

Financial Status

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Financial Status

1) Financial Statements

Balance Sheet

LOTTE CONFECTIONERY Co., Ltd.

(Unit : KRW 1000)

Accounts	2007	2006	2005
Assets			
Current Assets	509,384,849	412,906,662	480,699,373
Quick Assets	411,504,582	337,386,444	403,383,540
Cash and CashEquivalents	43,561,681	60,583,185	58,088,676
Short-term Financial Instruments for Quick Assets	210,752,029	127,752,029	189,752,029
Short-term Instruments in Securieties	260,633	595,270	446,672
Trade Receivable	135,402,054	132,425,168	136,271,119
Allowance for Doubtful Accounts for Trade Receivables	5,038,310	5,177,824	4,994,337
Other Receivables	1,190,219	1,099,936	1,027,943
Accrued Income	5,495,700	2,491,573	1,884,585
Advance Payments	3,723,488	1,314,246	3,238,397
Prepaid Expenses Total	3,583,996	2,262,481	3,684,908
Deferred Income Taxes Assets Current	12,573,092	14,040,379	13,983,549
Inventories	97,880,267	75,520,218	77,315,833
Merchandises	5,710,579	5,445,052	8,357,524
Finished Goods	35,538,089	32,852,049	34,779,916
Works in Process	5,581,617	4,972,165	5,000,186
Raw Materials	15,014,502	14,393,930	15,034,242
Supplies	52,798	35,880	46,501
Raw Materials in Transit for Inventories	35,982,682	17,821,143	14,097,464
Non-current Assets	1,648,625,439	1,511,097,845	1,150,460,038
Investment Assets	1,191,079,043	1,040,501,319	724,925,137
Long-term Financial Instruments for Investment Assets	28,973	405,142	2,617,128
Long-term Investment in Securities	306,072,693	277,155,151	227,057,362
Equity Method Securities	884,977,377	762,941,027	495,250,647
Property, Plant and Equipment	431,345,908	439,117,071	393,963,894
Land	261,718,581	261,067,865	220,258,549
Buildings	198,439,211	194,307,855	183,023,119
Accumulated Depreciation for Buildings	108,479,192	99,115,138	89,100,005
Structures	9,045,174	7,879,659	7,566,646
Accumulated Depreciation for Structures	6,867,034	6,721,011	6,359,826
Machinery	439,360,711	420,525,017	401,524,074
Accumulated Depreciation for Machinery	387,331,907	364,913,162	346,009,238
Vehicles	27,885,731	24,627,067	26,825,750
Accumulated Depreciation for Vehicles	21,570,443	20,207,919	21,908,020

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Other Property Plant Equipment	99,369,385	93,960,224	86,727,121
Accumulated Depreciation for Other Tangible Assets	84,497,130	78,306,633	73,518,401
Construction in Progress	4,272,821	6,013,246	4,934,126
Intangible Assets	1,257,062	1,316,746	1,286,141
Industrial Property Rights	1,072,562	1,058,246	1,073,641
Premium of Lease	184,500	258,500	212,500
Other Non-current Assets	24,943,426	30,162,710	30,284,867
Deposits Provided	24,943,426	30,162,710	30,284,867
Total Assets	2,158,010,288	1,924,004,507	1,631,159,411
Liabilities	0	0	0
Current Liabilities	228,115,132	161,349,590	232,137,055
Trade Payable	100,246,307	61,753,987	111,216,852
Other Payables	52,547,242	40,900,523	60,165,145
Withholdings	2,752,721	2,108,088	2,372,436
Accrued Expenses	34,862,815	25,449,760	23,805,443
Income Taxes Payable	17,142,634	10,258,208	14,770,878
Dividends Payable for Current Liabilities	8,433	7,702	8,353
Current Portion of Long-term Liabilities	30,009	26,719	23,524
Provisions for Estimated Return of Goods in Current Liabilities	12,049,251	11,807,949	11,097,135
Other Current Liabilities	8,475,721	9,036,654	8,677,289
Non-current Liabilities	283,641,602	253,861,140	167,345,929
Long-term Borrowings	435,854	465,863	492,582
Provisions for Retirement and Severance Benefits	23,933,503	22,603,154	22,343,238
Deposits for Retirement and Severance Benefits Long-term Liabilities	19,857,324	22,534,161	22,260,324
Transfer to National Pension Fund	58,327	68,993	82,914
Deposits Received for Non-current Liabilities	11,284,311	11,211,910	10,144,513
Deferred Income Taxes Liabilities Non-current	267,903,586	242,183,367	156,708,834
Total Liabilities	511,756,734	415,210,730	399,482,983
Stockholders' Equity	0	0	0
Capital Stock	7,107,000	7,107,000	7,107,000
Common Stock	7,107,000	7,107,000	7,107,000
Capital Surplus	270,185,339	270,185,339	270,185,339
Additional Paid-in Capital	1,350,000	1,350,000	1,350,000
Other Capital Surplus	11,648,116	11,648,116	11,648,116
Appraisal Surplus	257,187,223	257,187,223	257,187,223
Capital Adjustments	-6,247,971	-6,247,971	-6,247,971
Treasury Stock in Capital Adjustments	6,247,971	6,247,971	6,247,971
Accumulated Other Comprehensive Income	294,340,854	262,001,857	230,704,810
Gains on Valuation of Long-term Investment Securities	196,194,481	174,416,975	141,073,803
Gains on Valuation of Equity Method Securities	112,503,237	105,641,940	105,495,328

