

**Lotte Confectionery Co., Ltd.
and Subsidiaries**

**Consolidated Financial Statements
December 31, 2010**

Lotte Confectionery Co., Ltd. and Subsidiaries
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December 31, 2010

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Report of Independent Auditors

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

We have audited the accompanying consolidated statement of financial position of Lotte Confectionery Co., Ltd. and its subsidiaries (collectively the "Company") as of December 31, 2010, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the year then ended, expressed in Korean won. 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 audit. We did not audit the financial statements of consolidated subsidiaries, whose financial statements represent 43% of the Company's consolidated total assets as of December 31, 2010, and 34% of the Company's consolidated income before income taxes for the year then ended. These financial statements were audited by other auditors whose reports have been furnished us and our opinion, insofar as it relates to the amounts included for consolidated subsidiaries, is based solely on the reports of the other auditors. The consolidated financial statements of the Company as of and for the year ended December 31, 2009, presented herein for comparative purposes, were audited by other auditors whose report dated March 25, 2010, expressed an unqualified opinion on those statements.

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

In our opinion, based on our audit and the reports of other auditors, 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, 2010, and the results of its operations, the changes in its shareholders' equity and its cash flows for the year then ended in conformity with accounting principles generally accepted in the Republic of Korea.

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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, changes in shareholders' equity and cash flows in conformity with accounting principles and practices generally accepted in countries and jurisdictions other than the Republic of Korea. In addition, the procedures and practices used 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 who are informed about Korean accounting principles or auditing standards and their application in practice.

Samil PricewaterhouseCoopers

Seoul, Korea
March 31, 2011

This report is effective as of March 31, 2011, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

Lotte Confectionery Co., Ltd. and Subsidiaries
Statements of Financial Position
December 31, 2010 and 2009

<i>(in millions of Korean won)</i>	Notes	2010	2009
Assets			
Current assets			
Cash and cash equivalents	16	₩ 227,152	₩ 98,266
Short-term deposits		73,844	175,828
Short-term investments	6	2,803	349
Accounts and notes receivable, net	16,24,27	228,353	177,872
Other receivables	27	5,166	4,428
Accrued interest income		1,117	1,503
Prepayments		3,952	13,922
Prepaid expense		5,930	3,960
Inventories	5	159,353	138,955
Current deferred tax assets	22	15,196	16,471
Other current assets		<u>6,950</u>	<u>5,174</u>
Total current assets		<u>729,816</u>	<u>636,728</u>
Non-current assets			
Long-term deposits	4	15,120	754
Long-term investments	6	385,241	360,530
Equity-method investments	7	1,398,908	1,401,962
Derivative assets	18	53,393	15,126
Property, plant and equipment, net	9,11,12	1,332,950	1,182,305
Intangible assets, net of amortization	10	64,768	81,411
Long-term prepaid expenses		5,602	8,816
Guarantee deposits paid		22,005	26,777
Non-current deferred tax assets	22	1,533	20
Other assets		<u>865</u>	<u>1</u>
Total non-current assets		<u>3,280,385</u>	<u>3,077,702</u>
Total assets		<u>₩ 4,010,201</u>	<u>₩ 3,714,430</u>

Lotte Confectionery Co., Ltd. and Subsidiaries
Statements of Financial Position
December 31, 2010 and 2009

<i>(in millions of Korean won)</i>	Notes	2010	2009
Liabilities			
Current liabilities			
Accounts and notes payable	16,24,27 ₩	186,457 ₩	153,342
Short-term borrowings	12	39,583	6,139
Other payables		65,190	80,382
Accrued expenses	16	68,212	65,253
Current portion of long-term borrowings	12	2,151	2,994
Current portion of debentures, net	12	153,568	-
Income taxes payable	22	25,080	14,981
Provision for sales returns	15	22,852	15,622
Current deferred tax liabilities	22	-	481
Other current liabilities		<u>23,552</u>	<u>19,758</u>
Total current liabilities		<u>586,645</u>	<u>358,952</u>
Non-current liabilities			
Long-term borrowings, net	11,12	4,120	7,496
Debentures, net	12,16	271,888	384,164
Guarantee deposits received		29,010	15,855
Accrual for retirement and severance benefits, net	13	9,700	6,298
Non-current deferred tax liabilities	22	385,202	363,090
Derivative liabilities	18	-	57
Other non-current liabilities		<u>5,617</u>	<u>6,083</u>
Total non-current liabilities		<u>705,537</u>	<u>783,043</u>
Total liabilities		<u>1,292,182</u>	<u>1,141,995</u>
Commitments and contingencies	17		

Lotte Confectionery Co., Ltd. and Subsidiaries
Statements of Financial Position
December 31, 2010 and 2009

<i>(In millions of Korean won)</i>	Notes	2010	2009
Shareholders' equity			
Common stock of ₩5,000 par value per share			
Authorized 3,000,000 shares			
Issued and outstanding 1,421,400 shares	1,20	₩ 7,107	₩ 7,107
Capital surplus			
Additional paid-in capital		1,350	1,350
Other additional capital		11,648	11,648
Asset revaluation surplus		257,187	257,187
Capital adjustments			
	20		
Treasury stock		(6,248)	(6,248)
Discount on stock issuance		(11)	(11)
Other capital adjustments		(9,166)	(6,533)
Accumulated other comprehensive income			
	23		
Gain on valuation of available-for-sale securities		228,844	201,272
Change in equity of equity-method investments		309,906	318,815
Negative change in equity of equity-method investments		(25,808)	(23,733)
Loss on valuation of derivatives		(5,562)	(3,433)
Gain on revaluation of property, plant, and equipment		314,437	294,629
Overseas operations translation gain		22,285	26,041
Retained earnings			
	21		
Statutory reserves		3,637	3,554
Voluntary reserves		1,335,400	1,244,900
Unappropriated retained earnings		143,807	97,616
Minority interests in consolidated subsidiaries		<u>129,206</u>	<u>148,274</u>
Total shareholders' equity		<u>2,718,019</u>	<u>2,572,435</u>
Total liabilities and shareholders' equity		<u>₩ 4,010,201</u>	<u>₩ 3,714,430</u>

The accompanying notes are an integral part of these consolidated financial statements.

Lotte Confectionery Co., Ltd. and Subsidiaries
Statements of Income
Years ended December 31, 2010 and 2009

<i>(In millions of Korean won, except per share amounts)</i>	Notes	2010	2009
Sales	24, 27	₩ 1,794,146	₩ 1,566,616
Cost of sales		<u>1,107,674</u>	<u>976,927</u>
Gross profit		686,472	589,689
Selling and administrative expenses		<u>571,980</u>	<u>490,239</u>
Operating Income		<u>114,492</u>	<u>99,450</u>
Non-operating income			
Interest income		9,216	10,797
Dividend income		2,155	2,804
Gain on foreign currency translation		2,055	24,734
Gain on disposal of short-term investments		57	2,361
Gain on disposal of property, plant and equipment		1,106	6,559
Gain on valuation of equity-method investments		91,050	73,589
Gain on sale of equity-method investments		3,439	2,146
Gain on valuation of derivatives	18	41,344	-
Reversal of negative goodwill		486	175
Others		15,350	13,875
		<u>166,258</u>	<u>137,040</u>
Non-operating expenses			
Interest expense		20,892	11,387
Donations		4,730	4,102
Loss on foreign currency translation		42,434	1,254
Loss on disposal of property, plant and equipment		203	154
Loss on impairment of property, plant and equipment		-	2,959
Loss on revaluation of property, plant and equipment		-	1,336
Loss on impairment of goodwill		-	22,474
Loss on valuation of derivatives	18	214	21,626
Loss on transaction of derivatives		754	1,154
Loss on disposal of long-term investments		41	321
Loss on valuation of equity-method investments		42,004	12,375
Loss on disposal of equity-method investments		-	584
Others		26,540	13,644
		<u>137,812</u>	<u>93,370</u>
Income from continuing operations before income taxes		142,938	143,120
Income tax expense on continuing operations	22	<u>47,424</u>	<u>47,331</u>
Net loss of subsidiaries before acquisition		<u>41,365</u>	<u>-</u>
Income from continuing operations		136,879	95,789

Lotte Confectionery Co., Ltd. and Subsidiaries
Statements of Income
Years ended December 31, 2010 and 2009

<i>(In millions of Korean won, except per share amounts)</i>	Notes	2010	2009
Loss from discontinued operations, net	23	-	(56,525)
Income tax of ₩5,674 in 2009			
Net income		₩ 136,879	₩ 39,264
Parent interest in net income		₩ 141,701	₩ 96,737
Minority interest in net income		(4,822)	(57,473)
Earnings per share	25		
Basic and diluted earnings per share from continuing operations		₩ 100,683	₩ 81,637
Basic and diluted earnings per share		₩ 100,683	₩ 68,734

The accompanying notes are an integral part of these consolidated financial statements.

