

LOTTE CONFECTIONERY



FINANCIAL REPORT 2009



LOTTE CONFECTIONERY CO., LTD.

Table of contents

	Page
I . Directors' report	2
1. Company profile	3
1) Business area	3
2) Company history	
3) Corporate group	
2. Business details	5
1) Business overview	
2) Company status(domestic)	
3) Major products and raw materials	
4) Sales performance	
3. Executive and staff members	
1) Board of directors	
2) Staff members	
4. Research and development activities	
1) Overview of R&D activities	
5. Directors' report on the management	
1) Prediction for the future management	
2) Management performance	
3) Others	
II . Financial statements	14
1. Independent auditors' report	15
2. Consolidated statements of financial position	
3. Consolidated statements of income	
4. Consolidated statements of changes in stockholders' equity	
5. Consolidated statements of cash flows	
6. Notes to consolidated financial statements	

I . Directors' report

1. Company profile
2. Business details
3. Executive and staff members
4. Research and development activities
5. Directors' report on the management

In the name of the president of the company, whereby this annual report was drawn in Seoul, Korea on 00 June 2010.

President Sang Hoo Kim



1. Company Profile

1) Business Areas

Lotte Confectionery has the largest market share in the domestic dried fruit and ice cream markets, and has also been aggressively moving into overseas markets. We are working hard to become a global enterprise and have established local operations in Vietnam, Russia, India and China in order to focus our business efforts in these areas. We are also concentrating on exports for other overseas markets. In the domestic market, we have been expanding our business into areas such as the red ginseng business, with a health food brand called Health-1, and also we have been focusing on maximizing customer satisfaction through products like Natuur, our premium ice cream brand. We will continue to strive to become the top brand in Asia.

2) Company History

(1) History

① Establishment date: Mar 24, 1967

② Head office location : #21, Yangpyeong-dong 5-ga, Yeongdeungpo-gu, Seoul, Korea

※ Major Corporate Events	
Mar 1967	Established Lotte Confectionery
Jun 1968	Opened branch offices in 5 major cities (Seoul, Busan, Daegu, Daejeon, Kwangju)
Feb 1969	Completed construction of Yeongdeungpo Plant
Oct 1969	Completed construction of Gum Base Plant (Siheung Plant)
Mar 1970	Started to operate Siheung Plant (Gum Base Production)
Dec 1971	Started gum production at Yeongdeungpo Plant
Feb 1974	Listed shares on stock exchange (16.2.1974)
Feb 1975	Started chocolate production at Yeongdeungpo Plant
Jan 1979	Completed construction of Yangsan Plant
Aug 1983	Completed construction of Pyeongtaek Plant
Jul 1984	Established branch office in LA
1988	Selected as official supplier for Olympics
Nov 1989	Recognized for export volume of USD 10 million
Dec 1989	Moved Head Office from Namyeong-dong to 23 Yangpyeong-dong 4-ga, Yeongdeungpo-gu
May 1991	Opened Welfare Center in Yeongdeungpo Plant
Mar 1992	Opened Lotte Industrial College
Dec 1992	Established branch office in Beijing
Jul 1994	Established LOTTE CHINA FOODS CO., LTD.
Feb 1995	Established Lotte Philippines Joint Venture
Jul 1995	Established branch office in Moscow
Dec 1995	Recognized for export volume of USD 50 million
Apr 1996	Completed construction of Daejeon Plant
Apr 1997	Acquired ISO9001
Nov 1997	Established Gimhae Logistics Center
Apr 1998	Launched premium ice cream Natuur
Sep 1998	Completed construction of Vietnam Plant for chewing gum production and started sales
Dec 1999	Opened PI Integrated Information System
Dec 2002	Achieved sales of KRW 1 trillion, a record in the domestic Confectionery industry
May 2004	Acquired 80% of Parys' shares (in India) (currently Lotte India Co., LTD.)
Mar 2005	Acquired 100% of Lotte Qingdao Foods Co., LTD.
Apr 2005	Established Lotte Taiwan Co., LTD.
Dec 2006	Established Lotte Food Holding Co., Limited
Apr 2007	Established Lotte KF Rus Llc.
Mar 2008	Acquired 100% of BIBICA Corporation
Apr 2008	Acquired 100% of 산동평청냉음유한공사
Jul 2008	Acquired 100% of Chocolaterie Guylian N.V.
Aug 2008	Established 인디아 제 2 법인 설립
Dec 2009	Acquired 100% of (주) 기린.

③ Major changes in the management

Mar 2006 CEO Han Su-gil resigned and Kim Sang-hu took office as new CEO

Lee Eun-hak and Kim Seung-bae were newly appointed as directors.

Mar 2007 Outside Director Lim Gyeom-mo completed term and resigned, Chae Su-gyu was newly appointed.

Mar 2008 Directors Kim Yong-taek, **Lee Eun-hak** and Kim Seung-bae resigned, Outside Director Hong Seong-dae completed term and resigned. 3 new Outside Directors Kim Chang-seob, Park Hyeon-jin and Jeon Sin-ke were appointed to act as inspection commissioners

Mar 2009 사내이사 3명 재선임- 김상후(대표이사), 신동빈(대표이사), 신격호

3) Corporate Group

(1) Name of Corporate Group

① Name of corporate group: Lotte Group

② Group owner: Shin, Gyeok-ho

③ Major business areas: Food, Logistics, Chemical, Finance

④ Main company and main focus companies: Lotte Confectionery, Lotte Chilsung, Lotte Shopping, Hotel Lotte, Honam Petrochemical Corporation

(2) Companies Affiliated With Corporate Group

: 56 companies (8 listed companies, 48 non-listed companies)

[Listed companies]: 8 companies

Industry	Name	Total
Food	Lotte Confectionery, Lotte Samgang, Lotte Chilsung	3 companies
Petrochemical	Honam Petrochemical Corporation, KP Chemical	2 companies
Logistics	Lotte Shopping, Lotte Midopa	2 companies
Finance	Lotte Property insurance	1 companies

[Non-listed companies]: 48 companies

Industry	Name	Total
Food, Medical	Lotte Ham, Lotteria, Lotte Fresh Delica, Lotte Boulangerie, Lotte Pharm, Cinema Commerce, Wellga, Sanjung Beverage, ChangDae Tongsang, (주)롯데주류비지, 씨에이치음료(주), 롯데와인판매(주)	12 companies
Tourism, Leisure	Hotel Lotte, Lotte Giants, Busan Lotte Hotel, Lotte Corporation, Lotte JTB, D-Cinema of Korea, Lotte City Hotel, Lotte Jeju Resort, Lotte Buyeo Resort	9 companies
Logistics	Lotte Trading, Lotte Station Building, Lotte Logistics, Korea Seven, Lotte.com, Lotte Asahi, Woori Home Shopping	7 companies
Petrochemical	Sitek, KPchemtech, Daesan MMA, (주)삼박, 삼박엘에프티(주)	5 companies
Chemical	Korea Fuji Film, Hao Technical	2 company
Machinery, Electronics	Lotte Aluminum, Canon Korea Business Solution	2 companies
Construction	Lotte Engineering & Construction	1 company
Real estate development	Lotte Asset Development	1 company
Advertising	Daehong Communications	1 company
Information communications	Lotte Data Communication, (주)마이비, 부산하나로카드(주)	3 company
Clothing	FRL Korea	1 company
Finance	Lotte Capital, Lotte Card, KI Bank	3 companies
Energy supply	Cheongna Energy	1 company

2. Business details

1) Business Overview

(1) Industry trends

The Confectionery industry is a typical consumer goods industry with a wide spectrum of consumers and has shown consistent demand. However, its growth has slowed down due to food diversity and a reduction in population growth. As business conditions have worsened because of competition from overseas brands and food services and an increase in raw material prices, businesses are focusing on producing high-quality confections and developing healthy and functional foods.

(2) Growth Potential of Industry

The Confectionery industry has been growing consistently based on stable demand. However, the market has recently become somewhat stagnant due to a reduction in the population of children, the major Confectionery consumers, and increased demand for high-quality and health foods due to higher national income. However, the industry is seeking new growth opportunities by producing health or functional foods.

(3) Characteristics of Economic Cycle

The industry is not greatly affected by the economic cycle compared with other industries. However, the recent economic recession and consumption slowdown have had some effect on the growth of the Confectionery industry. In addition, seasonal weather changes have an impact on fluctuations in demand.

(4) Competition Factors

A number of domestic and overseas confectioners are in competition, but 4 major companies make up most of the Korean market. These companies focus on product research to satisfy domestic consumers' tastes, invest in facilities and have strong sales forces. Recently, domestic confectioners have been in fierce competition with their overseas counterparts because of consumers' demand for a greater variety of foods and the increased interest in food safety and healthy foods. Therefore, developing high-quality foods to satisfy changing consumer trends has become more important than ever.

(5) Characteristics of Raw Material Procurement

As Confectionery goods are highly dependent on imported raw materials, rising prices of grain, dairy products and raw materials including oil have a great influence on corporate profitability. Therefore, companies are required to constantly monitor raw material prices so that they can procure them at the right time.

(6) Relevant Laws and Regulations

The Confectionery industry is subject to laws and regulations related to food hygiene, consumer protection, tariffs on imported raw materials, fair trade rules for business management, product liability, Waste separation labeling and resource recycling, etc. Also, it is likely that civic groups will enhance monitoring because of the growing interest of consumers in food hygiene.

2) Company Status (domestic)

(1) Operating Status (43 기주총자료)

The business environment is becoming tougher because of rising major raw material prices and the heavy dependence on large distributors. It is expected that the situation will become more difficult because of increased costs due to fierce competition between domestic and overseas food makers, strengthened food-related regulations and the diverse consumer demand that reflects the recent well-being trends. The Confectionery market has become stagnant due to the low childbirth rate and the aging population. Despite such conditions, the Company achieved net sales of KRW 1,316.8 bil, a 5.8% increase from the previous year. To ensure continuous growth, it is pursuing the development of new distribution channels and overseas businesses in China, India, Vitenam and Russia.

In addition to these efforts, the Company will consolidate its No.1 status in the domestic market by developing new high quality products and expanding its market for health and functional foods. Furthermore, it will become a No. 1 global food maker in Asia in the 21st century based on its existing and new overseas businesses.

(2) Market Characteristics

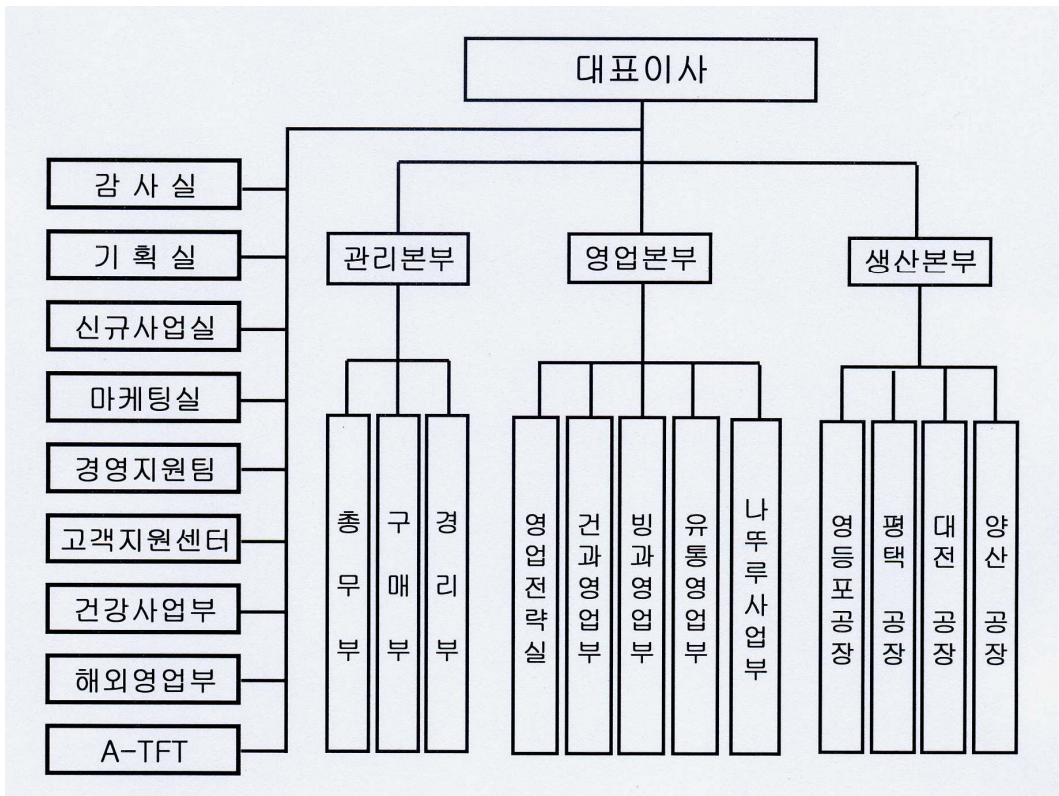
The Confectionery market is highly dependent on domestic demand and competition is getting fiercer among the domestic players and the foreign companies that have penetrated the Korean market. Because of the continuous expansion of new distribution channels such as large discount stores, the share of the smaller and larger shops has dropped. Therefore, negotiating power with large discount stores has become an important factor in the competition.

The population of children, the major Confectionery consumers, is decreasing and has resulted in stagnation in the market. However, as consumer needs for food safety and health foods have become more diverse and stronger, developing health and functional foods has become a new issue for confectioners.

(3) Projections For New Business Areas

The Company is constantly seeking ways to penetrate new business areas and markets in order to overcome the stagnant growth of the existing Confectionery market.