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Losses on Valuation of Equity Method Securities	14,356,865	18,057,059	15,864,321
Retained Earnings or Accumulated Deficit	1,080,868,332	975,747,553	729,927,250
Appropriated Retained Earnings for Statutory Reserve	3,553,500	3,553,500	3,553,500
Appropriated Retained Earnings for Voluntary Reserves	1,014,900,000	720,900,000	456,900,000
Retained Earnings Before Appropriations or Accumulated Deficit Before Disposition on Balance Sheet	62,414,832	251,294,053	269,473,750
Total Stockholders Equity	1,646,253,553	1,508,793,778	1,231,676,428
Total Liabilities and Stockholders Equity	2,158,010,288	1,924,004,507	1,631,159,411

Income Statement

From 01/01/2007 To 12/31/2007

From 01/01/2006 To 12/31/2006

From 01/01/2005 To 12/31/2005

LOTTE CONFECTIONERY Co., Ltd.

(Unit : KRW 1000)

Accounts	2007	2006	2005
Sales Revenue	1,134,173,969	1,079,216,668	1,116,531,899
Gross Sales	1,207,213,209	1,144,794,351	1,170,074,680
Sales-Finished Goods for New Account for Sales Revenue	1,074,807,164	1,015,274,098	1,026,244,366
Sales-Merchandise for New Account for Sales Revenue	125,215,083	129,520,254	143,830,314
Sales-Other	7,190,962	0	0
Sales Commission	-73,039,240	-65,577,683	-53,542,781
Costs of Goods and Services Sold	689,063,194	669,555,895	697,369,278
Cost of Finished Goods Sold	606,884,522	580,124,564	599,898,111
Beginning Inventory of Finished Goods	32,852,049	34,779,916	34,014,745
Cost of Finished Goods	609,351,650	577,442,787	599,520,606
Transfer from Other Accounts	770,326	1,349,119	1,977,459
Transfer to Other Accounts	551,414	595,209	834,782
Ending Inventory of Finished Goods	35,538,089	32,852,049	34,779,916
Cost of Merchandises Sold	82,178,672	89,431,331	97,471,166
Beginning Inventory of Merchandises	5,445,052	8,357,524	6,357,380
Cost of Merchandises Purchased	83,243,886	87,314,653	100,524,927
Transfer from Other Accounts	28,354	94,515	164,095
Transfer to Other Accounts	828,041	890,308	1,217,712
Ending Inventory of Merchandises	5,710,579	5,445,052	8,357,524
Gross Profit or Loss	445,110,774	409,660,773	419,162,621
Selling and Administrative Expenses	359,349,491	334,896,485	328,337,522
Salaries and Wages	96,275,374	93,391,221	91,178,053
Retirement and Severance Benefits	10,096,883	9,123,289	9,351,258
Employee Benefits	28,082,337	25,676,830	24,813,532