Lotte Confectionery Co., Ltd. and Subsidiaries
Statements of Changes in Shareholders' Equity
Years ended December 31, 2010 and 2009

(In millions of Korean won)

	Capital stock	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Minority interests	Total
Balances as of January 1, 2009	₩ 7,107	₩ 270,993	₩ (6,753)	₩ 287,368	₩ 1,253,555	₩ 327,062	₩ 2,139,332
Net income	-	-	-	-	96,737	(57,473)	39,264
Dividends	-	-	-	-	(4,222)	-	(4,222)
Gain on valuation of available-for-sale securities, net of tax	-	-	-	42,449	-	-	42,449
Changes in equity of equity-method investments, net of tax	-	-	-	188,384	-	-	188,384
Gain on valuation of derivatives, net of tax	-	-	-	1,132	-	-	1,132
Overseas operations translation gain (loss), net of tax	-	-	-	(371)	-	(33,273)	(33,644)
Change in the scope of consolidation	-	-	-	-	-	(194,031)	(194,031)
Gain on revaluation of property, plant, and equipment, net of tax	-	-	-	294,629	-	-	294,629
Paid-in capital increase	-	-	-	-	-	107,307	107,307
Consolidation equity adjustment	-	(808)	(6,533)	-	-	(1,318)	(8,659)
Others	-	-	494	-	-	-	494
Balance as of December 31, 2009	₩ 7,107	₩ 270,185	₩ (12,792)	₩ 813,591	₩ 1,346,070	₩ 148,274	₩ 2,572,435
Balances as of January 1, 2010	₩ 7,107	₩ 270,185	₩ (12,792)	₩ 813,591	₩ 1,346,070	₩ 148,274	₩ 2,572,435
Net income	-	-	-	-	141,701	(4,822)	136,879
Dividends	-	-	-	-	(4,326)	(566)	(5,492)
Gain on valuation of available-for-sale securities, net of tax	-	-	-	27,571	-	-	27,571
Changes in equity of equity-method investments, net of tax	-	-	-	(10,983)	-	-	(10,983)
Loss on valuation of derivatives, net of tax	-	-	-	(2,128)	-	-	(2,128)
Overseas operations translation gain (loss), net of tax	-	-	-	(3,757)	-	(7,216)	(10,973)
Change in the scope of consolidation	-	-	-	-	-	(6,715)	(6,715)
Gain on revaluation of property, plant, and equipment, net of tax	-	-	-	19,808	-	333	20,141
Paid-in capital increase	-	-	-	-	-	-	-
Consolidation equity adjustment	-	-	(2,633)	-	-	(63)	(2,696)
Others	-	-	-	-	(1)	(19)	(20)
Balance as of December 31, 2010	₩ 7,107	₩ 270,185	₩ (15,425)	₩ 844,102	₩ 1,482,844	₩ 129,206	₩ 2,718,019

The accompanying notes are an integral part of these consolidated financial statements.

Lotte Confectionery Co., Ltd. and Subsidiaries
Statements of Cash Flows
Years ended December 31, 2010 and 2009

<i>(in millions of Korean won)</i>	2010		2009	
Cash flows from operating activities				
Net Income	₩	136,879	₩	39,264
Adjustments to reconcile net income				
to net cash provided by operating activities				
Depreciation		80,264		70,507
Amortization of intangible assets		12,348		15,239
Bad debts expense		5,606		195
Provision for severance benefits		19,334		18,518
Amortization of discount on debentures		419		217
Loss on foreign currency translation		41,232		353
Loss on disposal of long-term investments		41		321
Loss on valuation of equity-method investments		42,004		12,375
Loss on disposal of equity method investments		-		584
Loss on impairment of property, plant and equipment		-		2,959
Loss on impairment of goodwill		-		22,474
Loss on valuation of derivative instruments		214		21,626
Gain on foreign currency translation		(132)		(21,807)
Gain on disposal of short-term investments		(57)		(2,361)
Gain on valuation of equity-method investments		(91,050)		(73,589)
Gain on disposal of equity-method investments		(3,439)		(2,146)
Gain on disposal of property, plant and equipment, net		(904)		(6,405)
Gains on valuation of derivatives		(41,344)		-
Net loss of subsidiaries before acquisition		(41,365)		-
Others		11,065		2,113
		<u>34,236</u>		<u>81,173</u>
Changes in operating assets and liabilities				
Decrease (Increase) in trade accounts and notes receivable		(48,319)		18,868
Decrease in accrued interest income		409		4,776
Decrease (Increase) in prepayments		853		(6,683)
Increase in prepaid expenses		(2,095)		(136)
Decrease (Increase) in inventories		(15,171)		21,714
Dividends received		3,255		4,506
Increase in long-term prepaid expenses		-		(7,944)
Increase in deferred tax assets		(116)		(3,068)
Decrease (Increase) in other assets		4,892		(3,175)
Increase in accounts payable		33,507		34,418
Increase in accrued expenses		6,996		24,429
Increase (Decrease) in income taxes payable		9,741		(15,287)
Increase in provision for sales returns		6,853		2,094
Increase in deferred tax liabilities		14,273		9,855
Payment of severance benefits		(14,050)		(14,804)
Increase in severance insurance deposits		(2,372)		(5,932)
Increase (Decrease) in other liabilities		(1,502)		886
Cash outflows from discontinued operations		-		(31,381)
		<u>(2,846)</u>		<u>33,116</u>
Net cash provided by operating activities		<u>168,269</u>		<u>133,553</u>

Lotte Confectionery Co., Ltd. and Subsidiaries
Statements of Cash Flows
Years ended December 31, 2010 and 2009

<i>(In millions of Korean won)</i>	2010	2009
Cash flows from investing activities		
Proceeds from disposal of short-term deposits	₩ 137,928	₩ 77,331
Proceeds from disposal of short-term investments	358	2,443
Proceeds from disposal of long-term deposits	878	-
Proceeds from disposal of long-term investments	297	704
Proceeds from disposal of equity-method investments	-	2,579
Proceeds from disposal of property, plant and equipment	4,207	13,656
Cash inflows from discontinued operations	-	8,189
Proceeds from disposal of other assets	5,257	7,409
Acquisition of short-term deposits	(23,521)	(34,897)
Acquisition of short-term investments	(15,332)	(2,624)
Short-term loans granted	(808)	-
Acquisition of long-term deposits	(10,006)	(716)
Acquisition of long-term investments	(3,581)	(51,870)
Acquisition of equity-method investments	(39,905)	(127,917)
Acquisition of property, plant and equipment	(98,264)	(216,111)
Acquisition of intangible assets	(1,266)	(432)
Acquisition of business	(1,390)	-
Cash outflows from discontinued operations	-	(191,448)
Increase in guarantee deposits	(4,337)	(12,227)
Others	(391)	-
Net cash used in investing activities	<u>(49,678)</u>	<u>(527,931)</u>
Cash flows from financing activities		
Proceeds from short-term borrowings	91,188	4,645
Proceeds from long-term borrowings	-	8,486
Proceeds from issuance of debentures	-	251,911
Cash inflows from discontinued operations	-	409,723
Payment of short-term borrowings	(67,158)	(40,382)
Payment of current portion of long-term borrowings	(10,986)	(537)
Payment of long-term borrowings	(854)	(771)
Cash outflow from consolidated equity transaction	(20,483)	(8,496)
Payment of dividends	(5,494)	(5,403)
Cash outflows from discontinued operations	-	(143,006)
Net cash provided by (used in) financing activities	<u>(13,779)</u>	<u>474,170</u>
Increase (Decrease) in cash and cash equivalents due to change in consolidating subsidiaries	25,806	(87,040)
Decrease in cash and cash equivalents due to foreign currency translation	(1,733)	(5,887)
Net increase (decrease) in cash and cash equivalents	<u>128,887</u>	<u>(13,135)</u>
Cash and cash equivalents		
Beginning of the year	98,265	111,400
End of the year	<u>₩ 227,152</u>	<u>₩ 98,265</u>

The accompanying notes are an integral part of these consolidated financial statements.

Lotte Confectionery Co., Ltd. and Subsidiaries
Notes to the Financial Statements
December 31, 2010 and 2009

1. Organization

Lotte Confectionery Co., Ltd. (the "Controlling Company") was established on March 24, 1967 in the Republic of Korea to manufacture, and sell confectionery goods and ice cream. The Controlling Company listed its common stock on the Korea Exchange on February 16, 1974, and the capital stock as of December 31, 2010, is amounting to ₩7,107 million.

The shareholders of the Controlling Company and their ownership as of December 31, 2010, are as follows:

Shareholder	Number of shares	Ownership
Lotte Aluminum Co., Ltd.	217,268	15.29%
Shin Kyuk Ho	97,057	6.83%
The Lotte Foundation	123,576	8.69%
Others	969,499	68.21%
	<u>1,421,400</u>	<u>99.02%</u>
Treasury stock	14,000	0.98%
Total	<u>1,421,400</u>	<u>100.00%</u>

2. Consolidated Companies

Consolidated subsidiaries as of December 31, 2010, are as follows:

Subsidiaries	Location	Products or services	2010	
			Fiscal Year-end	Percentage of ownership
Lotte Pharm Co., Ltd.	Korea	Pharmaceutical company	Dec. 31	100.00%
Kirin Foods Co., Ltd.	Korea	Food manufacturing	Dec. 31	100.00%
Lotte India Co., Ltd. ¹	India	Food manufacturing	March 31	98.37%
Lotte Qingdao Foods Co., Ltd. ⁴	China	Food manufacturing	Dec. 31	100.00%
Shandong Pengcheng Ice Co., Ltd. ⁴	China	Food manufacturing	Dec. 31	71.49%
Bibica Corporation	Vietnam	Food manufacturing	Dec. 31	38.60%
Lotte Food Holding Co., Ltd.	China	Holding company	Dec. 31	100.00%
LH Foods Co., Ltd. ²	China	Holding company	Dec. 31	51.00%
Lotte Shanghai Foods Co., Ltd. ²	China	Food manufacturing	Dec. 31	100.00%
Lotte (China) Investment Co., Ltd. ²	China	Food manufacturing		43.50%
Lotte Confectionery Holdings (Europe) B.V. ³	Netherlands	Holding company	Dec. 31	51.00%
Chocolaterie Guylian NV ³	Belgium	Food manufacturing	Dec. 31	99.97%
Lotte Foods India Pvt. Ltd. ¹	India	Food manufacturing	Dec. 31	100.00%

Lotte Confectionery Co., Ltd. and Subsidiaries
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- ¹ In 2010, Lotte India Co., Ltd. merged with Lotte Foods India.
- ² The shares of LH Foods Co., Ltd. and Lotte (China) Investment Co., Ltd. are owned by Lotte Food Holding Co., Ltd. and the shares of Lotte Shanghai Foods Co., Ltd. are the sum of the shares held by LH Foods Co., Ltd. and Lotte (China) Investment Co., Ltd.
- ³ The shares of Chocolaterie Guylian NV are held by Lotte Confectionery Holdings(Europe) B.V. and Lotte Europe Holdings B.V.
- ⁴ The shares of these companies are the sum of the shares held by the Controlling Company and Lotte (China) Investment Co., Ltd.

