,676,061	592,287
Selling and administrative expenses	4,611,127	320,170	3,788,811	284,946	4,048,755	281,122
Operating income	1,350,223	76,631	1,113,884	34,433	1,185,550	67,286
Other income	585,030	1,090	429,523	1,128	513,680	957
Other expenses	509,273	3,863	385,563	842	447,163	3,392
Income before income tax	1,425,980	73,858	1,157,844	34,719	1,252,067	64,851
Income taxes	399,142	50,775	321,100	39,271	350,462	44,583
Subsidiaries' net income before acquisition	6,087	-	70,777	-	5,345	-
Income from continuing operations	1,020,751	23,083	765,967	(4,552)	896,260	20,268
Income from discontinued operations	-	-	4,435	-	-	-
Net income	₩ 1,020,751	23,083	770,402	(4,552)	\$ 896,260	20,268

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(40) Consolidated Net Income and Net Income in Minority Interest

Consolidated net income and net income in minority interest for the year ended December 31, 2010 is as follows:

Company	Percentage of ownership in parent interest (%)	Percentage of ownership in minority interest (%)	Korean won (millions)		
			Net income	Consolidated net income	Net income in minority interest
Lottel Shopping Co., Ltd.	100.00	-	₩ 1,010,144	1,010,144	-
Lotte Midopa Co., Ltd.	79.01	20.99	58,913	46,549	12,364
Lotte Card Co., Ltd.	92.54	7.46	138,037	127,732	10,305
eB Card Co., Ltd. and its subsidiaries	89.06	10.94	1,165	1,038	127
Woori Home Shopping & Television Co., Ltd.	53.03	46.97	73,772	39,125	34,647
Korea Seven Co., Ltd.	51.44	48.56	19,847	10,210	9,637
Buy the way Inc.	51.44	48.56	6,710	3,452	3,258
Lotte.Com Inc.	40.76	59.24	(543)	(220)	(323)
Lotte Boulangerie Co., Ltd.	90.54	9.46	(864)	(782)	(82)
Lotte Krispy Kreme Doughnuts Co., Ltd. (*)	100.00	-	(913)	(913)	-
Lotteria Co., Ltd. (*)	38.66	61.34	13,920	5,382	8,538
Daehong Communications Co., Ltd. (*)	34.83	65.17	17,468	6,084	11,384
Lotte Data Communication Company (*)	23.13	76.87	2,120	490	1,630
KIBANK (*)	17.65	82.35	(3,613)	(638)	(2,975)
Mybi Co., Ltd. (*)	15.05	84.95	4,104	618	3,486
Busan HanaroCard Co., Ltd. (*)	9.03	90.97	(313)	(28)	(285)
Lotte Square Co., Ltd.	100.00	-	4,082	4,082	-
NCF CO., LTD.	94.50	5.50	-	-	-
Lotte Europe Holdings B.V. (*)	32.05	67.95	(40,532)	(12,990)	(27,542)
Lotte Vietnam Shopping Co., Ltd.	80.00	20.00	(15,862)	(12,689)	(3,173)
Qingdao Lotte Mart Commercial Co., Ltd.	100.00	-	(16,645)	(16,645)	-
Lotte Mart Co., Ltd.	100.00	-	(6,077)	(6,077)	-
Lotte Shopping Holdings (Singapore), Ltd.	100.00	-	(38)	(38)	-
PT Lotte Shopping Indonesia	80.00	20.00	13,277	10,621	2,656
PT Lotte Mart Indonesia	99.80	0.20	(3,324)	(3,318)	(6)
Lotte Shopping Holdings (Hongkong), Ltd. and its subsidiaries	100.00	-	(45,283)	(45,283)	-
Coralis S.A. and its subsidiary	45.00	55.00	(710)	(319)	(391)
Liaoning Lotte Mart Co., Ltd.	100.00	-	(3,544)	(3,544)	-

(40) Consolidated Net Income and Net Income in Minority Interest, Continued

Korean won (millions)

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

Company	Percentage of ownership in parent interest (%)	Percentage of ownership in minority interest (%)	Net income	Consolidated net income	Net income in minority interest
Burger King Japan Co., Ltd.	38.66	61.34	₩ (13,115)	(5,071)	(8,044)
Vietnam Lotteria Co., Ltd.	35.72	64.28	431	154	277
Consolidated adjustment			(168,780)	(156,610)	(12,170)
			₩ 1,043,834	1,000,516	43,318