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Travel Expenses	1,408,069	1,257,097	1,171,939
Communication Expenses	1,503,228	1,522,748	1,503,725
Utility Expenses	2,070,697	2,345,491	2,393,812
Taxes and Dues	3,610,401	2,823,984	2,201,502
Rental Expenses	5,561,153	6,767,434	6,935,575
Depreciation	19,651,355	18,089,435	16,316,687
Repair Expenses	2,483,772	2,477,558	2,475,495
Vehicle Maintenance Expenses	10,894,430	11,046,499	10,276,003
Selling Freight	22,393,386	20,308,210	19,481,113
Supply Expenses	3,411,973	3,391,191	4,279,764
Training Expenses	2,479,055	2,546,844	2,545,515
Insurance Premiums	3,132,013	2,950,862	2,946,995
Entertainment Expenses	243,439	275,049	324,691
Sales Promotional Expenses	16,682,477	15,763,281	15,888,471
Overseas Marketing Expenses	1,882,631	1,104,734	711,895
Commissions	78,920,013	64,493,356	57,394,572
Publication Expenses	75,400	104,522	110,266
Advertising Expenses	43,445,257	44,139,563	52,136,503
Export Expenses	3,493,377	2,384,018	1,402,726
Expenses of Allowance for Doubtful Accounts	911,435	2,323,054	1,767,983
Miscellaneous Expenses	641,336	590,217	729,448
Operating Income or Loss	85,761,283	74,764,287	90,825,100
Non-Operating Revenues	95,022,612	283,305,985	89,622,415
Interest Income	12,201,882	10,495,919	8,371,694
Dividend Income	2,859,050	2,718,776	2,188,402
Gains on Foreign Currency Translation	65,784	34,709	118,453
Gains on Disposition of Short-term Investment Securities	126,558	25,966	46,404
Gains on Sale of Property, Plant and Equipment	1,967,376	1,198,205	514,619
Gains on Valuation of Equity Method Securities	67,213,187	78,687,790	69,514,456
Gains on Disposition of Long-term Investment Securities	20	277,857	5
Gains on Sale of Equity Method Securities	342,995	177,516,912	0
Miscellaneous Income	10,245,760	12,349,852	8,868,381
Non-Operating Expenses	28,205,621	15,764,173	16,789,427
Interest Expenses	14,933	15,671	22,583
Donations	2,263,714	2,449,798	2,169,431
Service Fees	4,042,287	3,494,767	3,530,564
Losses on Foreign Currency Translation	130,739	68,149	64,806
Losses on Sale of Property, Plant and Equipment	147,742	109,879	490,864
Losses on Disposition of Long-term Investment Securities	0	0	4
Impairment Losses on Long-term Investment Securities	0	60,667	1,477,719

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Losses on Valuation of Equity Method Securities	13,922,455	5,130,112	6,296,029
Losses on Sale of Equity Method Securities	768,616	0	0
Additional Payments of Income Taxes	0	87,577	0
Losses on Prior Period Adjustments	0	0	595,323
Miscellaneous Losses	6,915,135	4,347,553	2,142,105
Income Loss Before Income Taxes Expenses	152,578,274	342,306,099	163,658,087
Income Taxes Expenses	43,587,145	92,967,296	64,446,880
Net Income or Loss	108,991,129	249,338,803	99,211,207
Earnings or Losses Per Share			
Basic and Diluted Earnings or Losses Per Share	77	177	70

2) Footnotes on Financial Statements

1. Long-term/ short-term investment securities (excluding investment securities using the equity method)

(1) Composition of long-term/ short-term investment securities

The composition of long-term/ short-term investment securities for the current and previous terms is as follows:

(Units: KRW 1 mil)

Item	Current Term	Previous Term
[Short-term Investment Securities]		
Marketable Securities (government & public bonds)	261	595
[Long-term Investment Securities]		
Marketable Securities (equity securities)	303,217	274,194
Marketable Securities (government & public bonds)	2,885	2,961
Subtotal	306,072	277,155
Total	306,333	277,750

(2) Marketable securities (equity securities)

As of the end of the current and previous terms, all of the equity securities among the marketable securities have been categorized into long-term investment securities of investment assets. The details are