The significant financial data of the subsidiaries as of and for the year ended December 31, 2010, included in the accompanying consolidated financial statements are summarized as follows:

Subsidiaries	Asset	Liabilities	Sales	Net Income(loss)
Lotte Pharm Co., Ltd.	₩ 14,050	₩ 11,098	₩ 16,723	₩ (612)
Kirin Foods Co., Ltd.	116,302	15,396	73,199	3,224
Lotte India Co., Ltd.	123,056	12,954	53,734	702
Lotte Qingdao Foods Co., Ltd.	30,944	2,773	12,949	28
Shandong Pengcheng Ice Co., Ltd.	13,721	2,604	3,981	(1,274)
Bibica Corporation	44,394	13,300	47,743	2,232
Lotte Food Holding Co., Ltd.	56,774	31	-	(14,098)
LH Foods Co., Ltd.	89,258	32	-	(46)
Lotte Shanghai Foods Co., Ltd.	104,683	6,719	38,890	(843)
Lotte (China) Investment Co., Ltd.	72,807	66,722	61,807	(41,365)
Lotte Confectionery Holdings (Europe) B.V.	188,001	49,019	112,196	7,159
Chocolaterie Guylian NV	80,416	39,891	112,196	7,217
Lotte Foods India Pvt. Ltd.	-	-	-	67

Change in the scope of consolidation

The following companies are included in the scope of consolidation for the year ended December 31, 2010:

Location	Subsidiaries	Reason
Korea	Kirin Foods Co., Ltd.	Newly established
China	Shandong Pengcheng Ice Co., Ltd.	Increase in size
	Lotte (China) Investment Co., Ltd.	Acquisition of shares

Use of unaudited and unreviewed financial statements

In preparing the consolidated financial statements, the financial statements of Lotte Confectionery Holdings (Europe) B.V. were unaudited and to verify the reliability of the financial statements, the Controlling Company confirmed whether significant transactions and accounting events are properly recognized. Thus, the management of the Controlling Company is convinced that the effects of the difference arising from unaudited and audited financial statements would not be material to the financial statements.

3. Summary of Significant Accounting Policies

The following is a summary of significant accounting policies followed by the Company in the preparation of its consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated.

Lotte Confectionery Co., Ltd. and Subsidiaries
Notes to the Financial Statements
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Basis of Consolidated Financial Statement Presentation

The Controlling Company maintains its accounting records in Korean won and prepare statutory financial statements in the Korean language, in conformity with accounting principles generally accepted in the Republic of Korea.

The fiscal year end for the consolidated financial statements is the Controlling Company's fiscal year end. The Controlling Company maintains its accounting records in Korean won and prepares statutory financial statements in the Korean language, in conformity with accounting principles generally accepted in the Republic of Korea. The Company and its consolidated subsidiaries follow the same fiscal year end. Differences in accounting policy between the Company and its consolidated subsidiaries are adjusted during consolidation.

Scope of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries. Under financial accounting standards for consolidated financial statements in the Republic of Korea, a company is regarded as a subsidiary of another, if more than 50% of its issued share capital is held by the other (parent) company; or more than 30 % of its issued share capital is held by the other (parent) company which is also its largest shareholder. Investments in companies, where the Company either owns 20% to 50% of the outstanding shares or exerts significant influence, are accounted for using the equity method. Under the equity method, the original investment is recorded at cost and adjusted by the Company's share of undistributed earnings or losses of these companies.

Elimination of Investment and Capital Accounts

The investment account of the Controlling Company is eliminated against the corresponding capital accounts of its consolidated subsidiaries.

To eliminate the investment account of the controlling company and corresponding capital accounts of subsidiaries, the purchase method or the pooling of interest method is applied depending on the nature of the transaction. In using the purchase method, when the Company has control over a subsidiary the Company records differences between the initial investment accounts and corresponding capital accounts of subsidiaries as goodwill or negative goodwill, in which the goodwill is amortized over 20 years, using the straight-line method. Negative goodwill is reversed when the loss or expenses are incurred as written on the contract. Identifiable non-monetary assets of subsidiaries should be reversed over weighted average useful life of depreciable asset, using the straight-line method up to the asset's fair value. The amount that exceeds the fair value of the identifiable non-monetary assets, the amount should be reversed at the time when the company becomes a subsidiary.

Elimination of Intercompany Unrealized Profit

Unrealized profit included in inventories, property, plant and equipment and other assets as a result of intercompany transactions is eliminated based on the average gross profit ratio of the corresponding company. Unrealized profit arising from sales by the Controlling Company to the consolidated subsidiaries is fully eliminated and charged to the equity of the Controlling Company. Unrealized profit arising from sales by the consolidated subsidiaries to the Controlling Company or between consolidated subsidiaries is charged to the equity of the Controlling Company to the extent of the Controlling Company's percentage of ownership.

Minority Interest

The Company records the equity of the consolidated subsidiaries, which is not included in the equity of the controlling company, as a minority interest in consolidated subsidiaries. In addition, if losses of the consolidated subsidiaries, included in minority interest, are in excess of minority interest, the deficit in excess of minority interest is charged to the equity of the controlling company. Until losses charged to the equity of the controlling company are recovered, all gains on related consolidated subsidiaries are recognized in equity of the controlling company.

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Change in Accounting Estimates

In 2010, the Company reduced its estimate of the useful lives of certain building, structures and machinery. The Company believes that the new method more accurately reflects the results of operations. This change resulted in a decrease in depreciation for 2010 by ₩13,808 million.

Revenue Recognition

Revenue is the gross inflow of economic benefits arising in the ordinary course of the Company's activities and is measured as the fair value of the consideration received or receivable for the sale of goods and services in the said ordinary course of the Company's activities. Revenue is shown as net of value-added tax, sales discounts and sales returns. The Company recognizes revenue when the amount of revenue can be reliably measured, and it is probable that future economic benefits will flow into the Company.

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of goods are transferred to the buyer.

Interest income is recognized using the effective interest method. Dividend income is recognized when the rights to receive such dividends and amounts thereof are determined. Royalty income is recognized on an accrual basis in accordance with the substance of relevant contracts.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and in banks, and financial instruments with maturity of three months or less at the time of purchase. These financial instruments are readily convertible into cash without significant transaction costs and bear low risks from changes in value due to interest rate fluctuations.

Allowance for Doubtful Accounts

The Company provides an allowance for doubtful accounts and notes receivable. Allowances are calculated based on the estimates made through a reasonable and objective method.

Inventories

The quantities of inventories are determined using the perpetual method and periodic inventory count, while the costs of inventories are determined using the monthly periodic average method (identification method for materials-in-transit). Inventories are stated at the lower of cost or net realizable value (market price for merchandise and finished good is net realizable value and replacement cost for raw materials). Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expense. Replacement cost is used for the estimate of net realizable value of raw materials. If, however, the circumstances which caused the valuation loss cease to exist, the valuation loss is reversed, but not exceeding the original carrying amount before valuation. The said reversal is deducted from cost of sales.

Investments in Securities

Costs of securities are determined using the moving-weighted average method. Investments in equity securities or debt securities are classified into trading securities, available-for-sale securities and held-to-maturity securities, depending on the acquisition and holding purpose. Investments in equity securities of companies, over which the Company exercises a significant control or influence, are recorded using the equity method of accounting. Trading securities are classified as current assets while available-for-sale securities and held-to-maturity securities are classified as long-term investments, excluding those securities that mature or are certain to be disposed of within one year, which are then classified as current assets.

Held-to-maturity securities are measured at amortized cost while available-for-sale and trading securities are measured at fair value. However, non-marketable securities, classified as available-for-sale securities, are carried at cost when the fair values are not readily determinable. Gains and losses related to trading securities are recognized in the income statement, while unrealized gains and losses of available-for-sale securities are recognized under other comprehensive income and expense. Realized gains and losses of available-for-sale securities

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are recognized in the income statement.

Equity-Method Investments

Company reflects any changes in the book value of its equity-method investments after the initial purchase date. Under the equity method, the Company records changes in its proportionate ownership in the book value of the investee in current operations, as capital adjustments or as adjustments to retained earnings, depending on the nature of the underlying change in the book value of the investee. All other changes in equity should be accounted for under other comprehensive income and expense.

Property, Plant and Equipment

Land is shown at fair value based on a periodic valuation conducted at least every three years and performed by an independent appraiser. Other property, plant and equipment are stated at cost, which includes acquisition cost, production cost and other costs required to prepare the asset for its intended use.

Property, plant and equipment are stated at cost, which includes acquisition cost, production cost and other costs required to prepare the asset for its intended use. It also includes the present value of the estimated cost of dismantling and removing the asset, and restoring the site after the termination of the asset's useful life, provided it meets the criteria for recognition of provisions.