(4) Organizational Chart (영문으로 변경 예정)



3) Major Products and Raw Materials

(1) Details of major products

(Units:KRW 1 mil)

Business area	Sales type	Item	Specific purchase	Major brand name, etc.	Sales (%)	
Food manufacturing & Sales distribution	Product	Chewing gum	Domestic sales	Xylitol, Flavono, etc.	167,322 (12.7%)	
		Candy	&	Anytime, Herb Throat Candy, etc.	57,236 (4.3%)	
		Biscuits	Exports	Custard, Magaret, etc.	221,431 (16.8%)	
		Chocolate		Pepero, Ghana, etc.	279,879 (21.3%)	
		Ice Cream		World Cone, Seol-Lae-lm, etc.	341,924 (26.0%)	
		Other		Kko Kkal Corn, Cheetos, etc.	72,917 (5.5%)	
		Subtotal			1,140,709 (86.6%)	
	Other products	Ice Cream		Joo-Mool-Lu, Precious Bar, etc.	25,385 (1.9%)	
		Other		Vegetable Cracker, Choco Rice Cake, Rental revenues, etc.	150,692 (11.4%)	
		Subtotal			176,077 (13.4%)	
	Total					1,316,786 (100.0%)

(2) Price fluctuation of major products

(Units: Domestic ₩, Exports \$)

Item		2009	2008	2007
Custard	Domestic	1,824 / pack	1,824 / pack	1,672 / pack
Atlas	Domestic	380 / pack	380 / pack	380 / pack
Scotch Candy	Domestic	1,140 / pack	912 / pack	760 / pack
5 Stick	Export	38.5 / Box	38.5 / Box	38.5 / Box
Spout	Export	32.3 / Box	32.3 / Box	32 / Box
Choco Pie	Export	7.0 / Box	7.0 / Box	6.9 / Box
Custard	Export	9.6 / Box	9.6 / Box	9.6 / Box

(A) Calculation rule

: Consumer price * 76% (Consumer price based on term end price)

(B) Major reason for price changes

- ① Domestic: raw material cost increase
- ② Export: unit cost increase for some products

4) Sales performance

(Units: Ton, KRW 1 mil/US\$ 1)

Business area	Sales type	Item	2009		2008		2007		
			Weight	Amount	Weight	Amount	Weight	Amount	
Food manufacturing & Sales	Products	Gum, Candy	Export	1,724	20,294	1,739	19,496	1,524	16,564
			Domestic	18,259	214,966	19,278	216,113	19,628	213,303
			Total	19,983	235,260	21,017	235,609	21,152	229,867
		Biscuits, Chocolate	Export	5,909	45,116	5,024	35,407	4,157	25,943
			Domestic	68,499	522,997	66,876	471,353	70,722	441,397
			Total	74,408	568,113	71,900	506,760	74,879	467,340
		Ice cream, etc.	Export	1,268	6,602	853	4,113	616	2,441
			Domestic	93,491	506,811	99,206	498,264	107,798	434,526
			Total	94,759	513,413	100,059	502,377	108,413	436,967
Total		Export	8,901	72,012	7,616	59,016	6,297	44,948	
		Domestic	180,249	1,244,774	185,360	1,185,730	198,148	1,089,226	
		Total	189,150	1,316,786	192,976	1,244,746	204,445	1,134,174	

3. Executive and staff members

1) Board of Directors

As the end of 2009, the company has 7 directors consist of 3 standing directors and 4 non-standing directors.

Job title (Standing/ non-standing)	Name	Date of birth	Responsible area	Ref
Representative Director (Standing)	Kim Sang-Hoo	26.02.1950	Management	Appointed on Mar 24, 2009
Representative Director (Standing)	Shin Dong-bin	14.02.1955	Management	Appointed on Mar 24, 2009
Director (Standing)	Shin Gyeok-ho	04.10.1922	-	Appointed on Mar 24, 2009
Outside Director (Non-Standing)	Chae, Su-gyu	09.09.1950	Outside Director	Appointed on Mar 16, 2007
Outside Director (Non-Standing)	Jeon Shin-gi	09.07.1951	Outside Director (Audit Committee member)	Appointed on Mar 21, 2008

Outside Director (Non-Standing)	Kim Chang-seop	02.11.1947	Outside Director (Audit Committee member)	Appointed on Mar 21, 2008
Outside Director (Non-Standing)	Park, Hyeon-jin	27.09.1958	Outside Director (Audit Committee member)	Appointed on Mar 21, 2008

2) Staff members

(Units: KRW 1,000, people)

Item	Number of employees				Avg employ ment years	Annual salary total	Avg salary per person	Ref
	Adminis trative	Sales	Other	Total				
	220	2,914	1,458	4,592	8.8	155,953,291	33,962	

4. Research and Development Activities

1) Overview of R & D Activities

(1) R & D Organization

Lotte Central R & D Center is in charge of R & D activities. The Center Chief leads the research support team, the 1st Lab (basic development, analysis, health & functional food research, packaging research) and the 2nd Lab (research on chewing gum, candy, snack, bakery, pie, choco, ice cream, etc.)

(2) R & D Cost

(Units: KRW 1 mil)

Item	2009	2008	2007	Ref
Raw material	296	241	183	
Labor	4,646	4,306	4,000	
Depreciation	650	579	506	
Outsourcing	-	-	-	
Other	130	140	141	
Total	5,722	5,266	4,830	
Accounting	Sales & administrative expenses	-	-	-
	Manufacturing expenses	5,722	5,266	4,830
	Development cost (intangible asset)	-	-	-
Ratio of R & D cost to sales [Total R & D cost ÷ Sales for the year × 100]	0.43%	0.42%	0.43%	

(3) R & D performance

R & D project	Organization in charge	Research outcome & expected effects	Product name
Chewing gum	Lotte Central R & D Center	Satisfying customer needs and expanding market share	ID gum
Snack	Lotte Central R & D Center	Satisfying customer needs and expanding market share	Pure smile
Snack	Lotte Central R & D Center	Satisfying customer needs and expanding market share	Brown rice potato
Health food	Lotte Central R & D Center	Satisfying customer needs with introducing new function	Fat slim Garcinia
Biscuits	Lotte Central R & D Center	Satisfying customer needs and expanding market share	Rice cheese finger
Pie	Lotte Central R & D Center	Satisfying customer needs and expanding market share	La Siene cheese cake

5. Directors' report on the management

1) Prediction for the future management

(1) Concept of the prediction

예측정보라 함은 회사의 재무상태나 영업실적에 중요한 영향을 미칠 수 있는 추세, 수요, 계약, 사건, 불확실성 등을 의미하며, 이미 발생한 사건이나 예견 가능한 사건으로 인한 불확실성도 포함합니다.

동 보고서 상의 예측정보는 동 보고서 작성시점을 기준으로 작성한 것으로 기재한 예측내용과 실제 결과 간에 차이가 있을 수 있습니다. 당사는 동 보고서 작성시점 이후 발생하는 현상을 반영하는 정정 보고서를 공시할 의무는 없으며, 기재한 예측정보를 갱신할 예정이 없음을 유의하시기 바랍니다.

(2) Outline

세계 전반에 걸쳐 발생한 경제 위기의 계속과 불안정한 환율에 따른 주요 원자재 가격 상승, 대형 유통업체에 대한 매출 의존도 심화 등으로 인해 2009년 당사의 영업 환경은 다소 어려웠습니다.

게다가 국내외 식품사 간의 경쟁 심화와 더욱 강화된 식품안전 관련규정, 그리고 보다 다양해진 소비자의 요구는 현재의 어려운 경영 환경이 더욱 어려워 질 것임을 짐작하게 합니다. 또한

저출산과 인구 노령화에 따른 주 소비

계층의 감소로 국내 제과시장은 전반적인 침체의 시기를 겪고 있습니다.

이처럼 어려운 여건 속에서도 당사는 총매출액 1 조 4,128 억 원을 달성하며, 전년 대비 5.6%의 성장을 이루었고, 보다 지속적인 성장을 위해 새로운 유통채널 개발은 물론 중국, 인도, 베트남 등의 아시아 지역과 더불어 러시아를 비롯한 유럽 시장을 겨냥한 해외사업 활성화를 지속적으로

추진하고 있습니다.

(3) Prediction for the future management

앞으로의 경영에 있어 당사의 재무활동 및 영업활동에 중대한 영향을 미칠 것으로 예측되는 내용들은 다음과 같습니다.

(A) 2010년 세계경제가 완만한 성장을 이룰 것으로 예측되며, 국내경제 또한 경기 회복세가 지속될 것으로 예측되고 있습니다. 이로 인하여 민간소비 역시 회복세가 지속될 것으로 예측됩니다. 이는 지출 증대로 이어져 당사에 긍정적인 영향을 미칠 것으로 기대됩니다.

(B) 2010년에는 유가가 다소 상승할 것으로 보이나, 환율은 안정될 것으로 예측되며, 이는 원자재 가격 안정으로 이어져 당사에 긍정적인 영향을 미칠 것으로 보입니다.

(C) 현재의 저출산 현상과 인구 노령화는 당사의 주 소비계층을 감소시켜 향후에도 이러한 기조가 지속될 시에는 당사의 경영에 부정적 영향을 미칠 수 있는 바

당사는 보다 다양한 연령층을 대상으로 한 신제품 개발에 지속적인 노력을 기울여 이러한 위기를 극복해 나갈 것입니다.

(D) 전체 매출에서 할인점 등의 대형유통업체가 차지하는 비중이 지속적으로 증대되고 있는바 이는 당사의 가격 협상력을 약화시키고 있습니다. 당사는 획기적이고 우수한 제품을 개발함으로써 유통업체의 수요를 증대시키고 이를 통해 가격 협상력을 회복, 강화해 나갈 것입니다.

(E) 현재 제과사업은 대형 4사가 주도하는 구조를 이루고 있으나 업체간 제품 모방 등 경쟁 강도가 강하여 향후 경쟁이 심화될 시에는 당사에 부정적인 영향을 미칠 수 있습니다. 당사는 이러한 사태를 방지하기 위하여 공정거래를 준수하는 한편 경쟁력 강화를 위한 방안을 지속적으로 마련, 시행할 것입니다.

(F) 2008년 9월 멜라민 파동 등의 영향으로 식품 안전 관련 규정이 강화되는 추세이고, 건강 기능에 대한 소비자 의식 또한 제고되었으며, 소비자 수요도 점차 다양화되고 있는 실정입니다. 이에 당사는 제품 안전성 및 품질향상을 위한 지속적인 노력을 기울일 것이며, 소비자 Needs를 충족시키기 위한 다양한 제품 개발에 힘쓸 것입니다.

(G) 당사는 안정적인 영업활동으로 튼튼한 재무구조를 유지하고 있습니다. 그러나 현재 해외법인 출자를 확대하는 등 해외사업을 확장하는 추세이므로 이는 단기적으로 당사의 비용 증대를 초래할 수 있습니다.

(H) 빙과제품의 수요는 기온·강우일수 등의 요소에 크게 영향을 받는바 기 조건은 빙과사업의 매출에 영향을 미칠 수 있습니다.

2) Management performance

당사의 지난 3 사업연도의 영업실적에 관한 자료는 다음과 같습니다.

(단위:백만원,%)

구 분	영업실적			증감율(%)	
	2007년	2008년	2009년	2008년	2009년
총매출액	1,207,213	1,338,179	1,412,781	10.8	5.6
매출에누리등	73,039	93,434	95,995	27.9	2.7
순매출액	1,134,174	1,244,746	1,316,786	9.7	5.8
매출원가	689,063	761,026	809,775	10.4	6.4
판매비와 관리비	359,349	394,065	394,752	9.7	0.2
영업이익	85,761	89,655	112,259	4.5	25.2
영업외수익	95,023	148,250	123,324	56.0	-16.8
영업외비용	28,206	80,188	94,229	184.3	17.5
법인세비용차감전순이익	152,578	157,718	141,353	3.4	-10.4
법인세비용	43,587	-20,363	45,788	-146.7	-324.9
당기순이익	108,991	178,081	95,565	63.4	-46.3

- 당사는 국내소비 침체 상황과 치열한 경쟁에도 불구하고 순매출액은 전년대비 **5.8%** 증가한 **13,168** 억을 달성하였으며 매출이 증가한 주된 원인은 건과부문의 신장에 기인합니다.
- 당사의 **2009** 년도 매출원가율은 **61.5%**로 전년대비 **0.4%P** 증가하였습니다. 이는 빠른 속도로 변화하는 시장 상황과 지속적인 경기 침체에 따른 제과업체들의 경쟁 심화현상, 그리고 환율상승에 따른 원자재 가격 상승과 인건비 상승 등으로 인한 비용 증가에 기인한 것입니다.
- 판매관리비가 소폭 증가한 것은 제과시장내 치열한 경쟁으로 인해 지급수수료 등 의 판매관련 비용이 증가하였기 때문입니다.
- 영업외수익이 감소한 것은 지분법 적용투자주식의 평가이익 및 파생상품평가이익 이 감소하였기 때문입니다.
- 영업외비용이 증가한것은 지분법 평가손실 및 파생상품 평가손실이 증가하였기 때문입니다.
- 영업외 수익의 감소와 영업외 비용의 증가로 법인세 비용 차감 전 순이익이 다소 감소하였습니다.

3) Others

2010 년도 당사는 '2018 년 아시아 No.1 제과업체'라는 비전을 달성하기 위하여 브랜드 경영체제 확립, 글로벌 ERP 등의 글로벌 스탠다드 프로세스 구축, 신성장 동력 확보에 역량을 집중할 것입니다. 또한 제품 안전성 및 품질 향상을 위한 지속적인 노력을 기울일 것이며, 환경경영 등 사회적 책임 이행을 통해 지속가능경영을 구축해 나갈 것입니다.

II. Financial statements

LOTTE CONFECTIONERY CO., LTD. AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2009 and 2008

(With Independent Auditors' Report Thereon)

	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

To the Stockholders and Board of Directors
Lotte Confectionery Co., Ltd.;

We have audited the accompanying consolidated statements of financial position of Lotte Confectionery Co., Ltd. (the "Company") and its subsidiaries as of December 31, 2009 and 2008, 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. The financial statements of Lotte Qingdao Foods Co., Ltd. and four other subsidiaries, whose assets and revenues (before elimination of intercompany transactions) in the aggregate as of and for the year ended December 31, 2009 constitute 4.28% and 6.72%, respectively, and Lotte Qingdao Foods Co., Ltd. and five other subsidiaries, whose assets and revenues (before elimination of intercompany transaction) in the aggregate as of and for the year ended December 31, 2008 constitute 3.94% and 6.19%, respectively, of the consolidated totals 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 entities, 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 Confectionery Co., Ltd. and its subsidiaries as of December 31, 2009 and 2008, 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.

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

The accompanying consolidated financial statements as of and for the year ended December 31, 2009 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.

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 notes 2(i) and 10 to the consolidated financial statements, the Company adopted the revaluation model for land in accordance with Statement of Korea Accounting Standard No. 5 *Property, Plant and Equipment*, revised January 1, 2009. The book value of land was accounted at fair value as of the date of the revaluation, December 31, 2009. According to the transitional provision to this Standard, the Company applied the accounting change prospectively and did not restate the prior period's consolidated financial statements presented for comparative purposes.

KPMG Samjong Accounting Corp.

Seoul, Korea
March 25, 2010

This report is effective as of March 25, 2010, 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 CONFECTIONERY CO., LTD.

Consolidated Statements of Financial Position

As of December 31, 2009 and 2008

<u>Assets</u>	<u>Korean Won (millions)</u>		<u>U.S. dollars</u> <u>(thousands)</u> <u>(note 3)</u>
	<u>2009</u>	<u>2008</u>	<u>2009</u>
Current assets:			
Cash and cash equivalents (notes 10 and 14)	₩ 98,266	111,400	\$ 84,161
Short-term deposits (note 4)	175,828	215,381	150,589
Short-term investments (note 6)	349	83	299
Accounts and notes receivable - trade, net of allowance for doubtful accounts of ₩4,747 million in 2009 and ₩5,768 million in 2008 (notes 9 and 14)	177,872	193,726	152,340
Other receivable	4,428	52,911	3,792
Accrued interest income	1,503	6,228	1,287
Prepayments	13,922	6,670	11,924
Prepaid expense	3,960	9,011	3,392
Inventories (notes 5 and 13)	138,955	164,208	119,009
Current deferred tax assets (note 27)	16,471	13,991	14,107
Other current assets (note 7)	5,174	1,142	4,431
Total current assets	636,728	774,751	545,331
Non-current assets:			
Long-term deposits (note 4)	754	34	646
Long-term investments (note 6)	360,530	259,539	308,779
Equity method accounted investments (note 6)	1,401,962	860,576	1,200,721
Derivative assets (note 20)	15,126	34,555	12,955
Property, plant and equipment, net of accumulated depreciation of ₩780,907 million in 2009 and ₩751,457 million in 2008 (notes 10, 13 and 18)	1,182,305	1,077,337	1,012,594
Intangible assets, net of amortization (note 11)	81,411	85,747	69,725
Long-term prepaid expenses	8,816	866	7,551
Guarantee deposits paid	26,777	23,978	22,933
Non-current deferred tax assets (note 27)	20	13,716	17
Other assets (note 12)	1	30,679	1
Total non-current assets	3,077,702	2,387,027	2,635,922
Total assets	₩ 3,714,430	3,161,778	\$ 3,181,253

See accompanying notes to consolidated financial statements.