① Current term

(Units: KRW 1 mil)

Company Name	Current Term				Previous Term	
	No. of Equity	Equity Ratio (%)	Acquisition Cost	Fair Value or Net Asset Value	Book Value	Book Value
[Marketable Equity Securities]						
Lotte Chilsung (common stock)	122,195	9.88	1,358	128,183	128,183	171,073
Lotte Chilsung (preferred stock)	9,660	8.05	176	5,844	5,844	6,665
Lotte Samgang	123,226	9.79	989	26,555	26,555	20,456
Busan Bank	4,217,771	2.88	21,002	66,219	66,219	48,926
Shinhan Financial Holding	400,012	0.10	2,339	21,401	21,401	19,001
Other	18,074	-	204	806	806	639
Subtotal			26,068	249,008	249,008	266,760

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[Non-marketable Equity Securities]						
Lotte Corporation (*1)	12,984	0.02	18	223	223	18
Korea Fuji Film (*1)	1,250	0.89	41	4,029	4,029	41
Lotte Station Building (*1)	319,200	8.87	1,596	45,480	45,480	1,596
Lotte Fresh Delica (*1,4)	340,000	9.04	1,700	632	632	836
Lotte Giants (*3)	6,000	30.00	30	-	30	30
Lotte Philippines (*4)	-	10.00	664	-	-	-
Lotte Vietnam (*2)	-	-	-	-	-	-
Lotte Packaging Co., Ltd. (*2)	-	-	-	-	791	291
Lotte Taiwan (*3)	11,400,000	50.00	3,421	1,668	3,421	3,421
Lotte Food Holding (*2)	-	-	-	-	-	16
Social Development Research Center (*4)	2,000	1.67	10	-	-	-
Other	63,002	-	436	292	349	349
Subtotal			7,916	52,324	54,164	7,389
[Investment]						
Two investments including Korea Test Analysis Lab	-	-	45	45	45	45
Total			34,029	301,377	303,217	274,194

Of the above equity securities, the marketable equity securities were assessed with the closing prices of the balance sheet end date for the current term, but we could not do a reliable assessment of fair value for the non-marketable securities, except for those mentioned below, and thus we used acquisition costs for the valuation.

(*1) The fair value of the above-mentioned non-marketable equity securities were calculated as stipulated in the 'Accounting Process for Non-listed Stocks of the Statement on Financial Reporting (2006-5)', and the profit and loss from the valuation was recognized as other accumulated profit and loss.

① Assessment details

Item	Description
Credit Rating Agency	Korea Bond Pricing & KR
Assumptions & Conditions	Although the business details, past performance, and future prospects of the company, and the impact that the macro-economy and industrial environment would have on the company were considered, verification of the company's past financial data was not carried out.
Analysis of Non-financial Information	Analysis was done regarding the corporate profile, shareholder status, industry status and operating status.
Analysis of Financial Information	Analysis was done regarding growth potential, profitability, financial stability, cash flow and liquidity.

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Valuation Method	Fair value was calculated by assessing the equity distribution using the discounted cash flow valuation model and IMV model.
Validity of Valuation Method & Application Procedure	The discounted cash flow valuation model is an assessment method mentioned in the Statement on Financial Reporting (2006-5), and the IMV model, a compromise valuation intended to supplement the disadvantages of the discounted cash flow valuation and the relative valuation model, is a widely used business valuation method.

② Value per share

(Units: KRW)

Company name	Amount
Lotte Corporation	17,150
Korea Fuji Film	3,223,428
Lotte Station Building	142,481
Lotte Fresh Delica	1,860

(*2) For Lotte Vietnam, Lotte Package. Co., Ltd. and Lotte Food Holding, equity ratio changes in their investors were considered important, and thus the equity method was applied, starting in the current term.

(*3) The equity ratios of Lotte Giants and Lotte Taiwan were over 20%. However, as changes in net asset value were not important, the equity method was not applied to these companies.

(*4) The net asset values of Lotte Fresh Delica, Lotte Philippines and the Social Development Research Center decreased in the previous term. It was decided that the possibility of recovery was slim, so the difference between acquisition value and net asset value were listed as impairment losses.