An increase as a result of a revaluation is credited directly to equity under other accumulated comprehensive income and expense. However, the decrease as a result of a revaluation is deducted directly from equity under other accumulated other comprehensive income and expense to the extent of any balance existing in the revaluation surplus in respect of that asset and the residual is recognized as profit or loss.

Property, plant and equipment are stated net of accumulated depreciation calculated based on the following depreciation method and estimated useful lives (declining-balance method for buildings and structures purchased before 1995):

	Estimated Useful Lives	Depreciation Method
Buildings	5 - 50 years	Straight-line method
Structures	7 - 40 years	Straight-line method
Machinery	5 - 20 years	Declining-balance and straight-line method
Tools	4 - 10 years	Declining-balance and straight-line method
Vehicles	3 - 10 years	Declining-balance and straight-line method
Other	1 - 10 years	Declining-balance and straight-line method

Expenditures incurred after the acquisition or completions of assets are capitalized if they enhance the value of the related assets over their recently appraised value or extend the useful life of the related assets. Routine maintenance and repairs are charged to expense as incurred.

Intangible Assets

Intangible assets are stated at cost, which includes acquisition cost, production cost and other costs required to prepare the asset for its intended use. Intangible assets are stated net of accumulated amortization calculated based on using the following depreciation method and estimated useful lives:

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	Estimated Useful Lives	Depreciation Method
Industrial property rights	3 - 20 years	Straight-line method
Premium of lease	5 years	Straight-line method
Rights to use of facility	10 - 50 years	Straight-line method
Others	5 years	Straight-line method

Impairment of Assets

When the book value of an asset is significantly greater than its recoverable value due to obsolescence, physical damage or an abrupt decline in the market value of the asset, the said decline in value is deducted from the book value to agree with recoverable amount and is recognized as an asset impairment loss for the period. When the recoverable value subsequently exceeds the book value, the impairment amount is recognized as gain for the period to the extent that the revised book value does not exceed the book value that would have been recorded without the impairment. Reversal of impairment of goodwill is not allowed.

Derivatives

All derivative instruments are accounted for at their fair value according to the rights and obligations associated with the derivative contracts. The resulting changes in fair value of derivative instruments are recognized either under the income statement or shareholders' equity, depending on whether the derivative instruments qualify as a cash flow hedge. Fair value hedge accounting is applied to a derivative instrument purchased with the purpose of hedging the exposure to changes in the fair value of an asset or a liability or a firm commitment that is attributable to a particular risk. The resulting changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized under the shareholders' equity under accumulated other comprehensive income and expense.

Income Tax and Deferred Income Tax

Income tax expense includes the current income tax under the relevant income tax law and the changes in deferred tax assets or liabilities. Deferred tax assets and liabilities represent temporary differences between financial reporting and the tax bases of assets and liabilities. Deferred tax assets are recognized for temporary differences which will decrease future taxable income or operating loss to the extent that it is probable that future taxable income will be available against which the temporary differences can be utilized. Deferred tax effects applicable to items in the shareholders' equity are directly reflected in the shareholders' equity.

Discounts on Debentures

Discounts on debentures are amortized over the term of the debentures using the effective interest rate method. Amortization of the discount is recorded as part of interest expense.

Accrued Severance Benefits

Employees and directors with at least one year of service are entitled to receive a lump-sum payment upon termination of their employment with the Company based on their length of service and rate of pay at the time of termination. Accrued severance benefits represent the amount which would be payable assuming all eligible employees and directors were to terminate their employment as of the date of statement of financial position.

The Company has partially funded the accrued severance benefits through severance insurance deposits with an insurance company. Deposits made by the Company are recorded as deductions from accrued severance benefits. The excess portion of deposits over accrued severance benefits is recorded as other investments.

The Company has made deposits to the National Pension Fund in accordance with National Pension Funds Law. Accordingly, accrued severance benefits are presented net of this deposit.

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Provisions and Contingent Liabilities

When there is a probability that an outflow of economic benefits will occur due to a present obligation resulting from a past event, and whose amount is reasonably estimable, a corresponding amount of provision is recognized in the financial statements. However, when such outflow is dependent upon a future event, is not certain to occur, or cannot be reliably estimated, a disclosure regarding the contingent liability is made in the notes to the financial statements

Translation of Assets and Liabilities Denominated in Foreign Currencies

Monetary assets and liabilities denominated in foreign currencies are translated into Korean won at the rates of exchange in effect at the date of the statement of financial position, and the resulting translation gains and losses are recognized in current operations.

Currency Translation for Overseas Operations

Assets and liabilities of overseas branches or companies subject to the equity method of accounting for investments are translated into Korean won at the rates of exchange in effect at the date of the statement of financial position, while their equity is translated at the exchange rate at the time of transaction, and income statement accounts at the average rate over the period. Resulting translation gains and losses are recorded as accumulated other comprehensive income and expense.

Lease Transaction

The Company accounts for lease transactions as either operating lease or finance lease, depending on the terms of the lease agreement. A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset, while an operating lease is a lease other than a finance lease. Annual minimum lease payments, excluding residual value, are allocated to interest expense or for the redemption of capital lease liability using the effective interest method. In case of operating lease, the annual minimum lease payments, less guaranteed residual value, are recognized as income on a constant basis over the lease term, unless another reasonable basis is used.

4. Restricted Bank Deposits

(in thousands of Korean won)

Account	2010	2009
Long-term:		
Guarantee deposits for checking account	₩ 40	₩ 34

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5. Inventories

(in thousands of Korean won)

	2010	2009
Merchandise, net of allowance for valuation losses of ₩630 million (2009: ₩37 million)	₩ 12,134	₩ 8,160
Finished goods, net of allowance for valuation losses of ₩188 million (2009: ₩50 million)	66,369	54,341
Work-in-process	9,297	9,332
Raw materials, net of allowance for valuation losses of ₩541 million (2009: ₩661 million)	31,994	28,907
Packing materials	2,975	2,000
Supplies	4,633	4,501
Materials-in-transit	31,951	31,714
	<u>₩ 159,353</u>	<u>₩ 138,955</u>

6. Investment Securities

Short-term and long-term securities are all available-for-sales securities as of December 31, 2010 and 2009, consist of the following:

(in millions of Korean won)

	2010	2009
Short-term available-for-sale		
Debt securities	₩ 2,803	₩ 349
Long-term available-for-sale		
Equity Securities	383,381	357,510
Marketable securities	281,423	254,246
Non-marketable securities	101,843	103,149
Equity investments	115	115
Debt securities	1,861	3,020
Total	<u>₩ 388,045</u>	<u>₩ 360,879</u>

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Available-for-sale securities (equity securities):

(in millions of Korean won)

		2010		2009	
	Percentage of Ownership	Cost	Fair value or net asset	Book value	Book value
Marketable securities					
Lotte Chilsung Beverage Co., Ltd. (common stock)	11.74%	₩21,379	₩139,428	₩139,428	₩122,435
Lotte Chilsung Beverage Co., Ltd. (preferred stock)	8.05%	176	3,734	3,734	3,376
Lotte Samkang Co., Ltd.	9.79%	989	33,641	33,641	30,560
Busan Bank	2.97%	27,596	79,448	79,448	77,234
Shinhan Financial Group	0.10%	3,315	24,234	24,234	19,790
Others	-	204	938	938	851
		<u>53,659</u>	<u>281,423</u>	<u>281,423</u>	<u>254,246</u>
Non-marketable securities:					
Lotte Moolsan Co., Ltd. ¹	0.02%	18	222	222	214
Korea Fujifilm Co., Ltd. ¹	0.89%	41	5,988	5,988	4,806
Lotte Station B/D. Co. ¹	8.87%	1,596	61,133	61,133	53,386
Lotte Fresh Delica Co., Ltd. ¹	9.04%	1,700	1,640	1,640	1,369
Lotte Giants ³	30.00%	30	1,162	30	30
Lotte Philippines Co., Inc. ²	10.00%	664	-	-	-
Lotte Taiwan Co., Ltd. ⁴	-	-	-	-	6,672
PT Lotte Indonesia ⁴	-	-	-	-	3,682
Lotte Confectionery Pilipinas Co. ³	40.00%	2,643	1,694	2,643	2,643
Lotte Malaysia Sdn. Bhd. ³	40.00%	2,836	2,004	2,836	2,836
The Institute for Social Development and Policy Research ²	1.67%	10	-	-	-
Lotte Jeju Resort Co., Ltd.	12.50%	5,000	5,068	5,000	5,000
Lotte Buyeo Resort Co., Ltd.	11.11%	8,333	7,672	8,333	5,000
Lotte Asset Development Co., Ltd. ¹	7.04%	9,444	8,284	8,284	9,444
COSMO Investment Management Co., Ltd.	0.55%	1,665	1,395	1,665	1,665
Lotte Whabang Beverage Co., Ltd.	7.03%	3,719	1,155	3,719	-
Others	-	436	286	350	6,402
		<u>38,135</u>	<u>97,703</u>	<u>101,843</u>	<u>103,149</u>
Equity Investments					
Korea Analysis Research Institute and others	-	115	176	115	115
		<u>₩91,909</u>	<u>₩379,302</u>	<u>₩383,381</u>	<u>₩357,510</u>

Non-marketable securities have been valued at cost due to lack of information and experience to measure their fair value, excluding those described below.

¹ As of December 31, 2010, the fair value has been appraised by an independent appraiser using

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rational appraisal model, which was recognized as book value. The independent appraiser used the discounted cash flow model or the imputed market value model, or both when necessary. Five-year financial statements, from year 2011 to year 2015, projected based on past performance, were used in measuring the stock fair value assuming that the operational structure will remain as is for the next five years. Income and expense from operations were estimated based on the past performance, business plan and expected market conditions.