LOTTE CONFECTIONERY CO., LTD.

Consolidated Statements of Financial Position, Continued

As of December 31, 2009 and 2008

<u>Liabilities</u>	<u>Korean Won (millions)</u>		<u>U.S. dollars</u> <u>(thousands)</u> <u>(note 3)</u>
	<u>2009</u>	<u>2008</u>	<u>2009</u>
Current liabilities:			
Accounts and notes payable - trade (notes 9 and 14)	₩ 153,342	147,125	\$ 131,331
Short-term borrowings (notes 13 and 16)	6,139	47,491	5,258
Other payables (note 14)	80,382	93,018	68,844
Accrued expense	65,253	44,779	55,886
Current portion of long-term borrowings (note 16)	2,994	719	2,564
Income taxes payable	14,981	31,048	12,831
Accrual for sales return (note 30)	15,622	13,528	13,380
Current deferred tax liabilities (note 27)	481	1,782	412
Other current liabilities (note 15)	19,758	31,060	16,922
Total current liabilities	358,952	410,550	307,428
Long-term liabilities:			
Long-term borrowings (notes 13 and 16)	7,496	201,294	6,420
Long-term debentures, net of discount of ₩996 million in 2009 and ₩412 million in 2008 (notes 14 and 17)	384,164	152,916	329,020
Guarantee deposits received	15,855	11,318	13,579
Accrual for retirement and severance benefits, net (note 19)	6,298	8,499	5,394
Non-current deferred tax liabilities (note 27)	363,090	234,212	310,971
Derivative liabilities (note 20)	57	-	49
Other non-current liabilities	6,083	3,657	5,211
Total long-term liabilities	783,043	611,896	670,644
Total liabilities	₩ 1,141,995	1,022,446	\$ 978,072

See accompanying notes to consolidated financial statements.

LOTTE CONFECTIONERY CO., LTD.

Consolidated Statements of Financial Position, Continued

As of December 31, 2009 and 2008

<u>Stockholders' Equity</u>	<u>Korean Won (millions)</u>		<u>U.S. dollars</u> <u>(thousands)</u>
	<u>2009</u>	<u>2008</u>	<u>(note 3)</u> <u>2009</u>
Stockholders' equity:			
Common stock of ₩5,000 par value			
Authorized - 3,000,000 shares			
Issued and outstanding - 1,421,400 shares (note 21)	₩ 7,107	7,107	\$ 6,087
Capital surplus (note 21)	270,185	270,993	231,402
Capital adjustments (note 22)	(12,792)	(6,753)	(10,956)
Accumulated other comprehensive income (note 23)	813,591	287,368	696,806
Retained earnings (note 24)	1,346,070	1,253,555	1,152,852
Minority interests in consolidated subsidiaries	148,274	327,062	126,990
 Total stockholders' equity	 <u>2,572,435</u>	 <u>2,139,332</u>	 <u>2,203,181</u>
 Total liabilities and stockholders' equity	 ₩ <u>3,714,430</u>	 <u>3,161,778</u>	 \$ <u>3,181,253</u>

See accompanying notes to consolidated financial statements.

LOTTE CONFECTIONERY CO., LTD.

Consolidated Statements of Income

For the years ended December 31, 2009 and 2008

	Korean Won (millions)		U.S. dollars (thousands) (note 3)
	2009	2008	2009
Continuing operations			
Sales (notes 9 and 25)	₩ 1,566,616	1,476,721	\$ 1,341,740
Cost of sales (notes 9 and 25)	976,927	944,834	836,697
Gross profit	589,689	531,887	505,043
Selling and administrative expenses (note 26)	490,239	447,156	419,869
Operating income	99,450	84,731	85,174
Non-operating income:			
Interest income	10,797	16,847	9,247
Dividend income	2,804	3,682	2,401
Foreign currency translation gain	24,734	797	21,184
Gain on sale of short-term investment	2,361	57	2,022
Gain on sale of property, plant and equipment	6,559	1,419	5,618
Equity in income of equity method accounted investments	73,589	75,437	63,026
Gain on sale of equity method accounted investments	2,146	2,252	1,838
Gain on valuation of derivative instruments	-	40,408	-
Reversal of negative goodwill	175	175	150
Others	13,875	9,372	11,883
	137,040	150,446	117,369
Non-operating expenses:			
Interest expense	11,387	4,507	9,752
Donations	4,102	2,494	3,513
Foreign currency translation loss	1,254	41,927	1,074
Loss on sale of property, plant and equipment	154	372	132
Loss on impairment of property, plant and equipment	2,959	-	2,534
Loss on revaluation of property, plant and equipment	1,336	-	1,144
Loss on impairment of goodwill	22,474	-	19,248
Loss on valuation of derivative instruments	21,626	-	18,522
Loss on transaction of derivative instruments	1,154	-	989
Loss on impairment of long-term investments	-	2,023	-
Equity in loss of equity method accounted investments	12,375	18,692	10,599
Loss on sale of equity method accounted investments	584	-	500
Others	13,965	12,782	11,960
	₩ 93,370	82,797	\$ 79,967

See accompanying notes to consolidated financial statements.

LOTTE CONFECTIONERY CO., LTD.

Consolidated Statements of Income, Continued

For the years ended December 31, 2009 and 2008

	Korean Won (millions, except for earnings per share)		U.S. dollars (thousands, except for earnings per share)(note 3)
	2009	2008	2009
Income before income taxes	₩ 143,120	152,380	\$ 122,576
Income tax expense (benefit) (note 27)	47,331	(20,852)	40,537
Net income from subsidiaries before acquisition	-	(44,286)	-
Income from continuing operations	95,789	217,518	82,039
Discontinued operation			
Income from discontinued operation, net of income tax of ₩5,674 million in 2009 and ₩(7,666) million in 2008 (note 33)	(56,525)	(44,710)	(48,411)
Net income	39,264	172,808	33,628
Net Income in minority interest	(57,473)	(3,787)	(49,223)
Consolidated net income	₩ 96,737	176,595	\$ 82,851
Earnings per share (note 28)			
Basic earnings per share from continuing operations in Won and U.S. dollars	81,637	135,774	70
Basic earnings per share in Won and U.S. dollars	₩ 68,734	125,476	\$ 59

See accompanying notes to consolidated financial statements.

LOTTE CONFECTIONERY CO., LTD.

Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2009 and 2008

	Korean Won (millions)							U.S. dollars (thousands) (note 3)
	Capital stock	Capital surplus	Capital adjustments	Accumulated othe comprehensive income	Retained earnings	Minority interests	Total equity	Total equity
Balance at January 1, 2008	₩ 7,107	271,963	(6,259)	292,780	1,081,182	4,469	1,651,242	\$ 1,414,219
Net income	-	-	-	-	176,595	(3,787)	172,808	148,003
Payment of cash dividends (note 29)	-	-	-	-	(4,222)	-	(4,222)	(3,616)
Change in fair value of available-for-sale securities, net of tax	-	-	-	(37,371)	-	-	(37,371)	(32,007)
Change in equity of equity method investments, net of tax	-	-	-	11,251	-	-	11,251	9,636
Effective portion of changes in fair value of cash flow hedges, net of tax	-	-	-	(4,565)	-	-	(4,565)	(3,910)
Foreign operation currency translation gain (loss), net of tax	-	-	-	25,273	-	14,537	39,810	34,096
Initial consolidation of subsidiary	-	-	-	-	-	311,843	311,843	267,081
Consolidation equity adjustment	-	(970)	-	-	-	-	(970)	(831)
Others	-	-	(494)	-	-	-	(494)	(424)
Balance at December 31, 2008	₩ <u>7,107</u>	<u>270,993</u>	<u>(6,753)</u>	<u>287,368</u>	<u>1,253,555</u>	<u>327,062</u>	<u>2,139,332</u>	\$ <u>1,832,247</u>
Balance at January 1, 2009	₩ 7,107	270,993	(6,753)	287,368	1,253,555	327,062	2,139,332	\$ 1,832,247
Net income	-	-	-	-	96,737	(57,473)	39,264	33,628
Payment of cash dividends (note 29)	-	-	-	-	(4,222)	-	(4,222)	(3,615)
Change in fair value of available-for-sale securities, net of tax	-	-	-	42,449	-	-	42,449	36,356
Change in equity of equity method investments, net of tax	-	-	-	188,384	-	-	188,384	161,343
Effective portion of changes in fair value of cash flow hedges, net of tax	-	-	-	1,132	-	-	1,132	971
Foreign operation currency translation gain (loss), net of tax	-	-	-	(371)	-	(33,273)	(33,644)	(28,815)
Initial consolidation of subsidiary	-	-	-	-	-	(194,031)	(194,031)	(166,179)
Change in fair value of land, net of tax	-	-	-	294,629	-	-	294,629	252,337
Paid-in capital increase	-	-	-	-	-	107,307	107,307	91,904
Consolidation equity adjustment	-	(808)	(6,533)	-	-	(1,318)	(8,659)	(7,416)
Others	-	-	494	-	-	-	494	420
Balance at December 31, 2009	₩ <u>7,107</u>	<u>270,185</u>	<u>(12,792)</u>	<u>813,591</u>	<u>1,346,070</u>	<u>148,274</u>	<u>2,572,435</u>	\$ <u>2,203,181</u>

See accompanying notes to consolidated financial statements.

LOTTE CONFECTIONERY CO., LTD.

Consolidated Statements of Cash Flows

For the years ended December 31, 2009 and 2008

	Korean Won (millions)		U.S. dollars (thousands) (note 3)
	2009	2008	2009
Cash flows from operating activities:			
Net Income	₩ 39,264	172,808	\$ 33,628
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	70,507	67,016	60,386
Amortization of intangible assets	15,239	10,824	13,052
Bad debt expenses	195	714	167
Accrual for retirement and severance benefits	18,518	21,103	15,860
Amortization of discount on debentures	217	36	186
Loss on foreign currency translation	353	41,920	304
Loss on impairment of long-term investment	-	2,023	-
Equity in loss of equity method accounted investments, net	12,375	18,692	10,599
Loss on sale of equity method accounted investments	584	-	500
Loss on impairment of property, plant and equipment	2,959	-	2,534
Loss on impairment of goodwill	22,474	-	19,248
Loss on valuation of derivative instruments	21,626	-	18,522
Gain on foreign currency translation	(21,807)	(1,752)	(18,677)
Gain on sale of short-term investment	(2,361)	(57)	(2,022)
Equity in loss of equity method accounted investments, net	(73,589)	(75,437)	(63,026)
Gain on disposition of equity method accounted investments	(2,146)	(2,252)	(1,838)
Gain on disposition of property, plant and equipment, net	(6,405)	(1,182)	(5,486)
Gains on valuation of derivative instruments	-	(40,408)	-
Others	2,434	1,454	2,082
Changes in operating assets and liabilities:			
Trade accounts receivable	13,501	(25,776)	11,563
Other accounts receivable	5,367	(158)	4,597
Accrued interest income	4,776	(718)	4,090
Prepayments	(6,682)	(988)	(5,723)
Prepaid expenses	(136)	394	(116)
Inventories	21,714	(24,587)	18,597
Other current assets	(4,039)	(313)	(3,459)
Other non-current assets	865	-	741
Long-term prepaid expenses	(7,944)	-	(6,804)
Deferred income tax assets	(3,068)	676	(2,628)
Trade accounts payable	34,418	52	29,478
Other accounts payable	(902)	23,054	(773)
Accrued expenses	24,430	4,775	20,923
Income taxes payable	(15,287)	11,362	(13,093)
Other current liabilities	(7,291)	367	(6,244)
Accrual for sales return	2,094	1,453	1,793
Deferred income tax liabilities	9,855	(51,716)	8,441
Payment of retirement and severance benefits	(14,804)	(12,920)	(12,679)
Increase in severance benefit deposit	(5,933)	(4,499)	(5,081)
Guarantee deposits paid	4,535	34	3,884
Other non-current liabilities	2,937	(722)	2,516
Cash outflows from discontinued operations	(31,381)	-	(26,876)
Net cash provided by operating activities	₩ 127,462	135,272	\$ 109,166

See accompanying notes to consolidated financial statements.

LOTTE CONFECTIONERY CO., LTD.

Consolidated Statements of Cash Flows, Continued

For the years ended December 31, 2009 and 2008

	Korean Won (millions)		U.S. dollars (thousands) (note 3)
	2009	2008	2009
Cash flows from investing activities:			
Cash inflows from investing activities:			
Proceeds from sale of short-term financial instruments	₩ 77,331	9,751	\$ 66,231
Proceeds from sale of short-term investment	2,443	265	2,092
Proceeds from sale of equity method accounted investments	2,579	-	2,209
Proceeds from sale of property, plant and equipment	13,655	4,420	11,695
Decrease in guarantee deposits	7,096	5,256	6,077
Cash inflows from discontinued operations	6,189	-	5,301
Others	5,523	3,158	4,730
	<u>114,816</u>	<u>22,850</u>	<u>98,335</u>
Cash outflows from investing activities:			
Acquisition of short-term deposits	(34,896)	(12,175)	(29,887)
Acquisition of short-term investment	(2,624)	-	(2,248)
Acquisition of long-term deposits	(716)	(8)	(613)
Acquisition of long-term investment	(51,870)	(17,902)	(44,424)
Acquisition of equity method investment securities	(127,917)	(55,519)	(109,555)
Acquisition of property, plant and equipment	(216,111)	(120,656)	(185,090)
Acquisition of intangible assets	(432)	(816)	(370)
Increase in guarantee deposits	(12,227)	(3,973)	(10,472)
Cash outflows from discontinued operations	(191,448)	-	(163,967)
	<u>(638,241)</u>	<u>(211,049)</u>	<u>(546,626)</u>
Net cash used in investing activities	₩ <u>(523,425)</u>	<u>(188,199)</u>	\$ <u>(448,291)</u>

See accompanying notes to consolidated financial statements.

LOTTE CONFECTIONERY CO., LTD.