(3) Marketable securities (debt securities)

As of the end of the current and previous term, debt securities among the marketable securities were composed of government and public bonds, and the details are as follows:

(Units: KRW 1 mil)

Item	Current Term			Previous Term	
	Company Name	Maturity	Fair Value	Book Value	
[Short-term Securities]					
Government Bonds & Public Bonds	National Housing Bonds, etc.	Less than 1 year	261	261	595
[Long-term Securities]					
Government Bonds & Public Bonds	National Housing Bonds	1 year ~ 5 years	2,784	2,784	2,875
		5 years~10 years	71	71	86
Subtotal			2,855	2,855	2,961
Total			3,116	3,116	3,556

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(4) Unrealized profits and losses

The changes in unrealized holding profits and losses of marketable securities for the current and previous terms are as follows:

(Units: KRW 1 mil)

Item	Current Term		Previous Term	
	Equity Securities	Debt Securities	Equity Securities	Debt Securities
Basic unrealized holding profits & losses	240,692	(117)	194,493	92
Realized profits & losses from disposition and reduction	-	(125)	-	(25)
Other changes in unrealized holding profits & losses	30,121	42	46,199	(184)
Unrealized holding profits & losses at term end	270,813	(200)	240,692	(117)
Corporate tax effect	(74,474)	55	(66,190)	32
Balance after deduction	196,339	(145)	174,502	(85)

2. Shares invested using the equity method

(1) Current term

① The status of equity ratio of shares invested using the equity method is as follows:

(Units: KRW 1 mil)

Companies Invested	Equity Ratio (%)	Acquisition Cost	Net Asset Value	Book Value
Lotte China Foods	35.96	24,128	15,449	15,449
Lotte Pharm	100.00	6,286	2,886	2,881
Lotte India	80.39	22,354	8,347	11,459
Lotte Qingdao Foods	90.00	16,769	21,631	17,418
Lotte Package Co., Ltd. (*1)	25.00	4,442	4,693	4,509
Lotte Food Holding (*1)	100.00	46,473	45,106	45,106
Lotte KF Rus	100.00	20,665	19,690	19,690
Lotteria	12.14	6,949	22,053	26,484
Lotte Shopping (*2)	8.52	5,644	701,353	695,193
Lotte Data Communication (*2)	4.84	802	12,872	14,707
Lotte Trading (*2)	0.64	335	1,629	1,051
Lotte.com (*2)	11.25	2,500	2,901	2,901
Korea Seven (*2)	19.65	22,207	9,884	9,785
ZAO Lotte Rus (*2)	13.85	10,764	9,877	9,877
Lotte Vietnam	35.71	4,467	1,704	4,467
Lotte Logistics (*2)	4.64	4,000	4,997	4,000
Total		198,785	885,072	884,977

The Company sold off all equities in Lotte Shanghai Foods, Co., Ltd. during the current term.

(*1) The Company participated in the capital increase of Lotte Package Co., Ltd. and Lotte Food Holding. As changes in invested equities when applying the equity method are important, we began to use the equity method starting in this term.

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(*2) The Company's equity ratios for these companies are less than 20%. However, the equity method was used for assessment, since the Company can exercise significant influence on invested companies in which the registered executive members also belong to the Company's management team.

② Investment differences were handled as follows:

(Units: KRW 1 mil)

Company Name	Starting Balance	Current-term Increase/ Decrease	Write-down (return)	Ending Balance
Lotte China Foods	97	(10)	87	-
Lotte India	5,858	-	2,603	3,255
Lotte Qingdao Foods	(4,866)	487	(175)	(4,204)
Lotte Shanghai Foods, Co., Ltd.	522	(495)	27	-
Lotte Package Co., Ltd.	-	(217)	(33)	(184)
Lotte Trading	(561)	(334)	(179)	(716)
Lotte.com	(3)	-	(3)	-
ZAO Lotte Rus	210	-	210	-
Lotte Vietnam	-	2,763	-	2,763
Lotte Logistics	-	(997)	-	(997)
Total	1,257	1,197	(2,537)	(83)

③ Unrealized profits and losses were eradicated as follows:

(Units: KRW 1 mil)

Company Name	Inventory	Bad debt Reserve	Total
Lotte Pharm	(5)	-	(5)
Lotte India	(146)	3	(143)
Lotte Qingdao Foods	(9)	-	(9)
Lotte Shopping	(303)	-	(303)
Korea Seven	(99)	-	(99)
Total	(562)	3	(559)

④ The following are the valuation details for each investment using the equity method of accounting.