- ² The Company recognized impairment loss as the available-for-sales securities; recoverable amount from prior periods are lower than their costs.
- ³ The Company's percentage of ownership in Lotte Confectionery Pilipinas Co. exceeds 20%. However, the equity method was not applied as the investee's total assets were below ₩10 billion as of the prior year end, and the change in equity of Lotte Confectionery Pilipinas Co. is not material to the Company's consolidated financial statements.
- ⁴ Available-for-sales securities are reclassified as equity-method investment since the investee company's total assets are above ₩10 billion and the Controlling Company exerts significant influence.

Available-for-sale securities (debt securities)

(in millions of Korean won)

	2010	2009
Current assets		
Government and public bonds	₩ 2,803	₩ 349
Non-current assets		
Government and public bonds	1,861	3,020
	₩ 4,664	₩ 3,369

Gain and Loss from Available-for-sale Securities

2010	Beginning	Disposal (Realized)	Increase (Decrease)	Ending	Tax Effect	Total
<i>(in millions of Korean won)</i>						
Equity securities	₩257,872	₩ -	₩ 35,225	₩293,097	₩ (64,481)	₩ 228,616
Debt securities	169	(56)	179	292	(64)	228
	<u>₩258,041</u>	<u>₩ (56)</u>	<u>₩ 35,404</u>	<u>₩293,389</u>	<u>₩ (64,545)</u>	<u>₩ 228,844</u>
2009	Beginning	Disposal (Realized)	Increase (Decrease)	Ending	Tax Effect	Total
<i>(in millions of Korean won)</i>						
Equity securities	₩203,562	₩ -	₩ 54,310	₩257,872	₩ (56,732)	₩ 201,140
Debt securities	58	(17)	128	169	(37)	132
	<u>₩203,620</u>	<u>₩ (17)</u>	<u>₩ 54,438</u>	<u>₩258,041</u>	<u>₩ (56,769)</u>	<u>₩ 210,272</u>

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7. Equity-Method Investments

Investee	Percentage of Ownership	2010			2009		
		2010	Acquisition cost	Net asset value	Book value	Acquisition cost	Net asset value
<i>(in millions of Korean won)</i>							
Lotte China Foods Co., Ltd.	39.08%	₩ 32,040	₩ 21,104	₩ 24,413	₩ 24,128	₩ 18,921	₩ 18,921
Lotte Packaging (Beijing) Co., Ltd.	25.00%	4,442	6,292	6,237	4,442	6,576	6,478
Shandong Pengcheng Ice Co., Ltd.	-	-	-	-	7,164	7,457	7,457
Lotte Europe Holdings B.V.	31.66%	153,963	95,776	95,516	131,041	89,876	89,616
Lotte Vietnam Co., Ltd.	36.84%	7,008	3,412	4,622	7,008	3,682	5,475
PT Lotte Trade And Distribution	40.00%	4,269	822	822	4,269	2,738	2,738
Lotte Taiwan Co., Ltd. ¹	50.00%	6,672	4,092	3,943	-	-	-
PT, Lotte Indonesia ¹	39.60%	3,682	-	2,079	-	-	-
Lotteria Co., Ltd. ²	9.78%	6,949	46,110	47,372	6,949	41,693	42,957
Lotte Shopping Co., Ltd. ²	8.52%	5,644	1,118,353	1,128,483	5,644	1,050,669	1,056,318
Lotte Data Communication Company ²	6.12%	7,616	35,048	36,287	7,615	32,971	38,555
Lotte Trading Co., Ltd. ²	1.36%	4,487	7,104	7,865	4,484	6,602	7,227
Lotte Logistics Co., Ltd. ²	4.64%	4,000	8,975	7,822	4,000	8,085	6,788
Lotte.com Inc. ²	11.25%	2,500	3,599	3,618	2,500	3,789	3,789
Korea Seven Co., Ltd. ²	16.60%	37,267	29,178	29,829	20,285	9,831	9,809
Kirin Foods Co., Ltd.	-	-	-	-	98,000	97,682	97,682
Lotte (China) Investment Co., Ltd.	-	-	-	-	24,641	8,152	8,152
		<u>₩ 280,539</u>	<u>₩ 1,379,865</u>	<u>₩ 1,398,908</u>	<u>₩ 352,170</u>	<u>₩ 1,388,724</u>	<u>₩ 1,401,962</u>

¹ Reclassified as equity method investment from available-for-sales securities during current year (Note 6).

² The Company's equity interest is less than 20%. However, the equity method was applied as the Company can exert influence through its seats in the investees' board of directors.

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Details of changes in the differences between the initial purchase price and the Company's initial proportionate ownership in the net book value of the investees are as follows:

<i>(in millions of Korean won)</i>	2010			
	January 1, 2010	Increase (Decrease)	Amortization (Reversal)	December 31, 2010
Lotte Packaging (Beijing) Co., Ltd.	₩ (98)	₩ -	₩ (43)	₩ (55)
Lotte Vietnam Co., Ltd.	1,793	-	583	1,210
PT, Lotte Indonesia	-	3,264	653	2,611
Lotte Data Communication Company	4,628	(4,321)	62	245
Lotte Trading Co., Ltd	(398)	-	(189)	(209)
Lotte Logistics Co., Ltd	(623)	-	(208)	(415)
Korea Seven Co., Ltd.	-	766	115	651
	<u>₩ 5,302</u>	<u>₩ (291)</u>	<u>₩ 973</u>	<u>₩ 4,038</u>

Details of the elimination of unrealized gain or loss arising from intercompany transactions according to the equity method of accounting are as follows:

<i>(in millions of Korean won)</i>	Inventory	Others
Lotte China Foods Co., Ltd.	₩ (7)	₩ -
Lotte Taiwan Co., Ltd.	(149)	-
Lotte Europe Holdings B.V.	-	(260)
	<u>₩ (156)</u>	<u>₩ (260)</u>

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Changes in investments in subsidiaries and associates accounted for using the equity method are as follows:

2010 (in millions of Korean won)	Beginning	Acquisition (Disposal)	Valuation Gain/Loss	Capital Adjustment	Other Increase (Decrease) ¹	Ending
Lotte China Foods Co., Ltd.	₩ 18,921	₩ -	₩ (2,544)	₩ 124	₩ 7,912	₩ 24,413
Lotte Packaging (Beijing) Co., Ltd.	6,478	-	(293)	52	-	6,237
Shandong Pengcheng Ice Co., Ltd.	7,457	-	-	-	(7,457)	-
Lotte Europe Holdings B.V. ²	89,616	22,923	(13,700)	(3,323)	-	95,516
Lotte Vietnam Co., Ltd.	5,475	-	(576)	(277)	-	4,622
PT Lotte Trade And Distribution	2,738	-	(1,991)	75	-	822
Lotte Taiwan Co., Ltd.	-	-	(3,368)	639	6,672	3,943
PT, Lotte Indonesia	-	-	(1,619)	16	3,682	2,079
Lotteria Co., Ltd.	42,957	-	404	572	3,439	47,372
Lotte Shopping Co., Ltd	1,056,318	-	85,813	(10,555)	(3,093)	1,128,483
Lotte Data Communication Company	38,555	-	(4,220)	1,952	-	36,287
Lotte Trading Co., Ltd	7,227	-	678	(40)	-	7,865
Lotte Logistics Co., Ltd	6,788	-	1,039	28	(33)	7,822
Lotte.com Inc.	3,789	-	(41)	1	(131)	3,618
Korea Seven Co., Ltd. ²	9,809	16,982	3,117	(79)	-	29,829
Kirin Foods Co., Ltd.	97,682	-	-	-	(97,682)	-
Lotte (China) Investment Co., Ltd.	8,152	17,084	(13,652)	(9)	(11,575)	-
	<u>₩ 1,401,962</u>	<u>₩ 56,989</u>	<u>₩ 49,047</u>	<u>₩ (10,824)</u>	<u>₩ (98,266)</u>	<u>₩1,398,908</u>

¹ This includes dividends from equity method investments, changes in the scope of consolidation and reclassification from available-for-sale securities to equity method investments.

² The Company participated in paid-in capital increase in 2010.

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2009	Beginning	Acquisition (Disposal)	Valuation Gain/Loss	Capital Adjustment	Other Increase (Decrease) ¹	Ending
<i>(in millions of Korean won)</i>						
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	3,717	(83)	(375)	-	7,457
Lotte Europe Holdings B.V. ²	-	-	-	-	89,616	89,616
Lotte Vietnam Co., Ltd.	3,868	2,537	(441)	(489)	-	5,475
PT Lotte Trade And Distribution	-	4,269	(1,561)	30	-	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	6,813	3,128	9,432	-	38,555
Lotte Trading Co., Ltd	1,482	3,735	629	1,381	-	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.	-	98,000	(318)	-	-	97,682
Lotte (China) Investment Co., Ltd.	5,998	13,114	(9,820)	7	(1,147)	8,152
	₩ 860,576	₩ 132,185	₩ 61,214	₩ 263,695	₩ 84,292	₩1,401,962

¹ This includes dividends from equity method investments, changes in the scope of consolidation and reclassification from available-for-sale securities to equity method investments.

² In 2009, Lotte Europe Holdings B.V. had an uneven increase in capital in which the Company participated. As a result, the shares between major shareholders changed and shares of the Company decreased to 31.66%. The largest shareholder changed.