Consolidated Statements of Cash Flows, Continued

For the years ended December 31, 2009 and 2008

	Korean Won (millions)		U.S. dollars (thousands) (note 3)
	2009	2008	2009
Cash flows from financing activities:			
Cash inflows from financing activities:			
Proceeds from short-term borrowings	₩ 4,646	98,844	\$ 3,979
Proceeds from long-term borrowings	6,486	1,031	5,555
Proceeds from issuance of debentures	251,911	112,472	215,751
Cash inflows from discontinued operations	409,723	-	350,910
	<u>672,766</u>	<u>212,347</u>	<u>576,195</u>
Cash outflows from financing activities:			
Repayment of short-term borrowings	(40,382)	(92,742)	(34,586)
Repayment of current portion of long-term debt	(537)	(1,649)	(460)
Repayment of long-term debt	(771)	(113)	(660)
Cash outflow regarding consolidated equity transaction	(8,496)	(3,186)	(7,276)
Dividends paid	(5,403)	(4,868)	(4,627)
Cash outflows from discontinued operations	(143,006)	-	(122,479)
	<u>(198,595)</u>	<u>(102,558)</u>	<u>(170,088)</u>
Net cash provided by financing activities	474,171	109,789	406,107
Decrease in cash and cash equivalents due to			
change in consolidating subsidiary	(87,040)	(11,334)	(74,546)
Change in foreign operation currency translation gain	(4,302)	1,951	(3,684)
Net increase in cash and cash equivalents	(13,134)	47,479	(11,248)
Cash and cash equivalents at beginning of year	<u>111,400</u>	<u>63,921</u>	<u>95,409</u>
Cash and cash equivalents at end of year	₩ <u>98,266</u>	<u>111,400</u>	\$ <u>84,161</u>

See accompanying notes to consolidated financial statements.

LOTTE CONFECTIONERY CO., LTD.

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

(1) Consolidated Companies

(a) Description of the Company

Lotte Confectionery Co., Ltd. (the "Company") was established on March 24, 1967 in the Republic of Korea to manufacture and sell confectionery goods and ice creams. The Company listed its common stock on the Korea Exchange on February 16, 1974 and the capital stock as of December 31, 2009 is amounting to ₩7,107,000 thousands.

The stockholders of the Company and their ownership status as of December 31, 2009 are as follows:

Stockholder	Number of shares	Ownership
Lotte Aluminum Co., Ltd.	217,268	15.3%
Shin Kyuk Ho	97,057	6.8%
The Lotte Foundation	123,576	8.7%
Others	983,499	69.2%
Total	1,421,400	100.0%

(b) Description of Subsidiaries

(i) A summary of the subsidiaries of the Company as of December 31, 2009 and 2008 is as follows:

Subsidiaries	Location	Products or services	2009	
			Fiscal Year-end	Percentage of ownership
Lotte Pharm Co., Ltd.	Korea	Pharmaceutical company	Dec. 31	100.00%
Lotte India Co., Ltd.	India	Food manufacturing	Mar. 31	95.43%
Lotte Qingdao Foods Co., Ltd.	China	Food manufacturing	Dec. 31	90.00%
Lotte Food Holding Co., Ltd.	China	Holding company	Dec. 31	100.00%
Lotte Shanghai Foods Co., Ltd. (*1)	China	Food manufacturing	Dec. 31	90.00%
LH Foods Co., Ltd. (*1)	China	Holding company	Dec. 31	51.00%
Lotte Confectionery Holdings B.V.	Netherlands	Holding company	Dec. 31	51.00%
Chocolaterie Guylian NV (*2)	Belgium	Food manufacturing	Dec. 31	100.00%
Lotte Foods India Pvt. Ltd.	India	Food manufacturing	Dec. 31	99.99%
BIBICA CORPORATION	Vietnam	Food manufacturing	Dec. 31	38.60%

(*1) Shares of LH Foods Co., Ltd. and Lotte Shanghai Foods Co., Ltd. are held by Lotte Food Holding Co., Ltd. and LH Foods Co., Ltd., respectively.

(*2) Shares of Chocolaterie Guylian NV are held by Lotte Confectionery Holdings B.V.

LOTTE CONFECTIONERY CO., LTD.

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

(1) Consolidated Companies, Continued

(b) Description of Subsidiaries, Continued

Subsidiaries	2008			
	Location	Products or services	Fiscal year	Percentage of ownership
Lotte Pharm Co.,Ltd.	Korea	Pharmaceutical company	Dec. 31	100.00%
Lotte India Co., Ltd.	India	Food manufacturing	Mar. 31	80.39%
Lotte Qingdao Foods Co., Ltd.	China	Food manufacturing	Dec. 31	90.00%
Lotte Food Holding Co., Ltd.	China	Holding company	Dec. 31	100.00%
Lotte Shanghai Foods Co., Ltd.(*1)	China	Food manufacturing	Dec. 31	90.00%
LH Foods Co., Ltd.(*1)	China	Holding company	Dec. 31	51.00%
Lotte Europe Holdings B.V.	Netherlands	Holding company	Dec. 31	32.42%
ZAO Lotte Rus(*2)	Russian Federation	Hotel	Dec. 31	100.00%
Lotte KF Rus LLC(*2)	Russian Federation	Food manufacturing	Dec. 31	100.00%
Lotte Shopping Rus LLC(*2)	Russian Federation	Distribution	Dec. 31	100.00%
Confectionary Rus Kaluga LLC(*2)	Russian Federation	Food manufacturing	Dec. 31	100.00%
Operator-Lotte-DutyFree LLC(*2)	Russian Federation	Distribution	Dec. 31	100.00%
Lotte Confectionery Holdings B.V.	Netherlands	Holding company	Dec. 31	51.00%
Chocolaterie Guylian NV(*3)	Belgium	Food manufacturing	Dec. 31	100.00%
Lotte Foods India Pvt. Ltd.	India	Food manufacturing	Dec. 31	99.99%
BIBICA CORPORATION	Vietnam	Food manufacturing	Dec. 31	38.60%

(*1) Shares of LH Foods Co., Ltd. and Lotte Shanghai Foods Co., Ltd. are held by Lotte Food Holding Co., Ltd. and LH Foods Co., Ltd., respectively.

(*2) Shares of ZAO Lotte Rus, Lotte KF Rus LLC, Lotte Shopping Rus LLC, Confectionary Rus Kaluga LLC, Operator-Lotte-DutyFree LLC are held by Lotte Europe Holdings B.V.

(*3) Shares of Chocolaterie Guylian NV are held by Lotte Confectionery Holdings B.V.

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

(1) Consolidated Companies, Continued

(c) Change in the scope of consolidation

The following companies were excluded from the scope of consolidation for the years ended December 31, 2009 due to a loss of control resulting from the change of a major shareholder.

Subsidiaries

Lotte Europe Holdings B.V.
ZAO Lotte Rus
Lotte Shopping Rus LLC
Lotte KF Rus LLC
Confectionary Rus Kaluga LLC
Operator-Lotte-DutyFree LLC

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

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

(a) Basis of Presenting Consolidated Financial Statements

The Group 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 Group 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 Group prepares the financial statements in accordance with generally accepted accounting principles in the Republic of Korea. Except for the items related to the adoption of changes to Statements of Korean Accounting Standards ("SKAS") No.5 *Property, Plant and Equipment*, revised January 1, 2009, No.15, *Investments in Associates* and Financial Supervisory Service Staff Opinions on Financial Reporting 2009-1 (Accounting for the adoption of the revaluation model for property, plant and equipment), the Group applied the same accounting policies that were adopted in the previous year's consolidated financial statements.

In addition, as explained in note 37, the prior period income statement, presented for comparative purpose, was restated to show the discontinued operation separately from continuing operations.

LOTTE CONFECTIONERY CO., LTD.

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

(2) Basis of Presenting Consolidated 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 Group 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 Group is eliminated against each other in the consolidated financial statements.

Details of eliminated significant inter-company transactions for the years ended December 31, 2009 and 2008 are as follows:

Consolidated company	Korean Won (millions)				U.S. dollars (thousands) (note 3)	
	2009		2008		2009	
	Revenues	Purchases	Revenues	Purchases	Revenues	Purchases
Lotte Confectionery Co., Ltd.	₩ 3,543	15,978	2,264	16,861	\$ 4,137	18,656
Lotte Pharm Co., Ltd.	8,548	84	6,169	94	9,981	98
Lotte Qingdao Foods Co., Ltd.	6,672	782	10,579	437	7,790	913
Lotte India Co., Ltd.	97	2,364	32	1,422	113	2,760
BIBICA CORPORATION	73	1,094	82	697	85	1,278
Lotte Shanghai Foods Co., Ltd.	1,064	-	385	-	1,243	-
Chocolaterie Guylian NV	305	-	-	-	356	-
	₩ <u>20,302</u>	<u>20,302</u>	<u>19,511</u>	<u>19,511</u>	\$ <u>23,705</u>	<u>23,705</u>

LOTTE CONFECTIONERY CO., LTD.

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

(2) Basis of Presenting Consolidated 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, 2009 and 2008 are as follows:

Consolidated company	Korean Won (millions)				U.S. dollars (thousands) (note 3)	
	2009		2008		2009	
	Receivables	Payables	Receivables	Payables	Receivables	Payables
Lotte Confectionery Co., Ltd.	₩ 697	1,494	-	1,297	\$ 814	1,744
Lotte Pharm Co., Ltd.	966	-	991	-	1,128	-
Lotte Qingdao Foods Co., Ltd.	528	389	306	447	616	454
Lotte India Co., Ltd.	-	538	-	-	-	628
BIBICA CORPORATION	-	159	-	-	-	186
Lotte Shanghai Foods Co., Ltd.	389	-	447	-	454	-
	-	-	-	-	-	-
	₩ <u>2,580</u>	<u>2,580</u>	<u>1,744</u>	<u>1,744</u>	\$ <u>3,012</u>	<u>3,012</u>

The Group has provided guarantees for consolidated companies as of December 31, 2009 as follows:

Consolidated company	Provided by	Guarantee recipient	2009	
			Type of borrowings	Guaranteed amount (thousand)
Lotte Foods India Pvt. Ltd.	Lotte Confectionery Co., Ltd.	Standard Chartered First Bank Korea Ltd	Working capital	US\$10,000

(c) Revenue Recognition

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

Other income is recognized on an accrual basis when it can be measured reliably and it is highly probable that economic benefits will flow into the Group.

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

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

(d) Allowance for Doubtful Accounts

Allowance for doubtful accounts is estimated based on an analysis of individual accounts and past experience of collection.

(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 moving average method. The cost of goods-in-transit and unfinished building 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.

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

(i) Classification

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

(ii) Initial recognition

Investments in securities 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 income statement in the period in which they arise. Available-for-sale securities are subsequently carried at fair value. Gains and losses arising from changes in the fair value of available-for-sale securities are recognized as 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 income statement using the effective interest method.

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

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

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

(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.

(vi) Impairment

The Group 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 Group has 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 Group.

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

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

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

(g) Investments in Associates, Continued

The Group's 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 Group's share of the fair value of the identifiable net assets acquired. Goodwill is amortized using the straight-line method over 20 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 Group reviews goodwill for impairment and records any impairment loss immediately in the consolidated statement of income.

The Group's share of its post-acquisition profits or losses in investments in associates is recognized in the consolidated income statement, and its share of post-acquisition movements in equity is recognized in equity. The cumulative post-acquisition movements are adjusted against the carrying amount of each investment. Changes in the carrying amount of an investment resulting from dividends by an associate are recognized when the associate declares the dividend. When the Group's 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 Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate. Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's 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, 2009 is regarded as unrealized gain or loss and reflected in the equity method accounted investment.

If an associate or a subsidiary uses accounting policies or estimates other than those of the Company for like transactions and events in similar circumstances, the Company makes appropriate adjustments to conform the associate's accounting policies to those of the Company when the associate's financial statements are used by the Company in applying the equity method. However, under the revised SKAS No. 15 *Equity Method of Accounting*, in the event that accounting policies and estimates differ due to the application of Exceptions to Accounting for Small and Medium-Sized Entities or K-IFRS, no adjustments are made.

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

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

(h) Joint Venture Investments

Joint ventures are those entities or assets over whose activities the Group have joint control.

In respect to jointly controlled operations, the Group includes 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 Group 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 Group account for its interest in a jointly controlled entity using the equity method of accounting.

(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* as of January 1, 2009.

Under the newly adopted SKAS No.5, 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. According to the transitional provision to this standard, the accounting change will be applied prospectively and the prior period consolidated financial statements presented for comparative purposes have not been restated.

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	7 – 50
Structures	5 – 50
Machinery	4 – 20
Vehicles	3 – 12
Other	1 – 10

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

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

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

(i) Property, Plant and Equipment, Continued

The Group 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.

(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 Group 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	3 – 20
Rights to use of facility	5
Premium of lease	10 – 50

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

(k) Bond and stock issuance cost

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

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

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

(l) Leases

The Group account for and classify its lease transactions as either an operating or finance 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 finance 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 finance lease.

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

(m) Discount on Debentures

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

(n) Retirement and Severance Benefits

Employees who have been with the Group 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 Group. The Group's 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.

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

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

(o) Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into Korean Won at the end of reporting period, with the resulting gains or losses recognized in the current operations. Monetary assets and liabilities denominated in foreign currencies are translated into Korean Won at ₩1,167.6 to US\$1, the rate of exchange on December 31, 2009. 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.

(p) Derivatives and Hedge Accounting

The Group holds 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 Group 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 Group 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.

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

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

(p) Derivatives and Hedge Accounting, Continued

(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.

(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.

(r) Income Taxes

Income tax on the income or loss for the period comprises of 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.

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

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

(r) 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.

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

(s) Income from Discontinued Operations

Operating and non-operating income, net of income tax effect are reported as income from discontinued operations in the consolidated income statements 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.

(t) 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.

(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 ₩1,167.6 to US\$1, the basic exchange rate on December 31, 2009 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.

LOTTE CONFECTIONERY CO., LTD.

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

(4) Restricted Deposits

Restricted deposits included in short-term and long-term financial instruments as of December 31, 2009 and 2008 are as follows:

Account	Korean Won (millions)		U.S. dollars (thousands) (note 3)
	2009	2008	2009
Short-term:			
Guarantee deposits for customs	₩ -	245	\$ -
Long-term:			
Guarantee deposits for checking account	34	34	29
	₩ 34	279	\$ 29

(5) Inventories

Inventories as of December 31, 2009 and 2008 are as follows:

Description	Korean Won (millions)		U.S. dollars (thousands) (note 3)
	2009	2008	2009
Merchandise, net of allowance for valuation losses of ₩37 million in 2009 and ₩46 million in 2008	₩ 8,160	16,341	\$ 6,989
Finished goods, net of allowance for valuation losses of ₩50 million in 2009 and ₩23 million in 2008	54,341	61,254	46,541
Work-in-process	9,332	8,757	7,992
Raw materials, net of allowance for valuation losses of ₩661 million in 2009 and ₩595 million in 2008	28,907	28,386	24,758
Packing materials	2,000	470	1,713
Supplies	4,501	4,081	3,855
Materials-in-transit	31,714	44,919	27,161
	₩ 138,955	164,208	\$ 119,009

LOTTE CONFECTIONERY CO., LTD.