(Units: KRW 1 mil)

Company Name	Starting Appraisal Value	Acquisition, etc.	Equity Profits & Losses on Investments	Capital Change on Equity Method	Other Increase/ Decrease (*1)	Ending Appraisal Value
Lotte China Foods (*2)	16,417	-	(2,396)	1,085	343	15,449
Lotte Pharm	3,971	-	(1,090)	-	-	2,881
Lotte India	13,692	-	(3,210)	977	-	11,459
Lotte Qingdao Foods	15,287	-	(1,093)	3,224	-	17,418
Lotte Shanghai Foods Co., Ltd.	20,158	3,756	(27)	-	(23,887)	-
Lotte Package Co., Ltd.	-	4,442	32	35	-	4,509
Lotte Food Holding	-	46,473	(4,090)	2,723	-	45,106
Lotte KF Rus	-	20,665	(2,016)	1,041	-	19,690

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Lotteria	22,817	-	3,026	641	-	26,484
Lotte Shopping (*2)	638,312	-	58,844	1,130	(3,093)	695,193
Lotte Data Communication	11,970	-	2,707	30	-	14,707
Lotte Trading	766	-	294	(9)	-	1,051
Lotte.com	1,908	-	993	-	-	2,901
Korea Seven	9,218	-	567	-	-	9,785
ZAO Lotte Rus	8,425	-	750	702	-	9,877
Lotte Vietnam	-	4,467	-	-	-	4,467
Lotte Logistics	-	4,000	-	-	-	4,000
Total	762,941	83,803	53,291	11,579	(26,637)	884,977

(*1) Other increases / decreases include dividends from invested companies and profits or losses from the sales of the equity in invested companies.

Since audited financial statements of the above-mentioned invested companies were not available, the equity method was applied using provisional financial statements, and the Company carried out a verification procedure on the reliability of the provisional financial statements.

⑤ The summary of financial information concerning invested companies using the equity method is as follows:

(Units: KRW 1 mil)

Company Name	Total Assets	Total Liabilities	Sales	Net Income (Loss)
Lotte China Foods	67,004	24,042	77,157	(6,422)
Lotte Pharm	13,131	10,245	19,066	(1,076)
Lotte India	25,567	15,183	35,455	(802)
Lotte Qingdao Foods	27,246	3,211	8,892	(1,449)
Lotte Package Co., Ltd.	20,198	1,424	6,548	140
Lotte Food Holding	45,120	14	-	(4,090)
Lotte KF Rus	21,065	1,375	1,391	(2,016)
Lotteria	297,359	115,700	240,415	5,818
Lotte Shopping	11,954,766	3,722,925	9,768,132	689,451
Lotte Data Communication	444,565	147,470	251,636	44,223
Lotte Trading	941,474	661,526	802,580	19,697
Lotte.com	63,669	37,891	230,926	10,299
Korea Seven	271,541	221,248	551,608	3,068
ZAO Lotte Rus	310,965	239,628	10,101	3,854
Lotte Vietnam	6,167	1,397	3,133	(2,475)
Lotte Logistics	157,761	50,061	28,421	(6,721)

⑥ The market prices of marketable shares invested using the equity method are as follows:

(Units: KRW 1 mil)

Company name	Market price	Book value
Lotte Shopping	1,021,986	695,193
Lotte India	32,564	11,459

Financial Status

(2) Previous term

① The equity ratio status of shares invested using the equity method is as follows:

(Units: KRW 1 mil)