Market price for marketable equity method investments as of December 31, 2010, is as follows:

	Shares	Market price per share	Market Price	Book Value
<i>(in millions of Korean won except per share)</i>				
Lotte Shopping Co., Ltd	2,474,543	₩ 473,000	₩ 1,170,459	₩ 1,128,483

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Financial information of investees as of and for the year ended December 31, 2010, are summarized as follows:

<i>(in millions of Korean won)</i>	Total Assets		Total Liabilities		Revenue		Net Income(loss)	
Lotte China Foods Co., Ltd.	₩	79,292	₩	25,291	₩	46,242	₩	(1,594)
Lotte Packaging (Beijing) Co., Ltd.		27,929		2,768		9,917		(1,350)
Lotte Europe Holdings B.V.		855,519		552,972		71,761		(42,461)
Lotte Vietnam Co., Ltd.		14,743		5,484		17,924		19
PT Lotte Trade And Distribution		4,571		2,516		8,664		(4,979)
Lotte Taiwan Co., Ltd.		11,820		3,636		16,910		185
PT, Lotte Indonesia		9,760		11,104		6,568		(2,440)
Lotteria Co., Ltd.		714,541		242,952		567,431		17,743
Lotte Shopping Co., Ltd		21,222,171		8,096,212		13,516,928		1,010,144
Lotte Data Communication Company		941,148		368,860		409,119		2,004
Lotte Trading Co., Ltd		1,450,686		928,679		802,881		38,053
Lotte Logistics Co., Ltd		330,623		137,179		870,465		18,275
Lotte.com Inc.		103,389		71,407		134,993		(478)
Korea Seven Co., Ltd.		633,455		453,046		682,839		19,847

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Financial information of investee as of and for the year ended December 31, 2009, are summarized as follows:

<i>(in millions of Korean won)</i>	Total Assets	Total Liabilities	Revenue	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)

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8. Joint Venture Investments

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

Joint venture investment	Ownership	Equity holder	Principal business
Kookje Building	27.00%	Honam Petro Chemical and others	Building leasing services

9. Property, Plant and Equipment

<i>(in millions of Korean won)</i>	Land	Buildings	Structures	Machinery	Vehicles	Others	Construction-in-progress	Total
Balance as of January 1, 2010	₩655,542	₩128,025	₩ 3,331	₩ 183,803	₩ 3,442	₩ 17,661	₩190,502	₩1,182,306
Acquisition	161	15,356	233	21,651	379	20,535	39,950	98,265
Disposals	(450)	(17)	-	(53)	(360)	(1,133)	(29)	(2,042)
Depreciation	-	(17,790)	(403)	(45,426)	(1,761)	(14,884)	-	(80,264)
Revaluation	23,394	-	-	-	-	-	-	23,394
Others ¹	45,104	192,816	738	84,972	422	6,227	(218,988)	111,291
Balance as of December 31, 2010	₩723,751	₩318,390	₩ 3,899	₩ 244,947	₩ 2,122	₩ 28,406	₩11,435	₩1,332,950
Acquisition Cost	₩725,087	₩484,748	₩12,566	₩789,840	₩8,456	₩148,460	₩11,435	₩2,180,592
Accumulated Depreciation	-	(166,358)	(8,667)	(540,873)	(6,334)	(120,054)	-	(842,286)
Accumulated Impairment Loss	(1,336)	-	-	(4,020)	-	-	-	(5,356)

¹ Others above include adjustment due to overseas operations translation adjustment and changes in the scope of consolidation.

<i>(in millions of Korean won)</i>	Land	Buildings	Structures	Machinery	Vehicles	Others	Construction-in-progress	Total
Balance as of January 1, 2009	₩290,294	₩402,004	₩3,245	₩176,464	₩ 6,442	₩54,880	₩144,008	₩1,077,337
Acquisition	-	1,509	209	14,938	2,554	11,874	185,027	216,111
Disposals	-	-	-	(239)	(5,587)	(59)	-	(5,885)
Depreciation	-	(12,506)	(445)	(37,381)	(1,072)	(19,103)	-	(70,507)
Revaluation	376,395	-	-	-	-	-	-	376,395
Others ¹	(11,147)	(262,982)	322	30,021	1,105	(29,931)	(138,533)	(411,145)
Balance as of December 31, 2009	₩655,542	₩128,025	₩3,331	₩183,803	₩ 3,442	₩17,661	₩190,502	₩1,182,306
Acquisition Cost	₩656,878	₩281,740	₩11,440	₩688,184	₩10,598	₩123,872	₩190,502	₩1,963,214
Accumulated Depreciation	-	(153,715)	(8,109)	(501,672)	(7,156)	(106,211)	-	(776,863)
Accumulated Impairment Loss	(1,336)	-	-	(2,709)	-	-	-	(4,045)

¹ Others above include adjustment due to overseas operations translation adjustment and changes in the scope of consolidation.

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As of December 31, 2010, the value of the Company's land, as determined by the local government in Korea for property tax assessment purposes, was ₩422,284 million (2009: ₩384,378 million).

Details of coverage under major insurance policies carried by the Company as of December 31, 2010, are as follows:

(in millions of Korean won and thousands of U.S. dollars)

Type of insurance	Covered assets	Amount covered
Comprehensive insurance for property	Buildings, machinery, other and inventories	₩ 1,643,896
Comprehensive insurance for movable assets	Inventories	16,169
Fire insurance	Buildings, machinery and inventories	217,898
Gas accident liability insurance	Buildings	4,860
Burglary insurance	Cash and others	827
		<u>₩ 1,883,650</u>

In addition, as of December 31, 2010, the Company maintains a comprehensive insurance policy and insurance policies covering loss and liability arising from automobile accidents. In addition the Company maintains a commercial general liability insurance, boiler and machinery insurance, employee general liability insurance and others.

10. Intangible Assets

<i>(in millions of Korean won)</i>	Goodwill	Negative goodwill	Industrial property rights	Rights to use of facility	Premium of lease	Others	Total
Balance as of January 1, 2010	₩80,520	₩ (3,855)	₩3,356	₩1,207	₩183	₩ -	₩ 81,411
Acquisition	9,322	(7,098)	1,220	-	-	45	3,489
Reclassification	-	-	180	(1,160)	-	-	(980)
Amortization (Reversal)	(10,578)	486	(1,680)	(11)	(78)	(1)	(11,862)
Others ¹	(7,124)	-	(166)	-	-	-	(7,290)
Balance as of December 31, 2010	<u>₩72,140</u>	<u>₩ (10,467)</u>	<u>₩2,910</u>	<u>₩36</u>	<u>₩105</u>	<u>₩ 44</u>	<u>₩ 64,768</u>

¹ Others above include the effects of changes in foreign exchange rates resulting from overseas operations translation adjustment and changes in the scope of consolidation.

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<i>(in millions of Korean won)</i>	Goodwill	Negative goodwill	Industrial property rights	Rights to use of facility	Premium of lease	Total
Balance as of January 1, 2009	₩125,265	₩ (72,684)	₩7,158	₩25,760	₩248	₩85,747
Acquisition	-	-	382	-	50	432
Reclassification	-	-	-	-	-	-
Amortization (Reversal)	(13,897)	175	(1,173)	(54)	(115)	(15,064)
Others ¹	(30,848)	68,654	(3,011)	(24,499)	-	10,296
Balance as of December 31, 2009	₩80,520	₩ (3,855)	₩3,356	₩1,207	₩183	₩81,411

¹ Others above include the effects of changes in foreign exchange rates resulting from overseas operations translation adjustment and changes in the scope of consolidation.

11. Pledged Assets and Guarantees

The following assets are pledged as collateral for the Group's contract performance as of December 31, 2010:

<i>(in millions of Korean won)</i>	Assets	Amount	Guarantee for
	Buildings	₩ 208	Long-term borrowings
	Land, buildings, others	7,894	Short-term borrowings
		₩ 8,102	

Guarantees provided by third parties for the Group as of December 31, 2010, are as follows:

(in thousands of Japanese Yen and U.S. dollars)

Guarantee for	Guarantor	Amount
Lotte Holdings Co., Ltd.	Lotte Taiwan Co., Ltd.	¥ 200,000
Korea Exchange Bank	Lotte Confectionery Rus Kaluga LLC	\$ 19,500

As of December 31, 2010, the Company entered into guarantee contract with Korea Exchange Bank related to issuance of L/C and others, of which the balance is USD 69,480.

As of December 31, 2010 the Company entered into guarantee contract with Seoul Guarantee Insurance for the execution of supply contracts, of which the balance is ₩45 million.

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12. Borrowings

Short-term Borrowings

<i>(in millions of Korean won)</i>	Bank	Interest rate at 12/31/2010	2010	2009
Notes discounting	Hana Bank	8.50%	₩ 2,800	₩ 2,800
Notes discounting, others	Woori Bank	Short-term loan base rate + 3.80%	4,325	2,600
Bank overdrafts	KBC Bank N.V.	KBC EONIA (-)0.75 ~ KBC EONIA + 0.65	9,698	34
Working capital, others	Vietcombank and others	6.00 ~ 6.60%	22,760	705
			<u>₩ 39,583</u>	<u>₩ 6,139</u>

Long-term Borrowings

<i>(in millions of Korean won)</i>	Bank	Interest rate at 12/31/2010	2010	2009
Employees Loan facility	Kookmin Bank	3.00%	₩ 366	₩ 403
	BIDV. and others	4.75 ~ 6.50%	5,905	8,821
Working capital	Hana bank and others	5.57 ~ 6.85%	-	1,266
			<u>6,271</u>	<u>10,490</u>
	Less: Current portion		<u>(2,151)</u>	<u>(2,994)</u>
			<u>₩ 4,120</u>	<u>₩ 7,496</u>

The Company's buildings serve as collaterals for the above borrowings (Note 10).