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

(6) Investment in Securities

Investments in securities as of December 31, 2009 and 2008 are as follows:

(a) Available-for-sale securities

(i) Equity securities

Description	Korean Won (millions)				U.S. dollars (thousands) (note 3)
	2009		2008		2009
	Cost	Fair value or net asset	Book value	Book value	Book value
Marketable securities (*1):					
Lotte Chilsung Beverage Co., Ltd. (common stock)	₩ 21,379	122,435	122,435	116,941	\$ 104,860
Lotte Chilsung Beverage Co., Ltd. (preferred stock)	176	3,376	3,376	3,280	2,891
Lotte Samkang Co., Ltd.	989	30,560	30,560	18,361	26,173
Busan Bank	27,596	77,234	77,234	24,547	66,148
Shinhan Financial Group	3,315	19,790	19,790	11,880	16,949
Others	204	851	851	546	729
	₩ 53,659	254,246	254,246	175,555	\$ 217,750
Non-marketable securities:					
Lotte Moolsan Co., Ltd. (*2)	₩ 18	214	214	140	\$ 183
Korea Fujifilm Co., Ltd. (*2)	41	4,806	4,806	4,813	4,116
Lotte Station B/D. Co. (*2)	1,596	53,386	53,386	50,686	45,723
Lotte Fresh Delica Co., Ltd. (*2)	1,700	1,369	1,369	927	1,172
Lotte Giants(*4)	30	-	30	30	26
Lotte Philippines Co., Inc. (*3)	664	-	-	-	-
Lotte Taiwan Co., Ltd. (*4)	6,672	3,708	6,672	3,421	5,714
PT Lotte Indonesia (*4)	3,682	636	3,682	2,262	3,153
Lotte Confectionery Pillipinas Co. (*4)	2,643	2,273	2,643	-	2,264
Lotte Malaysia Sdn. Bhd (*4)	2,836	2,639	2,836	-	2,429
Lotte Jeju Resort Co., Ltd.	5,000	4,988	5,000	2,500	4,282
Lotte Buyeo Resort Co., Ltd.	5,000	5,024	5,000	3,333	4,282
Lotte Asset Development Co., Ltd.	9,444	8,441	9,444	7,000	8,088
COSMO Investment Management Co., Ltd.	1,665	1,340	1,665	-	1,426
Others	6,614	6,416	6,517	5,665	5,584
	₩ 47,605	95,240	103,264	80,777	\$ 88,442
	₩ 101,264	349,486	357,510	256,332	\$ 306,192

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

(6) Investment in Securities, Continued

(a) Available-for-sale securities, Continued

(*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 long-term investments in other comprehensive income.

(*2) Details of the fair value of unlisted securities estimated based on the external valuation are summarized as follows:

Investment management company	Estimate model	Company	Fair value per common stock (in won)
Korea Bond		Lotte Moolsan Co., Ltd.	₩ 16,445
Pricing & Korea Management Consulting Credit Co., Ltd.	Discounted Cash flow model and IMV model	Korea Fujifilm Co., Ltd.	3,844,912
		Lotte Station B/D. Co.	167,250
		Lotte Fresh Delica Co., Ltd.	4,025

(*3) Prior to 2008, these securities were accounted for as a loss on impairment of investment securities in the statements of income.

(*4) As described in note 2(g), investment in affiliates in which the Group owns 20% or more of the voting stock should be stated at an amount as determined using the equity method. However, if the difference between the equity method and cost is considered to be immaterial, the Group can record the investment in available-for-sale securities at cost.

(ii) Debt securities

	Korean Won (millions)		U.S. dollars (thousands) (note 3)
	2009	2008	2009
Current assets :			
Government and public bonds	₩ 349	83	\$ 299
	<u>349</u>	<u>83</u>	<u>299</u>
Non-current assets:			
Government and public bonds	3,020	3,207	2,587
	<u>3,020</u>	<u>3,207</u>	<u>2,587</u>
	₩ <u>3,369</u>	<u>3,290</u>	\$ <u>2,886</u>

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

LOTTE CONFECTIONERY CO., LTD.

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

(6) Investment in Securities, Continued

(a) Available-for-sale securities, Continued

(iii) Changes in unrealized gains

Changes in unrealized gains on valuation of Investments for the years ended December 31, 2009 and 2008 are summarized as follows:

		Korean Won (millions)		U.S. dollars (thousands) (note 3)
		2009	2008	2009
Balance at beginning of year, net of tax	₩	158,823	196,194	\$ 136,025
Realized gains (losses) on disposition of securities		(17)	(49)	(15)
Unrealized gains (losses) on valuation of securities, net of tax		<u>42,466</u>	<u>(37,322)</u>	<u>36,371</u>
Balance at end of year, net of tax	₩	<u>201,272</u>	<u>158,823</u>	<u>\$ 172,381</u>

(b) Equity method accounted investments

(i) Investments in associates accounted for using the equity method as of December 31, 2009 and 2008 are as follows:

Affiliate	Percentage of ownership	2009		
		Korean Won (millions)		
		Cost	Net asset	Book value
Lotte China Foods Co., Ltd.	30.57%	₩ 24,128	18,921	18,921
Lotte Packaging (Beijing) Co., Ltd.	25.00%	4,442	6,576	6,478
Shandong Pengcheng Ice Co., Ltd.(*2)	55.73%	7,164	7,457	7,457
Lotte Europe Holdings B.V.	31.66%	131,041	89,876	89,616
Lotte Vietnam Co., Ltd.	36.84%	7,008	3,682	5,475
PT Lotte Trade And Distribution	40.00%	4,269	2,738	2,738
Lotteria Co., Ltd.(*1)	11.36%	6,949	41,693	42,957
Lotte Shopping Co., Ltd (*1)	8.52%	5,644	1,050,669	1,056,318
Lotte Data Communication Company(*1)	6.12%	7,615	32,971	38,555
Lotte Trading Co., Ltd.(*1)	1.36%	4,484	6,602	7,227
Lotte Logistics Co., Ltd.(*1)	4.64%	4,000	8,085	6,788
Lotte.com Inc. (*1)	11.25%	2,500	3,789	3,789
Korea Seven Co., Ltd.(*1)	16.17%	20,285	9,831	9,809
Kirin Foods Co., Ltd.	100.00%	98,000	97,682	97,682
Lotte (China) Investment Co., Ltd.	33.00%	<u>24,641</u>	<u>8,152</u>	<u>8,152</u>
		₩ <u>352,170</u>	<u>1,388,724</u>	<u>1,401,962</u>

LOTTE CONFECTIONERY CO., LTD.

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

(6) Investment in Securities, Continued

(b) Equity method accounted investments, Continued

Affiliate	Percentage of ownership	2008		
		Korean Won (millions)		
		Cost	Net asset	Book value
Lotte China Foods Co., Ltd.	35.96%	₩ 24,128	18,562	18,562
Lotte Packaging (Beijing) Co., Ltd.	25.00%	4,442	7,177	7,036
Shandong Pengcheng Ice Co., Ltd.	46.69%	3,447	4,198	4,198
Lotte Vietnam Co., Ltd.	35.71%	4,471	1,654	3,868
Lotteria Co., Ltd. (*1)	12.14%	6,949	26,852	30,716
Lotte Shopping Co., Ltd (*1)	8.52%	5,644	752,387	750,618
Lotte Data Communication Company(*1)	4.84%	802	14,028	19,182
Lotte Trading Co., Ltd (*1)	0.68%	749	2,385	1,482
Lotte Logistics Co., Ltd (*1)	4.64%	4,000	5,529	4,275
Lotte.com Inc. (*1)	11.25%	2,500	4,019	4,019
Korea Seven Co., Ltd. (*1)	19.59%	22,207	10,659	10,622
Lotte (China) Investment Co., Ltd.	33.00%	11,527	5,998	5,998
		₩ 90,866	853,448	860,576

(*1) The Company accounts for its investment in these affiliates under the equity method of accounting due to its significant management control despite its interest under 20%.

(*2) Shandong Pengcheng Ice Co., Ltd. was not included in consolidation because its respective total assets as of December 31, 2008 were less than ₩10,000 million.

LOTTE CONFECTIONERY CO., LTD.

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

(6) Investment in Securities, Continued

(b) Equity method accounted investments, Continued

(ii) Changes in the differences between the acquisition cost and the Company's share of the investee's identifiable net assets for the years ended December 31, 2009 and 2008 are as follows:

Affiliate	2009			
	Korean Won (millions)			
	Balance at January 1, 2009	Increase	Amortization	Balance at December 31, 2009
Lotte Packaging (Beijing) Co., Ltd.	₩ (141)	-	(43)	(98)
Shandong Pengcheng Ice Co., Ltd.	-	10	10	-
Lotte Vietnam Co., Ltd.	2,214	148	569	1,793
Lotte Data Communication Company	-	4,628	-	4,628
Lotte Trading Co., Ltd	(568)	(18)	(188)	(398)
Lotte Logistics Co., Ltd	(831)	-	(208)	(623)
	₩ 674	4,768	140	5,302

Affiliate	2008			
	Korean Won (millions)			
	Balance at January 1, 2008	Increase	Amortization	Balance at December 31, 2008
Lotte Packaging(Beijing) Co., Ltd.	₩ (184)	-	(43)	(141)
Shandong Pengcheng Ice Co., Ltd.	-	(8)	(8)	-
Lotte Vietnam Co., Ltd.	2,763	5	554	2,214
Lotte Trading Co., Ltd	(716)	(32)	(180)	(568)
Lotte Logistics Co., Ltd	(997)	(42)	(208)	(831)
	₩ 866	(77)	115	674

(iii) Eliminated net unrealized loss (gain) from inter-company transactions as of December 31, 2009 and 2008 are as follows:

	Korean Won (millions)	
	2009	2008
Lotte Europe Holdings B.V.	₩ (260)	-
Korea Seven Co., Ltd.	(22)	(37)
Lotte Shopping Co., Ltd.	-	(348)
	₩ (282)	(385)

LOTTE CONFECTIONERY CO., LTD.

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

(6) Investment in Securities, Continued

(b) 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, 2009 and 2008 are as follows:

Affiliate	2009				Balance at December 31, 2009
	Balance at January 1, 2009	Net income (loss)	Capital adjustment	Other(*1)	
Lotte China Foods Co., Ltd.	₩ 18,562	555	(1,125)	929	18,921
Lotte Packaging (Beijing) Co., Ltd.	7,036	(59)	(499)	-	6,478
Shandong Pengcheng Ice Co., Ltd.	4,198	(83)	(375)	3,717	7,457
Lotte Europe Holdings B.V.(*2)	-	-	-	89,616	89,616
Lotte Vietnam Co., Ltd.	3,868	(441)	(489)	2,537	5,475
PT Lotte Trade And Distribution	-	(1,561)	30	4,269	2,738
Lotteria Co., Ltd.	30,716	5,850	6,975	(584)	42,957
Lotte Shopping Co., Ltd	750,618	61,556	247,237	(3,093)	1,056,318
Lotte Data Communication Company	19,182	3,128	9,432	6,813	38,555
Lotte Trading Co., Ltd	1,482	629	1,381	3,735	7,227
Lotte Logistics Co., Ltd	4,275	841	1,705	(33)	6,788
Lotte.com Inc.	4,019	(93)	(6)	(131)	3,789
Korea Seven Co., Ltd.	10,622	1,030	(578)	(1,265)	9,809
Kirin Foods Co., Ltd.	-	(318)	-	98,000	97,682
Lotte (China) Investment Co., Ltd.	5,998	(9,820)	7	11,967	8,152
	₩ <u>860,576</u>	<u>61,214</u>	<u>263,695</u>	<u>216,477</u>	<u>1,401,962</u>

LOTTE CONFECTIONERY CO., LTD.

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

(6) Investment in Securities, Continued

(b) Equity method accounted investments, Continued

Affiliate	2008				
	Korean Won (millions)				
	Balance at January 1, 2008	Net income (loss)	Capital adjustment	Other(*1)	Balance at December 31, 2008
Lotte China Foods Co., Ltd.	₩ 15,449	(3,219)	6,332	-	18,562
Lotte Packaging (Beijing) Co., Ltd.	4,509	114	2,413	-	7,036
Shandong Pengcheng Ice Co., Ltd.	-	(223)	974	3,447	4,198
Lotte Vietnam Co., Ltd.	4,467	(963)	360	4	3,868
Lotteria Co., Ltd.	26,484	4,321	(89)	-	30,716
Lotte Shopping Co., Ltd	695,193	64,146	(5,628)	(3,093)	750,618
Lotte Data Communication Company	14,707	4,503	(28)	-	19,182
Lotte Trading Co., Ltd	1,051	27	(10)	414	1,482
Lotte Logistics Co., Ltd	4,000	390	(82)	(33)	4,275
Lotte.com Inc.	2,901	1,118	-	-	4,019
Korea Seven Co., Ltd.	9,785	818	-	19	10,622
Lotte (China) Investment Co., Ltd.	-	(6,562)	819	11,741	5,998
Lotte Europe Holdings B.V.	-	(7,725)	(6,476)	14,201	-
ZAO Lotte Rus	9,877	-	98	(9,975)	-
	₩ <u>788,423</u>	<u>56,745</u>	<u>(1,317)</u>	<u>16,725</u>	<u>860,576</u>

(*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) In 2009, Lotte Europe Holdings B.V. made an uneven increase in paid-in-capital. The Company participated in this paid-in-capital increase. As the shares between major shareholders changed, shares of the company decreased to 31.66%. As a result of this event, the largest shareholder has been changed.

LOTTE CONFECTIONERY CO., LTD.

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

(6) Investment in Securities, Continued

(b) Equity method accounted investments, Continued

(v) Summarized financial information of equity-accounted investments as of and for the year ended December 31, 2009 is as follows:

Affiliate	2009			
	Korean Won (millions)			
	Total assets	Total liabilities	Sales	Net income (loss)
Lotte China Foods Co., Ltd.	₩ 81,054	19,159	47,627	1,819
Lotte Packaging (Beijing) Co., Ltd.	28,504	2,201	8,445	(409)
Shandong Pengcheng Ice Co., Ltd.	14,053	671	5,613	(116)
Lotte Europe Holdings B.V.	677,560	393,914	40,013	(56,526)
Lotte Vietnam Co., Ltd.	13,903	3,911	12,349	322
PT Lotte Trade And Distribution	9,933	3,086	1,419	(2,409)
Lotteria Co., Ltd.	574,775	207,674	414,807	56,745
Lotte Shopping Co., Ltd	18,658,356	6,326,801	11,535,281	716,422
Lotte Data Communication Company	827,906	289,523	336,656	11,939
Lotte Trading Co., Ltd	1,520,687	1,035,591	746,716	36,043
Lotte Logistics Co., Ltd	287,998	113,735	718,355	14,326
Lotte.com Inc.	102,820	69,156	106,044	4,915
Korea Seven Co., Ltd.	285,160	224,380	658,953	6,870
Kirin Foods Co., Ltd.	103,169	5,487	-	(218)
Lotte (China) Investment Co., Ltd.	57,636	32,937	69,396	(29,784)

The Group used unaudited financial statements of the above companies when applying the equity method of accounting.