Companies Invested	Equity Ratio (%)	Acquisition Cost	Net Asset Value	Book Value
Lotte China Foods	39.96	24,128	16,320	16,417
Lotte Pharm	100.00	6,286	3,964	3,971
Lotte India	80.39	22,354	8,016	13,692
Lotte Qingdao Foods	100.00	16,769	20,197	15,287
Lotte Shanghai Foods Co., Ltd. (*1)	100.00	20,417	19,636	20,158
Lotteria (*2)	12.14	6,949	20,347	22,817
Lotte Shopping (*2)	8.52	5,644	640,367	638,312
Lotte Data Communication (*2)	4.84	802	12,172	11,970
Lotte Trading (*1, 2)	0.64	335	1,328	766
Lotte.com (*2)	11.25	2,500	1,911	1,908
Korea Seven (*2)	19.65	22,207	9,282	9,218
ZAO Lotte Rus (*2)	13.85	10,764	8,215	8,425
Total		139,155	761,755	762,941

(*1) The Company established Lotte Shanghai Foods Co., Ltd. on September 18, 2006 in order to penetrate the Chinese chocolate market, and acquired assets such as plant and machinery at auction. Also, the date of the merger of Lotte Trading (formerly Lotte Trading which has been terminated) by Lotte Trading (formerly Lotte Industry) was set for the end of 2006.

(*2) Although the Company's equity ratios for these companies were less than 20%, the equity method was used for assessment because the Company can exercise significant influence on invested companies whose registered executive members also belong to the Company's management team.

② Investment differences were handled as follows:

(Units: KRW 1 mil)

Company Name	Starting Balance	Changes over the Term	Write-down (Return)	Ending Balance
Lotte China Foods	193	-	96	97
Lotte Pharm	(119)	-	(119)	-
Lotte India	8,462	-	2,604	5,858
Lotte Qingdao Foods	(5,060)	-	(194)	(4,866)
Lotte Shanghai Foods Co., Ltd.	-	549	27	522
Lotte Trading	-	(561)	-	(561)
Lotte.com	(6)	-	(3)	(3)
ZAO Lotte Rus	682	-	472	210
Total	4,152	(12)	2,883	1,257

The Company calculated the investment difference for Lotte Trading by setting the acquisition date as December 31, 2006.

Financial Status

③ The internal unrealized profits and losses using the equity method were generated from inventories and were eradicated as follows:

(Units: KRW 1 mil)

Company name	Amount
Lotte Pharm	7
Lotte India	(182)
Lotte Qingdao Foods	(44)
Lotte Shopping	(250)
Lotte Trading	(1)
Korea Seven	(64)
Total	(534)

④ The following are the valuations of investments using the equity method.

(Units: KRW 1 mil)

Company Name	Starting Appraisal Value	Acquisition, etc.	Equity Profits & Losses on Investments	Capital Change on Equity Method	Other Changes	Ending Appraisal Value
Lotte China Foods	15,600	-	1,630	(813)	-	16,417
Lotte Pharm	5,869	-	(1,898)	-	-	3,971
Lotte India	16,727	-	(2,515)	(520)	-	13,692
Lotte Qingdao Foods	16,867	-	(438)	(1,142)	-	15,287
Lotte Shanghai Foods Co., Ltd.	-	20,417	(148)	(111)	-	20,158
Lotteria	17,769	-	5,406	(358)	-	22,817
Lotte Shopping	399,486	-	62,223	942	175,661	638,312
Lotte Data Communication	4,029	-	7,959	(18)	-	11,970
Lotte Trading	849	50	(132)	(1)	-	766
Lotte.com	657	-	1,251	-	-	1,908
Korea Seven	9,045	-	173	-	-	9,218
ZAO Lotte Rus	8,353	-	47	25	-	8,425
Total	495,251	20,467	73,558	(1,996)	175,661	762,941

(*1) Other increases/ decreases include the KRW 1,856 mil decrease due to dividends and the KRW 177,517 mil difference resulting from changes in equity due to Lotte Shopping's paid-up capital increases on February 9, 2006 and March 16, 2006.

Since audited financial statements of the above-mentioned invested companies were not available, the equity method was applied using provisional financial statements, and the Company carried out a verification procedure on the reliability of the provisional financial statements.

Financial Status

⑤ The following is the summary of financial information concerning invested companies.