The payment schedule of long-term borrowings is as follows:

<i>(in millions of Korean won)</i>	Amount
2012	₩ 1,819
2013	436
2014	459
2015	608
Thereafter	798
	<u>₩ 4,120</u>

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Debentures

<i>(in millions of Korean won)</i>	Issuance Date	Maturity Date	Interest rate At 12/31/2010	2010	2009
53rd placed	9/11/2008	9/11/2011	3M Euro Yen Libor+150b.p.	₩153,679	₩138,910
54th placed	7/10/2009	7/10/2012	3M Euro Yen Libor+150b.p.	139,708	126,282
55th placed	12/28/2009	12/28/2012	3M Euro Yen Tibor+100b.p.	132,722	119,968
				426,109	385,160
	Less: Discount			(653)	(997)
	Current Portion of debentures			153,679	-
	Discount on current portion of debentures issued			(111)	-
				₩271,888	₩384,163

Debentures above will be paid upon their maturity date. Interest expense is paid every three months.

13. Accrued Severance Benefits

<i>(in millions of Korean won)</i>	2010	2009
Beginning balance	₩ 36,679	₩ 32,949
Increase	19,334	18,518
Payment	(14,050)	(14,804)
Others ¹	490	16
	42,453	36,679
Less: Group severance insurance deposits	(32,698)	(30,325)
Contribution to National Pension Plan	(55)	(56)
	₩ 9,700	₩ 6,298

¹ Others above include the effects of changes in foreign exchange rates resulted from overseas operations translation adjustment and changes in the scope of consolidation.

The Company 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 77.0% and 82.7% of the reserve balance of retirement and severance benefits as of December 31, 2010 and 2009, respectively.

As of December 31, 2010, the Company funded 77.0% (2009: 82.7%) of severance payable through severance insurance deposits with Lotte Insurances Co., Ltd. and others.

14. Lease Transactions

As of December 31, 2010, the Company has a capital lease and operating lease for vehicles with Lotte Capital Co., Ltd. and others.

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Capital Lease

<i>(in millions of Korean won)</i>	2010	2009
Acquisition cost	₩ 14,067	₩ 23,921
Less: Accumulated depreciation	<u>(7,735)</u>	<u>(13,614)</u>
	<u>₩ 6,332</u>	<u>₩ 10,307</u>

Future minimum lease payments are as follows:

<i>(in millions of Korean won)</i>	Capital Lease	Operating Lease
Less than 1 year	₩ 950	₩ 7,320
1 year ~ 5 years	<u>495</u>	<u>13,637</u>
	<u>₩ 1,445</u>	<u>₩ 20,957</u>

The adjusted lease payments recognized in the income statement amount to ₩7,314 million (2009: ₩1,541 million).

15. Provisions for Other Liabilities and Charges

<i>(in millions of Korean won)</i>	Balance at 1/1/2010	Increase (Decrease)¹	Balance at 12/31/2010
Provision for sales returns	<u>₩ 15,623</u>	<u>₩ 7,229</u>	<u>₩ 22,852</u>
	Balance at 1/1/2009	Increase (Decrease)¹	Balance at 12/31/2009
Provision for sales returns	<u>₩ 13,528</u>	<u>₩ 2,094</u>	<u>₩ 15,622</u>

¹ Others above include the effects of changes in foreign exchange rates resulted from overseas operations translation adjustment.

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16. Monetary Assets and Liabilities Denominated in Foreign Currency

	2010		2009	
	<i>in thousands of foreign currencies</i>	<i>in millions of Korean won</i>	<i>in thousands of foreign currencies</i>	<i>in millions of Korean won</i>
Assets				
Cash and cash equivalents	USD 1,583 JPY 3,559	₩ 1,803 50	USD 1,563 JPY 1,776	₩ 1,825 22
Accounts receivable	USD 4,595	5,233	USD 4,800	5,604
Liabilities				
Accounts payable	USD 2,570 JPY 65,972 EUR 304 DKK - EUR 41	2,927 920 460 - 62	USD 9,134 JPY 2,622 EUR 148 DKK 431 EUR -	10,665 33 248 97 -
Accrued Expense	USD 2 JPY - CHF -	3 - -	USD 3 JPY 36,300 CHF 46	4 458 52
Debentures	JPY 30,500,000	426,109	JPY 30,500,000	385,160

17. Commitments and Contingencies

As of December 31, 2010, the Company is a plaintiff in various lawsuits claiming damages totaling ₩696 million and the Group is a defendant in various lawsuits with damage claims totaling ₩1,483 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. The Company has various forms of credit facility commitments with financial institutions as of December 31, 2010 and 2009, as follows:

<i>(in millions of Korean won)</i>		2010	2009
Overdraft	Woori Bank and others	57,294	27,756
Buyer's loan	Hana Bank	140,000	-
Buyer's credit	Lotte Card Co., Ltd. and others	6,000	240,000
Letter of credit	Woori Bank and others	USD 20,000	USD 20,100
	State Bank of India	1,017	-
Letter of credit (Local)	Korea Exchange Bank	1,500	1,500
Discount of bill	Hana Bank	3,000	-
	Woori Bank	2,600	-
Import L/C issuance	Korea Exchange Bank	USD 2,000	-
General loan	Hana Bank and others	-	20,612
Commercial Paper	Woori Bank and others	-	5,600

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Technical assistance agreements of the Company with Wilkes & Associates and others as of December 31, 2010, are as follows:

Contractor	Description	Fee	Maturity
Wilkes & Associates, Inc.	Prime production	1.00% of Net Sales	June, 2006 (Renewal in progress)
	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	2.18% of Sales	Dec, 2011
The Hershey Company	Ice cream production	1.15~3.00% of Net Sales	Aug, 2011

The Company entered into technical assistance and exchange agreement with Lotte Japan Co. for 10 years, from April 1, 2004 to March 31, 2014. According to the agreement, the Company has to pay for the use of trademarks and patents and the cost incurred for the current year amounts to ₩314 million.

Joint ventures of the Company as of December 31, 2010 are as follows:

<i>(in millions of Korean won)</i> Company	Location	Other	Amount
Lotte China Foods Co., Ltd.	China	Lotte Holdings Co.	₩ 32,039
Lotte Philippines Co., Inc.	Philippines	Lotte Holdings Co. and others	664
Lotte Confectionery Pilipinas Co.	Philippines	Lotte Holdings Co.	2,643
PT, Lotte Indonesia	Indonesia	Lotte Holdings Co. and others	3,682
Lotte Vietnam Co., Ltd.	Vietnam	Lotte Holdings Co. and others	7,008
Lotte Packaging (Beijing) Co., Ltd.	China	Lotte Holdings Co.	4,442
Lotte Europe Holdings B.V.	Netherlands	Lotte Holdings Co.	153,963
Lotte Taiwan Co., Ltd.	Taiwan	Lotte Holdings Co.	6,672
PT, Lotte Trade And Distribution	Indonesia	Lotte Holdings Co.	4,269
Lotte Malaysia Sdn. Bhd	Malaysia	Lotte Holdings Co.	2,836
			₩ 218,218

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18. Derivatives

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 and exchange floating interest rate for a fixed interest rate

Fair value Hedge

As of December 31, 2010, the Company entered into foreign currency option contract to hedge exchange risk of accounts receivable and payable with KBC Bank N.V. As of December 31, 2010, the Company recognizes the fair value of outstanding foreign currency forward contracts as derivative liabilities. According to the contract, the Company has the right to sell the contract price according to the prearranged exercise price, when the exchange rate of pounds is less than the contract rate. When contract is higher, the Company has the obligation to sell at the multiple of the contract price, which is the knock-in of the exercise price. In addition, the Company entered into foreign currency forward contracts to hedge exchange risk of accounts receivable with KBC Bank N.V.

As of December 31, 2010, the Company recognized ₩122 million as derivative assets as a result of currency option and currency forward contracts evaluated as fair value. Gain and loss on valuation of derivatives caused by exchange fluctuations amounted to ₩470 million and ₩214 million, respectively, and recognized as profit and loss for the current year. In addition, loss on derivative transactions reflected as profit and loss of the current year amounted to ₩754 million.

Cash flow Hedge

The Company issued foreign debentures at floating interest rate and has a currency swap contract with Mizuho Corporate Bank and The Bank of Tokyo-Mitsubishi UFJ in order to hedge floating interest rate risk related to interest paid every quarter and floating exchange rate risk related to payment at maturity. As of December 31, 2010, the Company recognized derivative assets at ₩53,271 million at fair value and gain on derivative assets at ₩40,874 million as profit and loss of current year. In addition, the Company recognized loss on derivative assets, deducting tax effect of ₩1,569 million, of ₩5,562 million as other comprehensive income.

Valuation gain/loss from derivatives as of December 31, 2010 and 2009, are as follows:

Type	Description	2010	2009	Description
Fair value Hedge	Foreign currency option	₩ 256	₩ (746)	Net income
		(5,562)	(3,433)	Accumulated other comprehensive income
Cash flow Hedge	Foreign currency swap	40,874	(20,880)	Net income

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19. Acquisition of Business Assets

The Company acquired assets related to confectionery and ice cream business on December 28, 2009 from Kirin Foods Co., Ltd. The fair value of net asset of the acquired assets is ₩102,917 million and the Company paid ₩91,576 million. The Company recognized negative goodwill of ₩8,488 million considering the tax rate effect related to temporary differences and is presented as a deduction from intangible assets.

Details of fair value of acquired assets from Kirin Foods Co., Ltd. are as follows:

(in millions of Korean won)

Description	Amount
Property, plant and equipment	₩ 92,130
Deposits	236
Working assets and others	10,551
	₩ 102,917

20. Common Stock, Capital Surplus and Capital Adjustments

Common Stock

The Company is authorized to issue 3 million shares of common stock with a par value of ₩5,000 per share. As of December 31, 2010, 1,421,400 shares of common stock have been issued.