LOTTE CONFECTIONERY CO., LTD.

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

(7) Other Current Assets

Other current assets as of December 31, 2009 and 2008 are as follows:

	Korean Won (millions)		U.S. dollars (thousands) (note 3)
	2009	2008	2009
Prepaid income taxes	₩ 1,517	4	\$ 1,299
Others	3,657	1,138	3,132
	₩ <u>5,174</u>	<u>1,142</u>	\$ <u>4,431</u>

(8) Joint Venture Investments

Details of joint venture investments as of December 31, 2009 are as follows:

<u>Joint venture investment</u>	<u>Ownership</u>	<u>Equity holder</u>	<u>Principal business</u>
Kookge Building	27.00%	Honam Petro Chemical and others	Building leasing services

LOTTE CONFECTIONERY CO., LTD.

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

(9) Transactions and Balances with Related Companies

(a) Significant transactions which occurred in the normal course of business with related companies for the years ended December 31, 2009 and 2008 are summarized as follows:

Related company	Korean Won (millions)				U.S. dollars (thousands) (note 3)	
	2009		2008		2009	
	Revenue	Purchases	Revenue	Purchases	Revenue	Purchases
Lotte Aluminum Co., Ltd.	₩ 245	52,744	154	51,093	\$ 210	45,173
Hotel Lotte Co., Ltd	3,129	212	2,208	2,907	2,680	182
Lotte Engineering & Machinery MFG. Co., Ltd.	-	-	198	2,377	-	-
Daehong Communications Inc. Lotte Engineering & Construction Co., Ltd	133	8,877	164	9,038	114	7,603
Lotte Midopa Co., Ltd	1,321	214,421	1,552	88,942	1,131	183,643
Lotte China Foods Co., Ltd.	157	-	146	-	134	-
Lotte Packaging(Beijing) Co., Ltd.	3,883	-	397	98	3,326	-
Lotteria Co., Ltd.	-	287	-	120	-	246
Lotte Shopping Co., Ltd	392	1	336	1	336	1
Lotte Data Communication Company	74,084	30,036	64,911	22,578	63,450	25,725
Lotte Trading Co., Ltd	510	9,026	585	5,803	437	7,730
Lotte Logistics Co., Ltd	6,728	18,712	4,149	17,928	5,762	16,026
Lotte.com Inc.	20,955	51,737	11,626	48,525	17,947	44,311
Korea Seven Co., Ltd.	97	112	137	216	83	96
Lotte (China) Investment Co., Ltd.	6,618	1,131	12,597	1,631	5,668	969
Lotte Station B/D. Co.	7,543	-	10,829	-	6,460	-
Lotte Samkang Co., Ltd	55	87	98	119	47	75
Lotte Ham Co., Ltd	2,178	39,598	1,796	32,626	1,865	33,914
Lotte Chilsung Beverage Co., Ltd.	111	118	203	132	95	101
Canon Korea Business Solutions Inc.	7,782	2,464	1,093	2,137	6,665	2,110
Lotte Taiwan Co., Ltd.	496	123	407	146	425	105
Guylian UK Ltd.	4,625	-	3,830	-	3,961	-
Others	38,261	3,625	24,391	1,100	32,769	3,105
	₩ 3,710	5,188	2,809	12,403	3,177	4,443
	₩ 183,013	438,499	144,616	299,920	\$ 156,742	375,558

LOTTE CONFECTIONERY CO., LTD.

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

(9) Transactions and Balances with Related Companies, Continued

(b) Account balances with related companies as of December 31, 2009 and 2008 are summarized as follows:

Related company	Korean Won (millions)				U.S. dollars (thousands) (note 3)	
	2009		2008		2009	
	Receivables	Payables	Receivables	Payables	Receivables	Payables
Lotte Aluminum Co., Ltd.	₩ 17	22,637	-	3,890	\$ 15	19,388
Hotel Lotte Co., Ltd	1,011	23	742	764	866	20
Lotte Engineering & Machinery MFG. Co., Ltd.	-	-	70	106	-	-
Daehong Communications Inc.	2	9,099	10	7,100	2	7,793
Lotte Engineering & Construction Co., Ltd	519	11,630	25,408	13,060	445	9,961
Lotte Midopa Co., Ltd	14	-	10	-	12	-
Lotte China Foods Co., Ltd.	709	-	156	-	607	-
Lotte Packaging (Beijing) Co., Ltd.	-	61	-	103	-	52
Lotteria Co., Ltd.	32	-	33	-	27	-
Lotte Shopping Co., Ltd	10,323	1,754	9,968	1,781	8,841	1,502
Lotte Data Communication Company	93	645	89	602	80	552
Lotte Trading Co., Ltd	410	2,674	212	1,701	351	2,290
Lotte Logistics Co., Ltd	3,284	5,482	829	2,873	2,813	4,695
Lotte.com Inc.	4	43	13	5	3	37
Korea Seven Co., Ltd.	785	10	803	50	672	9
Lotte (China) Investment Co., Ltd.	5,497	-	7,259	-	4,708	-
Lotte Station B/D. Co.	51	-	69	-	44	-
Lotte Samkang Co., Ltd	151	13,976	39	7,812	129	11,970
Lotte Ham Co., Ltd	10	33	35	52	9	28
Lotte Chilsung Beverage Co., Ltd.	980	1,592	476	1,140	839	1,363
Canon Korea Business Solutions Inc.	197	45	108	10	169	39
Lotte Taiwan Co., Ltd.	1,178	-	1,893	-	1,009	-
Guylian UK Ltd.	9,278	129	12,255	739	7,946	110
Others	289	3,996	2,344	14,103	248	3,422
	₩ <u>34,834</u>	<u>73,829</u>	<u>62,821</u>	<u>55,891</u>	\$ <u>29,835</u>	<u>63,231</u>

(c) Key management personnel compensation in total and each of the following categories for the years ended December 31, 2009 and 2008 are as follows:

	₩	Korean Won (millions)	
		2009	2008
Short-term employee benefits		5,029	4,127
Retirement and severance benefits		3,115	4,775

LOTTE CONFECTIONERY CO., LTD.

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

(10) Property, Plant and Equipment

(a) Changes in property, plant and equipment for the years ended December 31, 2009 and 2008 are as follows:

		2009						
		Korean Won (millions)						
		Book value as of January 1, 2009	Acquisitions	Disposals	Revaluation	Depreciation	Others(*1)	Book value as of December 31, 2009
Land	₩	290,294	-	-	376,395	-	(11,147)	655,542
Buildings		402,004	1,509	-	-	(12,506)	(262,982)	128,025
Structures		3,245	209	-	-	(445)	322	3,331
Machinery		176,464	14,938	(239)	-	(37,381)	30,021	183,803
Vehicles		6,442	2,554	(5,587)	-	(1,072)	1,105	3,442
Other		54,880	11,874	(59)	-	(19,103)	(29,932)	17,660
Construction-in-progress		144,008	185,027	-	-	-	(138,533)	190,502
	₩	<u>1,077,337</u>	<u>216,111</u>	<u>(5,885)</u>	<u>376,395</u>	<u>(70,507)</u>	<u>(411,146)</u>	<u>1,182,305</u>
		2008						
		Korean Won (millions)						
		Book value as of January 1, 2008	Acquisitions	Disposals	Depreciation	Others(*1)	Book value as of December 31, 2008	
Land	₩	271,595	476	(117)	-	18,340	290,294	
Buildings		102,107	1,862	(352)	(12,077)	310,464	402,004	
Structures		2,633	114	(19)	(332)	849	3,245	
Machinery		70,651	8,361	(760)	(35,508)	133,720	176,464	
Vehicles		6,592	3,635	(80)	(4,655)	950	6,442	
Other		15,511	12,367	(92)	(14,444)	41,538	54,880	
Construction-in-progress		5,025	93,841	(1,817)	-	46,959	144,008	
	₩	<u>474,114</u>	<u>120,656</u>	<u>(3,237)</u>	<u>(67,016)</u>	<u>552,820</u>	<u>1,077,337</u>	

(*1) Others above include adjustment between depreciation expense and accumulated depreciation resulted from overseas operations translation adjustment, impairment loss, changes in the scope of consolidation, and transferred amount.

LOTTE CONFECTIONERY CO., LTD.

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

(10) Property, Plant and Equipment, Continued

- (b) Land was stated at revalued amounts as of December 31, 2009. The fair value of the land was determined based on the report of an external appraisal company, First Appraisal & Consulting.

As the Group adopted the revaluation model in accordance with revised SKAS No.5 *Property, Plant and Equipment* in 2009, other comprehensive income of ₩376,395 million, net of tax effect of ₩82,807 million. Revalued land would have been recognized under the cost model at ₩279,147 million as of December 31, 2009.

- (c) The officially declared value and book value of land as of December 31, 2009 are as follows:

		Korean Won (millions)			
		2009		2008	
		Book value	Declared value	Book value	Declared value
Land	₩	641,919	384,378	265,523	384,968

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

- (d) The Group has insurance policies insured by Lotte Insurance Co., Ltd., LIG Insurance Co., Ltd. and Seoul Guarantee Insurance Co., Ltd. Details of coverage under major insurance policies carried by the Group as of December 31, 2009 and 2008 are as follows:

Type of insurance	Covered assets	Amount covered (in millions of Won)		Amount covered (in thousands of U.S. dollars)
		2009	2008	2009
Comprehensive insurance for property	Buildings, machinery, other and inventories	₩ 1,374,076	1,114,099	\$ 1,176,838
Comprehensive insurance for movable assets	Inventories	16,252	16,078	13,919
Fire insurance	Buildings, machinery and inventories	21,142	21,666	18,107
Gas accident liability insurance	-	4,180	3,800	3,580
Burglary insurance	Cash and others	598	713	512
		₩ 1,416,248	1,156,356	\$ 1,212,956

In addition, as of December 31, 2009, the Group maintained a comprehensive insurance policy and insurance policies covering loss and liability arising from automobile accidents.

LOTTE CONFECTIONERY CO., LTD.

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

(11) Intangible Assets

Changes in intangible assets for the years ended December 31, 2009 and 2008 are as follows:

		2009				
		Korean Won (millions)				
		Book value as of January 1, 2009	Acquisition	Amortization	Others(*)	Book value as of December 31, 2009
Goodwill	₩	125,265	-	(13,897)	(30,848)	80,520
Negative goodwill		(72,684)	-	175	68,654	(3,855)
Industrial property rights		7,158	382	(1,173)	(3,011)	3,356
Rights to use of facility		25,760	-	(54)	(24,499)	1,207
Premium of lease		248	50	(115)	-	183
	₩	<u>85,747</u>	<u>432</u>	<u>(15,064)</u>	<u>10,296</u>	<u>81,411</u>
		2008				
		Korean Won (millions)				
		Book value as of January 1, 2008	Acquisition	Amortization	Others(*)	Book value as of December 31, 2008
Goodwill	₩	3,255	-	(9,596)	131,606	125,265
Negative goodwill		(4,328)	-	175	(68,531)	(72,684)
Industrial property rights		2,235	661	(976)	5,238	7,158
Rights to use of facility		1,218	-	(160)	24,702	25,760
Premium of lease		185	155	(92)	-	248
	₩	<u>2,565</u>	<u>816</u>	<u>(10,649)</u>	<u>93,015</u>	<u>85,747</u>

(*) Others above include the impairment of goodwill, the effects of changes in foreign exchange rates resulted from overseas operations translation adjustment, amortization and changes in the scope of consolidation.

(12) Other Assets

Other assets as of December 31, 2009 and 2008 are as follows:

		Korean Won (millions)		U.S. dollars (thousands) (note 3)
		2009	2008	2009
Long-term loans	₩	-	313	\$ -
VAT receivables		-	26,152	
Others		1	4,214	1
	₩	<u>1</u>	<u>30,679</u>	<u>\$ 1</u>

LOTTE CONFECTIONERY CO., LTD.

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

(13) Pledged Assets and Guarantees

(a) The following assets are pledged as collateral for the Group's contract performance as of December 31, 2009:

Assets	Korean Won (millions)	U.S. dollars (thousands) (note 3)	Guarantee for
Land, buildings, etc.	₩ 8,482	7,264	Short-term borrowings
Land	1,192	1,021	Short-term borrowings
Buildings	140	120	Long-term borrowings
Inventories	411	352	Long-term borrowings
Construction-in-progress	10,883	9,321	Long-term borrowings
	₩ 21,108	18,078	

(b) Guarantees provided by third parties for the Group as of December 31, 2009 are as follows:

Guarantee for	Guarantor		Amount (in Japanese Yen and U.S. dollars)
Lotte Holdings Co., Ltd	Lotte Taiwan Co., Ltd.	¥	200,000,000
Korea development Bank and five other banks	Lotte Europe Holdings B.V.	\$	20,000,000

LOTTE CONFECTIONERY CO., LTD.

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

(14) Assets and Liabilities Denominated in Foreign Currency

Assets and liabilities of the Company denominated in foreign currency as of December 31, 2009 and 2008 are summarized as follows:

		2009		2008	
		Foreign currency (thousands)	Won equivalent (millions)	Foreign currency (thousands)	Won equivalent (millions)
Assets:					
Cash and cash equivalents	USD	1,563	₩ 1,825	548	689
Accounts and notes receivable - trade	JPY	1,776	22	8,097	113
	USD	<u>4,800</u>	<u>5,604</u>	<u>4,001</u>	<u>5,031</u>
	USD	6,363		4,549	
	JPY	<u>1,776</u>	₩ <u>7,451</u>	<u>8,097</u>	<u>5,833</u>
Liabilities:					
	USD	9,134	₩ 10,665	4,505	5,680
	JPY	2,622	33	7,574	106
Accounts and notes payable - trade	EUR	148	248	74	132
	DKK	431	97	-	-
	USD	3	4	98	123
	JPY	36,300	458	-	-
Other payables	EUR	-	-	218	387
	CHF	46	52	-	-
Long-term debentures	JPY	<u>30,500,000</u>	<u>385,160</u>	<u>11,000,000</u>	<u>153,328</u>
	USD	9,137		4,603	
	JPY	30,538,922		11,007,574	
	EUR	148		292	
	CHF	46		-	
	DKK	<u>431</u>	₩ <u>396,717</u>	<u>-</u>	<u>159,756</u>

LOTTE CONFECTIONERY CO., LTD.