(Units: KRW 1 mil)

Company Name	Total Assets	Total Liabilities	Sales	Net Income (Loss)
Lotte China Foods	58,664	17,821	75,350	4,319
Lotte Pharm	14,266	10,302	22,793	(2,074)
Lotte India	18,342	8,371	27,373	255
Lotte Qingdao Foods	24,379	4,181	10,099	(669)
Lotte Shanghai Foods Co., Ltd.	23,871	4,235	118	(120)
Lotteria	261,289	93,639	218,406	35,406
Lotte Shopping	11,872,314	4,356,461	9,055,880	739,844
Lotte Data Communication	401,184	149,531	207,163	137,385
Lotte Trading	865,639	658,286	45,104	(2,512)
Lotte.com	63,669	37,891	230,926	10,299
Korea Seven	227,267	180,037	507,561	968
ZAO Lotte Rus	207,303	148,080	21	3,743

⑥ The market prices of marketable shares invested using the equity method are as follows:

(Units: KRW 1 mil)

Company name	Market price	Book value
Lotte Shopping	955,174	638,312
Lotte India	19,285	13,692

3. Joint venture investment

The following are the joint ventures in which the Company participated as of the end of the current term:

Joint Venture Name	Equity Ratio (%)	Type	Ref
Lotte Academy	35.00	Co-governance project	Participating companies: Lotte Shopping (35%), Lotte Chilsung (25%), Lotte Ham (5%)
Kukje Building	27.00	Co-governance project	Participating companies: Honam Petrochemical Corporation (40%), Lotte Shopping (6%), Lotte Hotel (20%), Lotte Chilsung (7%), etc.

4. Tangible assets

(1) Changes in tangible assets for the current term are as follows:

(Units: KRW 1 mil)

Item	Starting Book Value	Acquisition Value (including capital spending)	Disposal Value	Depreciation Expenses	Other Increase/Decrease	Ending Book Value
Land	261,068	12	(1,397)	-	2,036	261,719
Buildings	95,192	137	(349)	(10,118)	5,098	89,960
Structures	1,159	36	(9)	(263)	1,255	2,178
Machinery	55,612	3,079	(163)	(28,472)	21,973	52,029
Vehicles	4,419	5,772	(23)	(4,207)	354	6,315

Financial Status

Other Tangible Assets	15,654	10,152	(31)	(11,919)	1,016	14,872
Assets Under Construction	6,013	30,202	(210)	-	(31,732)	4,273
Total	439,117	49,390	(2,182)	(54,979)	-	431,346

(2) Changes in tangible assets during the previous term are as follows:

(Units: KRW 1 mil)

Item	Starting Book Value	Acquisition Value (including capital spending)	Disposal Value	Depreciation	Other Increase/Decrease	Ending Book Value
Land	220,259	858	(20)	-	39,971	261,068
Buildings	93,923	126	(56)	(10,188)	11,387	95,192
Structures	1,207	10	(3)	(408)	353	1,159
Machinery	55,515	2,583	(76)	(27,969)	25,559	55,612
Vehicles	4,918	3,875	(529)	(3,855)	10	4,419
Other Tangible Assets	13,209	11,311	(34)	(10,828)	1,996	15,654
Assets Under Construction	4,934	80,432	(77)	-	(79,276)	6,013
Total	393,965	99,195	(795)	(53,248)	-	439,117

(3) The officially assessed land prices held at the end of the current and previous terms are as follows:

(Units: KRW 1 mil)

Category	Item	Space (m ²)	Current Term		Previous Term	
			Book Value	Officially Assessed Price	Book Value	Officially Assessed Price
Tangible Assets	Land	489,132	261,719	356,733	261,068	324,360

5. Insured assets

The details of the Company's insured assets as of the end of the current term are as follows:

(Units: KRW 1 mil)

Insurance Type	Asset	Coverage	Insurance Company
Indemnity Insurance for Gas Accidents	-	4,180	LIG Insurance, etc.
Fire Insurance	Building, machinery, inventory	6,476	
Property Insurance	Building, machinery, inventory	1,061,788	
Insurance for Movables	Inventory	13,990	
Pilferage Insurance	Cash, etc.	1,030	
Total		1,087,464	

In addition to the above-mentioned insurance, the Company has liability insurance and comprehensive insurance to cover vehicles and indemnity & liability insurance to cover the actions of executive members.

- Balance sheet, profit & loss statement, earned surplus statement/ deficit disposition statement, cash flow statement, capital change statement