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

(15) Other Current Liabilities

Other current liabilities as of December 31, 2009 and 2008 are as follows:

	Korean Won (millions)		U.S. dollars (thousands) (note 3)
	2009	2008	2009
Advance from customers	₩ 418	8,529	\$ 358
Withholdings	3,877	3,361	3,320
Dividends payable	10	10	9
Value-added tax withholdings	13,645	18,826	11,686
Unearned income	1,808	334	1,549
	₩ <u>19,758</u>	<u>31,060</u>	\$ <u>16,922</u>

(16) Borrowings

(a) Short-term borrowings as of December 31, 2009 and 2008 are summarized as follows:

Lender	Purpose of borrowings	Annual interest rate	Korean Won (millions)		U.S. dollars (thousands) (note 3)
			2009	2008	2009
Hana Bank	Notes discounting	8.49%	₩ 2,800	-	\$ 2,398
Woori Bank	Notes discounting	6.72%	2,600	-	2,227
HDFC Bank Ltd.	Bank overdrafts	13.00~14.50%	34	-	29
BIDV.	Working capital	10.00~10.30%	705	-	604
SK Securities and others	Working capital	5.00~10.00%	-	47,491	-
			₩ <u>6,139</u>	<u>47,491</u>	\$ <u>5,258</u>

LOTTE CONFECTIONERY CO., LTD.

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

(16) Borrowings, Continued

(b) Long-term borrowings as of December 31, 2009 and 2008 are summarized as follows:

Lender	Purpose of borrowings	Annual interest rate	Korean Won (millions)		U.S. dollars (thousands) (note 3)
			2009	2008	2009
BIDV. and others	Loan facility	4.75~6.50%	₩ 8,821	4,498	\$ 7,555
Hana Bank and others	Working capital	5.57~6.85%	1,266	-	1,084
Kookmin Bank	Others	3.00%	403	436	345
NAC Funding Ltd.	Construction Loan	5.30%	-	196,305	-
China Trust Bank and others	Working capital	4.75%	-	774	-
			10,490	202,013	8,984
	Less current portion		(2,994)	(719)	(2,564)
			₩ 7,496	201,294	\$ 6,420

(c) Aggregate maturities of long-term borrowings as of December 31, 2009 are as follows:

Period	Korean Won (millions)	U.S. dollars (thousands) (note 3)
2010. 1. 1 ~ 2010. 12. 31	₩ 2,994	\$ 2,564
2011. 1. 1 ~ 2011. 12. 31	2,194	1,879
2012. 1. 1 ~ 2012. 12. 31	2,787	2,387
2013. 1. 1 ~ 2013. 12. 31	477	409
2014 and thereafter	2,038	1,745
	₩ 10,490	\$ 8,984

LOTTE CONFECTIONERY CO., LTD.

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

(17) Debentures

(a) Long-term debentures as of December 31, 2009 and 2008 are summarized as follows:

Description	Maturity	Interest rate	Korean Won (millions)		U.S. dollars (thousands) (note 3)
			2009	2008	2009
53rd placed	Sep. 11, 2011	3M Euro Yen Libor+150b.p.	₩ 138,910	153,328	\$ 118,971
54th placed	Jul. 10, 2012	3M Euro Yen Libor+150b.p.	126,282	-	108,155
55th placed	Dec. 28, 2012	3M Euro Yen Tibor+100b.p.	119,968	-	102,748
			385,160	153,328	329,874
Less:					
Discount on debentures issued			(996)	(412)	(854)
Total book value			₩ 384,164	152,916	\$ 329,020

(b) Aggregate maturities of debentures as of December 31, 2009 are as follows:

Period	Korean Won (millions)	U.S. dollars (thousands) (note 3)
2011.01.01~2011.12.31	₩ 138,910	\$ 118,971
2012.01.01~2012.12.31	246,250	210,903
	₩ 385,160	\$ 329,874

(18) Leases

(a) The Group entered into a lease contract for certain machineries and vehicles with Lotte Capital Co., Ltd. and Fortis Bank. As of December 31, 2009, the gross amount of machineries, vehicles and related accumulated depreciation recorded under this finance lease are as follows:

		Korean Won (millions)			U.S. dollars (thousands) (note 3)
		Machinery	Vehicles	Total	2009
Acquisition cost	₩	22,577	1,344	23,921	\$ 20,487
Accumulated depreciation		(13,437)	(177)	(13,614)	(11,660)
Book value	₩	9,140	1,167	10,307	\$ 8,827

LOTTE CONFECTIONERY CO., LTD.

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

(18) Leases, Continued

(b) In addition, the Group maintains lease contracts for certain vehicles classified into operating lease. Future minimum lease payments under these contracts as of December 31, 2009 are as follows:

Period	Korean Won (millions)		U.S. dollars (thousands) (note 3)	
	Finance leases	Operating leases	Finance leases	Operating leases
2010.1.1~2010.12.31	₩ 2,949	4,909	2,526	4,204
2011.1.1~2014.12.31	1,453	6,028	1,244	5,163
	₩ <u>4,402</u>	<u>10,937</u>	<u>3,770</u>	<u>9,367</u>

Minimum lease payments recognized as an expense for the year ended December 31, 2009 are amounted to ₩1,541 million.

(19) Retirement and Severance Benefits

Changes in retirement and severance benefits for the years ended December 31, 2009 and 2008 are summarized as follows:

	Korean Won (millions)		U.S. dollars (thousands) (note 3)
	2009	2008	2009
Estimated retirement and severance benefits at beginning of year	₩ 32,949	24,292	\$ 28,219
Provision for retirement and severance benefits	18,518	21,103	15,860
Payments	(14,804)	(12,920)	(12,679)
Transfer of severance benefits from affiliated companies and other	111	53	95
Others	(95)	421	(81)
	<u>36,679</u>	<u>32,949</u>	<u>31,414</u>
Transfer to National Pension Fund	(56)	(58)	(48)
Deposit for severance benefit insurance	<u>(30,325)</u>	<u>(24,392)</u>	<u>(25,972)</u>
Net balance at end of year	₩ <u>6,298</u>	<u>8,499</u>	\$ <u>5,394</u>

The Group maintains severance benefit insurance arrangements with Lotte Insurance Co., Ltd. and others. Under the contracts, payments of the Group's retirement and severance benefit liability to employees are guaranteed to the extent of the aggregate deposit held by the insurance companies, amounting to 82.7% and 74.0% of the reserve balance of retirement and severance benefits as of December 31, 2009 and 2008, respectively. The aggregate deposit with the insurance companies is presented as a reduction of the retirement and severance benefits liability.

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

(20) Derivative Instruments and Hedge Accounting

Details of derivatives outstanding as of December 31, 2009 are as follows:

Type	Description	Description
Fair value Hedge (*)	Foreign currency option	Right to sell specified amount when pound-euro exchange rate is below the specified exchange rate at every month-end and duty to sell fixed multiple contract price when pound-euro exchange rate is over the specified exchange rate
	Foreign currency forward	At the maturity of the forward, Australian dollar is sold at the fixed exchange rate
Cash flow Hedge (**)	Foreign currency swap	At the maturity of the swap, exchange floating amount of principal in JPY for a fixed amount of principal in KRW
	Interest rate swap	Exchange floating amount of interest in JPY for a fixed amount of interest in KRW per payment period

(*) As of and for the year ended December 31, 2009, the Group recognized ₩57 million of derivative liabilities, ₩746 million of loss on valuation of derivative instruments (non-operating) and ₩1,154 million of loss on transaction of derivative instruments, respectively.

(**) As of and for the year ended December 31, 2009, the Company recognized ₩15,126 million of derivative assets, ₩20,880 million of loss on valuation of derivative instruments (non-operating) and ₩3,433 million of loss on valuation of derivative instruments (other comprehensive income), net of tax amounting to ₩ 968 million.

(21) Capital Stock and Capital Surplus

(a) Pursuant to the Articles of Incorporation, the Company's authorized and issued capital stock are 3,000,000 shares and 1,421,400 shares, respectively, which consist of common shares each with a par value of ₩5,000 per share.

(b) Capital surplus as of December 31, 2009 and 2008 consists of the following:

	Korean Won (millions)		U.S. dollars (thousands) (note 3)
	2009	2008	2009
Paid-in capital in excess of par value	₩ 1,350	1,350	\$ 1,156
Revaluation surplus	257,187	257,187	220,270
Other capital surplus	11,648	12,456	9,976
	₩ <u>270,185</u>	<u>270,993</u>	\$ <u>231,402</u>

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

(21) Capital Stock and Capital Surplus, Continued

(i) 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:

<u>Date of revaluation</u>		<u>Total revaluation surplus</u>	<u>Revaluation tax</u>	<u>Transfer to other capital surplus</u>	<u>Net revaluation surplus</u>
January 1, 1984	₩	11,941	(378)	-	11,563
January 1, 1998		98,487	(2,867)	(2,912)	92,708
October 1, 1998		164,488	(2,836)	(8,736)	152,916
	₩	<u>274,916</u>	<u>(6,081)</u>	<u>(11,648)</u>	<u>257,187</u>

(22) Capital Adjustments

(a) Treasury stock

The Company maintains treasury stock fund of ₩6,248 million (14,000 shares) as of December 31, 2009 managed by banks, which are recorded at cost and used primarily as a vehicles for trading the common stock shares of the Company.

(b) Other Capital Adjustments

As a result of additional paid-in capital and acquisition, the ownership percentage of the Company in Lotte Qingdao Foods Co., Ltd., BIBICA CORPORATION, Lotte Europe Holdings B.V. and Lotte India Co., Ltd. all of which are controlled subsidiaries of the Company, changed and the differences of ₩ 6,533 million between the additional acquisition cost and the change in the Company's share of net asset were recorded as other capital adjustment.

LOTTE CONFECTIONERY CO., LTD.

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

(23) Accumulated Other Comprehensive Income

Details of accumulated other comprehensive income as of December 31, 2009 and 2008 are as follows:

Account	Korean Won (millions)		U.S. dollars (thousands) (note 3)
	2009	2008	2009
Unrealized gain on valuation of long-term investments, net of tax	₩ 201,272	158,823	\$ 172,381
Unrealized gain on investments under equity method, net of tax	295,082	106,698	252,725
Unrealized loss on valuation of derivative instruments, net of tax	(3,433)	(4,565)	(2,940)
Cumulative effect of foreign currency translation, net of tax	26,041	26,412	22,303
Unrealized gain on revaluation of land, net of tax	294,629	-	252,337
	₩ <u>813,591</u>	<u>287,368</u>	\$ <u>696,806</u>

(24) Retained Earnings

Retained earnings as of December 31, 2009 and 2008 are summarized as follows:

Account	Korean Won (millions)		U.S. dollars (thousands) (note 3)
	2009	2008	2009
Appropriated:			
Legal reserve(*1)	₩ 3,554	3,554	\$ 3,044
Discretionary reserve	1,244,900	1,070,900	1,066,204
	<u>1,248,454</u>	<u>1,074,454</u>	<u>1,069,248</u>
Unappropriated:	<u>97,616</u>	<u>179,101</u>	<u>83,604</u>
	₩ <u>1,346,070</u>	<u>1,253,555</u>	\$ <u>1,152,852</u>

(*1) 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 CONFECTIONERY CO., LTD.

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

(25) Sales and Cost of Sales

Details of sales and cost of sales for the years ended December 31, 2009 and 2008 are as follows:

	Korean Won (millions)		U.S. dollars (thousands) (note 3)
	2009	2008	2009
Sales:			
Sales of products	₩ 1,474,415	1,428,045	\$ 1,262,774
Sales of merchandise	164,471	122,178	140,862
Other operating revenue	24,084	19,984	20,627
Deduction:			
Sales allowance	(96,354)	(93,486)	(82,523)
	<u>1,566,616</u>	<u>1,476,721</u>	<u>1,341,740</u>
Cost of sales:			
Cost of products sold	869,085	863,671	744,335
Cost of merchandise sold	100,451	74,018	86,032
Cost of other operating revenue	7,391	7,145	6,330
	<u>976,927</u>	<u>944,834</u>	<u>836,697</u>
Gross profit	₩ <u>589,689</u>	<u>531,887</u>	\$ <u>505,043</u>

LOTTE CONFECTIONERY CO., LTD.

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

(26) Selling and Administrative Expenses

Details of selling and administrative for the years ended December 31, 2009 and 2008 are as follows:

	Korean Won (millions)		U.S. dollars (thousands) (note 3)
	2009	2008	2009
Salaries	₩ 118,186	130,441	\$ 101,221
Provision for retirement and severance benefits	12,868	15,198	11,021
Other employee benefits	36,430	30,162	31,201
Travel	3,072	2,935	2,631
Communication	1,835	1,849	1,572
Utilities	7,558	2,398	6,473
Taxes and dues	6,162	4,330	5,277
Rent	10,165	8,159	8,706
Depreciation	26,299	22,143	22,524
Amortization	14,693	9,617	12,584
Repairs	4,707	2,777	4,031
Vehicles maintenance	10,921	12,767	9,353
Samples expenses	24	1	21
Transportation	32,157	26,699	27,541
Supplies	3,678	4,113	3,150
Training	2,756	2,820	2,360
Insurance	4,059	3,444	3,476
Entertainment	404	281	346
Sales promotion	36,125	23,440	30,940
Overseas market	3,782	2,661	3,239
Commission	105,852	94,356	90,658
Dues and subscription	235	410	201
Advertising	37,103	37,569	31,777
Exporting	6,196	6,352	5,307
Bad and doubtful debts	195	714	167
Miscellaneous	4,777	1,520	4,092
	₩ <u>490,239</u>	<u>447,156</u>	\$ <u>419,869</u>

LOTTE CONFECTIONERY CO., LTD.

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

(27) Income Taxes

- (a) The Group was subject to income taxes on taxable income at the following normal tax rates:

Taxable income	Tax rate			
	2008	2009	2010	Thereafter
Up to ₩200 million	12.1%	12.1%	11.0%	11.0%
Over ₩200 million	27.5%	24.2%	24.2%	22.0%

- (b) The components of income tax expense (benefit) for the years ended December 31, 2009 and 2008 are summarized as follows:

	Korean Won (millions)		U.S. dollars (thousands) (note 3)
	2009	2008	2009
Current income tax expense	₩ 40,262	29,679	\$ 34,483
Deferred income tax expense	158,241	(87,225)	135,527
Accumulated deficit	659	(52)	564
Income taxes directly charged (credited) to equity	(146,157)	29,080	(125,177)
Discontinued operating income taxes	(5,674)	7,666	(4,860)
Income tax expense (benefit)	₩ <u>47,331</u>	<u>(20,852)</u>	\$ <u>40,537</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 Group's taxable income for the year differs from the actual tax expense in the statement of income for the years ended December 31, 2009 and 2008 for the following reasons:

	Korean Won (millions)		U.S. dollars (thousands) (note 3)
	2009	2008	2009
Income before income taxes	₩ 143,120	152,380	\$ 122,576
Expense for income taxes at normal tax rates	35,247	43,363	30,188
Adjustments			
Non-taxable income	(533)	(282)	(456)
Non-deductible expense	704	221	603
Tax credit	(2,760)	(2,164)	(2,364)
Other	14,673	(61,990)	12,566
Income tax expense (benefit)	₩ <u>47,331</u>	<u>(20,852)</u>	\$ <u>40,537</u>
Effective tax rate	<u>33.07%</u>	<u>-</u>	<u>33.07%</u>

LOTTE CONFECTIONERY CO., LTD.

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

(27) 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, 2009 and 2008 are presented below:

	Korean Won (millions)		U.S. dollars (thousands) (note 3)
	2009	2008	2009
Deferred tax assets:			
Allowance for doubtful accounts	₩ 6,651	6,151	\$ 5,696
Accrual for retirement and severance benefits	99	-	85
Prepaid expenses	4,756	3,742	4,073
Accrual for sales return	3,774	3,270	3,232
Other comprehensive loss due to equity method of accounting	1,945	4,041	1,666
Unrealized gain on valuation of derivative instruments	968	1,288	829
Accumulated deficit	2,023	2,767	1,733
Others	810	-	694
Total deferred tax assets	21,026	21,259	18,008
Deferred tax liabilities:			
Depreciation	(11,328)	(13,354)	(9,702)
Reserve for research and development	(1,870)	(1,687)	(1,602)
Equity method investment securities	(125,218)	(112,419)	(107,244)
Accrued interest income	(351)	(1,506)	(301)
Unrealized gain on valuation of long-term investments	(56,769)	(44,796)	(48,620)
Other comprehensive income due to equity method of accounting	(87,294)	(30,904)	(74,764)
Capital adjustments on equity method	(391)	(228)	(335)
Unrealized gain on revaluation of land	(83,101)	-	(71,172)
Foreign operation currency translation gain	(1,784)	(9,670)	(1,528)
Others	-	(1,220)	-
Total deferred tax liabilities	(368,106)	(215,784)	(315,268)
Discontinued operations	-	(13,761)	-
Net deferred tax liability	₩ (347,080)	(208,286)	\$ (297,260)

- (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.

LOTTE CONFECTIONERY CO., LTD.

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

(27) Income Taxes, Continued

(g) As of December 31, 2009 and 2008, details of aggregate deferred tax assets (liabilities) are as follows:

		Korean Won (millions)		
		2009		
		Temporary differences at December 31, 2009	Deferred tax assets (liabilities)	
			Current	Non-current
Deferred tax assets	₩	113,182	17,426	3,600
Deferred tax liabilities		(1,815,479)	(936)	(367,170)

		Korean Won (millions)		
		2008		
		Temporary differences at December 31, 2008	Deferred tax assets (liabilities)	
			Current	Non-current
Deferred tax assets	₩	91,405	15,498	39,472
Deferred tax liabilities		(1,147,161)	(3,288)	(259,968)

(h) The deferred tax assets (liabilities) that were directly recognized in equity for the year ended December 31, 2009 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	₩	(258,041)	(56,769)	\$ (221,001)	(66,283)
Unrealized gain on investments under equity method, net		(380,431)	(85,349)	(325,823)	(99,653)
Unrealized loss on valuation of derivative instruments		4,401	968	3,769	1,130
Overseas operations translation adjustments		(27,825)	(1,784)	(23,831)	(2,083)
Unrealized gain on revaluation of land		(377,730)	(83,101)	(323,510)	(97,029)
Other capital adjustments		6,142	(391)	5,260	(457)
	₩	<u>(1,033,484)</u>	<u>(226,426)</u>	<u>\$ (885,136)</u>	<u>(264,375)</u>

LOTTE CONFECTIONERY CO., LTD.

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

(28) Earnings Per Share

(a) Earnings per share for the years ended December 31, 2009 and 2008 are as follows:

	Korean Won (millions, except per share amount)		U.S. dollars (thousands, except per share amount) (note 3)
	2009	2008	2009
Consolidated Net income	₩ 96,737	176,595	\$ 82,852
Weighted-average number of common shares outstanding	1,407,400	1,407,400	1,407,400
Earnings per share	₩ <u>68,734</u>	<u>125,476</u>	\$ <u>59</u>

(b) Earnings per share from continuing operations for the years ended December 31, 2009 and 2008 are as follows:

	Korean Won (millions, except per share amount)		U.S. dollars (thousands, except per share amount) (note 3)
	2009	2008	2009
Income from continuing operations	₩ 114,895	191,088	\$ 98,403
Weighted-average number of common shares outstanding	1,407,400	1,407,400	1,407,400
Earnings per share from continuing operations	₩ <u>81,637</u>	<u>135,774</u>	\$ <u>70</u>

LOTTE CONFECTIONERY CO., LTD.

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

(29) Dividends

(a) Dividends as a percentage of net income and par value for the years ended December 31, 2009 and 2008 are as follows:

		Korean Won (millions, except per share data)			U.S. dollars (thousands, except per share amount) (note 3)
		2009	2008		2009
Dividend amount (cash dividends)	₩	4,926	4,222	\$	4,219
Consolidated net income	₩	96,737	176,595	\$	82,851
Dividends as a percentage of consolidated net income		5.09%	2.39%		5.09%
Par value per share	₩	5,000	5,000	\$	4
Dividends as a percentage of par value		70.00%	60.00%		70.00%

(b) Dividend yield ratio for the years ended December 31, 2009 and 2008 are as follows:

		Korean Won			U.S. dollars (note 3)
		2009	2008		2009
Dividend per share	₩	3,500	3,000	\$	3
Market price as of year end		1,289,000	1,305,000		1,104
Dividend yield ratio		0.27%	0.23%		0.27%

LOTTE CONFECTIONERY CO., LTD.

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

(30) Commitments and Contingencies

(a) As of December 31, 2009, the Group is a plaintiff in various lawsuits claiming damages totaling ₩1,022 million and the Group is a defendant in various lawsuits with damage claims totaling ₩1,462 million. The management believes that the ultimate resolutions of other legal actions will not have a material effect on the financial position or operations of the Group.

(b) The Group has various forms of credit facility commitments with financial institutions as of December 31, 2009 and 2008 as follows:

		Korean Won (millions), U.S. dollars (thousands)	
		2009	2008
Overdraft	₩	27,756	36,000
General loan		20,612	-
Buyer's credit		240,000	220,000
Commercial Paper		5,600	36,600
Letter of credit (Local)	₩	1,500	1,500
Letter of credit	\$	20,100	20,100
	₩	295,468	294,100
	\$	20,100	20,100

(c) As of December 31, 2009, the Group has ₩1,891 millions trade accounts discounted with third parties, and excluded from the accompanying statements of financial position.

(d) Technical Assistance Agreement of the Group as of December 31, 2009 are as follows:

Contractor	Description	Fee	Maturity
Wilkes & Associates, Inc.	Prime production	1.00% of Net Sales	Jun, 2006
	SPIC ice cream production	1.15% of Net Sales	Oct, 2015
	Cracker and snack production	0.75% of Net Sales	Feb, 2014
PepsiCo, Inc.	Snack production	3.00% of Net Sales	Mar, 2010
The Hershey Company	Ice cream production	1.15~3.00% of Net Sales	Aug, 2011
Miles Willard Technologies	Snack production	1.30% of Net Sales	Jul, 2017

LOTTE CONFECTIONERY CO., LTD.

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

(30) Commitments and Contingencies, Continued

(e) Joint ventures of the Group as of December 31, 2009 are as follows:

<u>Company</u>	<u>Location</u>	<u>Other</u>	<u>Korean Won (millions)</u>
Lotte China Foods Co., Ltd.	China	Lotte Holdings Co., Ltd. and others	24,128
Lotte Philippines Co., Inc.	Philippines	Lotte Holdings Co., Ltd. and others	664
Lotte Vietnam Co., Ltd.	Vietnam	Lotte Holdings Co., Ltd.	4,471
Lotte Packaging(Beijing) Co., Ltd.	China	Lotte Holdings Co., Ltd.	4,442
Lotte Taiwan Co., Ltd.	Taiwan	Lotte Holdings Co., Ltd.	3,421
Shandong Pengcheng Ice Co., Ltd.	China	Lotte (China) Investment Co., Ltd.	3,447
PT Lotte Trade and Distribution	Indonesia	Lotte Holdings Co., Ltd.	2,262
			<u>42,835</u>

(f) Other provisions

Details of other provisions as of December 31, 2009 are summarized as follows:

		Korean Won (millions)			
		2009			
		Balance at January 1, 2009	Provision	Payment	Balance at December 31, 2009
Accrual for sales return	₩	13,528	2,094	-	15,622

LOTTE CONFECTIONERY CO., LTD.

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

(31) Consolidated Statements of Comprehensive Income

Comprehensive income for the years ended December 31, 2009 and 2008 was as follows:

	Korean Won (millions)		U.S. dollars (thousands) (note3)
	2009	2008	2009
Net income	₩ 39,264	172,808	\$ 33,629
Change in unrealized gain on valuation of long-term investments, net of tax of ₩(11,973) million in 2009 and ₩29,622 million in 2008	42,449	(37,371)	36,356
Change in unrealized gain on valuation of equity method investments, net of tax of ₩(58,486) million in 2009 and ₩7,389 million in 2008	188,384	11,250	161,343
Change in unrealized loss on valuation of derivative, net of tax of ₩(320) million in 2009 and ₩1,288 million in 2008	1,132	(4,565)	970
Change in overseas operations translation adjustments, net of tax of ₩(7,886) million in 2009 and ₩(9,481) million in 2008	(33,644)	39,810	(28,815)
Change in unrealized gain on revaluation of land, net of tax of ₩(83,101) million in 2009 and nil in 2008	294,629	—	252,337
Consolidated comprehensive income	532,214	181,932	455,820
Minority interest in comprehensive income	(90,746)	10,749	(77,720)
Parent company interest in comprehensive income	₩ 622,960	171,183	\$ 533,540

(32) Non-cash Investing Activities

Significant non-cash investing activities for the years ended December 31, 2009 and 2008 are summarized as follows:

	Korean Won (millions)		U.S. dollars (thousands) (note3)
	2009	2008	2009
Change in fair value of land	₩ 377,730	-	\$ 323,510
Long-term investments transferred to equity method accounted investment	-	5,098	-

LOTTE CONFECTIONERY CO., LTD.

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

(33) Discontinued Operations

At the end of the year, the Group has lost its controlling position to Lotte Europe Holdings B.V. and its subsidiaries ("Russia division") as a result of the change in the major shareholders of Lotte Europe Holdings B.V. Accordingly, as of December 31, 2009, ₩677,560 million of asset and ₩393,914 million of liabilities belong to Russia division was reclassified into discontinued operations and excluded from the consolidated statements of financial position.

Income from discontinued operations was calculated as follows:

	Korean Won (millions)		U.S. dollars (thousands) (note 3)
	2009	2008	2009
Sales	₩ 40,013	38,916	\$ 34,269
Cost of sales	24,468	16,795	20,956
Gross profit	15,545	22,121	13,313
Selling and administrative expenses	49,740	36,906	42,600
Operating income (loss)	(34,195)	(14,785)	(29,287)
Non-operating income	38,295	5,496	32,798
Non-operating expenses	54,951	43,087	47,062
Loss from discontinued operation before income taxes	(50,851)	(52,376)	(43,551)
Income taxes	5,674	(7,666)	4,860
Income from discontinued operations	₩ <u>(56,525)</u>	<u>(44,710)</u>	\$ <u>(48,411)</u>

Significant transactions which occurred between the Group and discontinued operation for the years ended December 31, 2009 and 2008 and account balances with discontinued operation as of December 31, 2009 and 2008 are summarized as follows:

	Korean Won (millions)		U.S. dollars (thousands) (note 3)
	2009	2008	2009
Sales, etc.	₩ 5,689	2,717	\$ 4,872
Accounts and notes receivable - trade	1,351	924	1,157

The comparative consolidated statements of income was restated to show the discontinued operation separately from continuing operations.

LOTTE CONFECTIONERY CO., LTD.

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

(34) Segment Information

The Company conducts business globally and is managed geographically. The following table provides information for each geographical segment as of and for the years ended December 31, 2009 and 2008:

		2009		
		Korean Won (millions)		
		Sales	Operating income	Total assets
Domestic	₩	1,330,587	111,612	3,474,742
India		49,899	638	28,018
China		38,917	(685)	144,477
Vietnam		45,015	3,121	46,509
Belgium		122,500	(13,030)	200,153
		1,586,918	101,656	3,893,899
Consolidation adjustments		(20,302)	(2,206)	(179,469)
After consolidation adjustments	₩	<u>1,566,616</u>	<u>99,450</u>	<u>3,714,430</u>
		2008		
		Korean Won (millions)		
		Sales	Operating income	Total assets
Domestic	₩	1,263,265	89,453	2,464,260
India		41,447	(980)	45,660
China		35,949	(1,626)	162,197
Vietnam		36,422	1,321	44,286
Belgium		119,149	292	256,708
		1,496,232	88,460	2,973,111
Consolidation adjustments		(19,511)	(3,729)	188,667
After consolidation adjustments	₩	<u>1,476,721</u>	<u>84,731</u>	<u>3,161,778</u>

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

(35) Planning and Adoption of K-IFRS (International Financing Reporting Standards)

(a) The Company subsequently plans to issue financial statements prepared in accordance with K-IFRS from 2011. The Company organized a Task Force Team to perform preliminary analysis of the effects of K-IFRS adoption and establish accounting systems to apply the new accounting treatments, and has trained its relevant personnel internally and externally since March 2007. The Task Force Team regularly reports the details and status of the Adoption Plan to its board of directors and management. The details of the K-IFRS Adoption Plan are as follows:

Main Activities	Preparation Plan	State at December 31, 2009
Formation of the K-IFRS Adoption Task Force Team and analysis of the likely effects of K-IFRS adoption	Complete the K-IFRS Adoption Plan by the end of 2009 (Prepare 2010 comparative information and the 'explanation of transition to IFRS' called for under IFRS 1)	Sep. 2008 – Established the K-IFRS Adoption Task Force Team Apr. 2009 - Engaged an accounting firm to carry out an analysis of the likely effects of K-IFRS adoption
Training	Acquire the skills required for IFRS conversion by the end of 2009	Apr. 2009 – Held training for in-charge staff
Alignment of accounting systems	Complete the establishment of accounting systems to apply the new accounting treatments under K-IFRS by the end of 2009	Completed the analysis of the scope of required changes to the system

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

(35) Planning and Adoption of K-IFRS (International Financing Reporting Standards), Continued

- (b) Differences between Accounting under K-IFRS and under K-GAAP Expected to Have a Material Effect on the Company

Below is a list of notable differences between the financial statements as of and for the year ended December 31, 2009 as presented and as they would have been prepared under K-IFRS. The below list is not exhaustive, as in the future other unforeseen differences may appear as a result of future changes. In addition, practical effect of some of the significant differences listed below may not be obtainable.

Area	K-IFRS	Current K-GAAP
Employee benefits	Under the Projected Unit Credit Method, the Company recognizes a defined benefit obligation calculated using an actuarial technique and a discount rate based on the present value of the projected benefit obligation	The Company establishes an allowance for severance liability equal to the amount which would be payable if all employees left at the end of the reporting period.
Employee benefits in the form of compensated absences and bonus plans	When the employees render service that increases their entitlement to future compensated absences, recognize the expected cost of short-term employee benefits	When the amount of liability of payment is settled, recognize the amount of payables
Change in the scope of consolidated financial statements	Include subsidiaries under control of the parent company regardless of the size of the subsidiaries	Exclude subsidiaries under criteria governed by Enforcement Decree of the Act on External Audit of Stock Companies