Capital Surplus

The Company revalued its property, plant and equipment and changes in the revaluation increments as of December 31, 2010, are as follows:

(in millions of Korean won)

Revaluation Date	Revaluation Surplus	Other Capital Surplus	Revaluation Tax	Ending Balance
1984. 01. 01	₩ 11,941	₩ -	₩ 378	₩ 11,563
1998. 01. 01	98,487	2,912	2,867	92,708
1998. 10. 01	164,488	8,736	2,836	152,916
	₩ 274,916	₩ 11,648	₩ 6,081	₩ 257,187

The Company is classifying nondeductible over-depreciation of machinery in tax accounting as other capital surplus according to accounting principles generally accepted in the Republic of Korea.

Capital Adjustments

As of December 31, 2010, the Company purchased 14,000 shares of treasury stock for ₩6,248 million in order to stabilize stock market and fulfill listing requirements. The Company intends to sell these treasury shares in the future depending on the market situation.

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21. Retained Earnings

Legal Reserve

The Commercial Code of the Republic of Korea requires the Company to appropriate, as a legal reserve, an amount equal to a minimum of 10% of cash dividends paid, until such reserve equals 50% of its issued capital stock. The reserve is not available for the payment of cash dividends, but may be transferred to capital stock, or used to reduce accumulated deficit, if any, with the ratification of the Company's majority shareholders.

Voluntary Reserve

The Company accounted for reserve for improvement of financial structure as a legal reserve in accordance with the regulations regarding securities issuance and disclosure until 2006. This reserve was not available for dividends, but may be transferred to capital stock, or used to reduce accumulated deficit, if any, with the ratification of the Company's majority shareholders. However, according to the revised regulation as of December 27, 2007, this reserve has been revised to voluntary reserve. According to the special tax treatment control law, the Company has additionally reserved research and development which is deducted by adjustment report when the Company appropriates retained earnings. The reserve reversed by the special tax treatment control law can be distributed as dividend.

22. Income Taxes

Income tax expense consists of:

<i>(in millions of Korean won)</i>	2010	2009
Current income taxes	₩ 33,679	₩ 40,261
Deferred income tax due to temporary differences	22,014	158,241
Deferred income tax due to tax loss carry forwards	-	659
Deferred income tax charged to equity	(8,267)	(146,157)
Income tax on discontinued operations	-	(5,674)
Income tax expense	<u>₩ 47,424</u>	<u>₩ 47,330</u>

Deferred income taxes charged directly to the shareholders' equity are as follows:

<i>(in millions of Korean won)</i>	2010	2009
Gain on valuation of available-for-sale securities	₩ (7,777)	₩ (11,973)
Change in equity of equity-method investments	2,188	(56,390)
Negative change in equity of equity-method investments	(430)	(2,096)
Other capital adjustments	-	(163)
Gain(loss) on valuation of derivatives	601	(320)
Gain on revaluation of property, plant, and equipment	(2,935)	(83,101)
Overseas operations translation gain(loss)	86	7,886
	<u>₩ (8,267)</u>	<u>₩ (146,157)</u>

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Reconciliation between net income before tax and income tax expense

<i>(in millions of Korean won)</i>	2010	2009
Income before tax from continuing operations	<u>₩ 142,938</u>	<u>₩ 143,120</u>
Net loss of subsidiaries prior to purchase	<u>₩ 41,365</u>	<u>₩ -</u>
Income tax based on statutory rate	<u>₩ 48,758</u>	<u>₩ 35,247</u>
Add (deduct):		
Non-taxable income	124	(533)
Non-deductible expense	(377)	704
Others	<u>(1,081)</u>	<u>11,912</u>
Income tax expense	<u>₩ 47,424</u>	<u>₩ 47,330</u>
Effective tax rate	33.18%	33.07%

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Changes in the temporary differences and related deferred tax assets and liabilities are as follows:

2010 <i>(in millions of Korean won)</i>	Temporary differences					Deferred tax assets(liabilities)	
	Beginning ¹	Increase	Decrease	Other Increase ²	Ending	Beginning	Ending
Allowance for doubtful accounts	₩ 2,735	₩ 2,345	₩ 2,680	₩ -	₩ 2,400	₩ 667	₩ 464
Bad debt expense	25,490	1,948	4,012	-	23,425	5,984	5,605
Accrual for retirement and severance benefits	414	130	-	580	1,124	99	247
Property, plant and equipment	(15,280)	(4,922)	7,666	(8,166)	(36,033)	(11,328)	(14,166)
Reserve for research and development	(8,500)	(4,800)	(2,667)	-	(10,633)	(1,870)	(2,339)
Prepaid expense	19,653	14,444	19,653	-	14,444	4,756	3,495
Valuation of equity method investments	(624,589)	(44,655)	-	-	(669,243)	(125,218)	(138,027)
Accrued income	(1,444)	(1,012)	(1,444)	(57)	(1,069)	(351)	(259)
Provision for sales returns	15,623	6,187	28	433	22,214	3,774	5,373
Advanced depreciation provision	(89,334)	-	-	-	(89,334)	-	-
Gain on valuation of available-for-sale	(258,041)	(35,348)	-	-	(293,389)	(56,769)	(64,546)
Gain on valuation of equity-method investments	(436,236)	(51,894)	(44,044)	-	(444,086)	(87,294)	(86,804)
Loss on valuation of equity-method investments	26,204	33,355	28,980	-	30,579	1,945	1,514
Capital adjustment for equity method investments	6,143	2,646	-	-	8,788	(391)	(391)
Gain/loss on valuation of derivatives	4,402	2,729	-	-	7,130	968	1,569
Gain on revaluation of property, plant and equipment	(377,730)	(15,778)	(2,525)	-	(390,983)	(83,101)	(86,036)
Others	18,588	47,753	43,289	96	23,148	1,049	5,828
	<u>₩(1,691,902)</u>	<u>₩(46,872)</u>	<u>₩55,628</u>	<u>₩ (7,114)</u>	<u>₩(1,801,518)</u>	<u>₩(347,080)</u>	<u>₩(368,473)</u>

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2009 <i>(in millions of Korean won)</i>	Temporary differences					Deferred tax assets(liabilities)	
	Beginning ¹	Increase	Decrease	Other Increase ²	Ending	Beginning	Ending
Allowance for doubtful accounts	₩ 3,786	₩ 2,667	₩ 3,360	₩ -	₩ 3,093	₩ 769	₩ 667
Bad debt expense	24,562	2,326	1,762	-	25,126	5,369	5,984
Accrual for retirement and severance benefits	390	61	-	-	451	10	99
Property, plant and equipment	(28,755)	10,392	5,492	-	(23,855)	(13,133)	(11,328)
Reserve for research and development	(7,333)	3,333	4,500	-	(8,500)	(1,687)	(1,870)
Prepaid expense	15,461	37,575	33,383	-	19,653	3,742	4,756
Equity method investments	(602,896)	55,588	75,328	-	(622,636)	(112,419)	(125,218)
Accrued Income	(6,225)	(1,449)	(6,225)	-	(1,449)	(1,506)	(351)
Provision for sales returns	13,528	2,111	16	-	15,623	3,270	3,774
Impairment loss on long-term investments	1,625	-	-	-	1,625	-	-
Gain on valuation of long-term securities	(203,620)	(54,444)	(23)	-	(258,041)	(44,796)	(56,769)
Capital adjustment for equity method investments	(151,928)	(274,898)	(20,717)	-	(406,109)	(30,904)	(87,294)
Loss on valuation of equity-method investments	18,367	317	9,718	16,712	25,678	4,041	1,945
Gain/loss on valuation of derivatives	5,853	7,266	8,718	-	4,401	1,288	968
Gain on revaluation of property, plant and equipment	-	(377,730)	-	-	(377,730)	-	(83,101)
Others	(116,153)	8,277	(24,961)	(16,712)	(99,627)	(7,898)	658
Discontinued operations	(79,617)	(28,368)	-	107,985	-	(14,421)	-
	<u>₩(1,112,955)</u>	<u>₩(606,976)</u>	<u>₩ 90,351</u>	<u>₩107,985</u>	<u>₩ (1,702,297)</u>	<u>₩ (208,275)</u>	<u>₩ (347,080)</u>

¹ Differences between beginning temporary difference and retained balance in statement of tax adjustment and the effects of changes in tax rates are reflected.

² Others above include the effects of changes in tax rates and change and changes in the scope of consolidation.

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Temporary differences not recognized as deferred tax assets

As of December 31, 2010, deductible temporary differences for which deferred tax assets were not recognized are as follows:

<i>(in millions of Korean won)</i>	Amount	
Impairment loss on long-term investments	₩	1,625
Equity method investment		136,762
Allowance for doubtful accounts		503
Others		1,186
Tax loss carryforwards		3,423
	₩	<u>143,499</u>

Deductible temporary difference from equity method investments has not been recognized as deferred tax assets as it was determined to be not realizable in the near future.

Temporary differences not recognized as deferred tax liabilities

Deferred tax liabilities were not recognized for the temporary differences of ₩89,334 million resulting from revaluation of property, plant and equipment prior to year 1999.

The gross balances of deferred tax assets and liabilities are as follows:

<i>(in millions of Korean won)</i>	2010	
	Deferred tax assets	Deferred tax liabilities
Current	₩ 15,455	₩ 259
Non - current	8,640	392,309

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23. Comprehensive Income

<i>(in millions of Korean won)</i>	2010	2009
Net income	₩ 136,879	₩ 39,264
Other comprehensive income and expense		
Gain on valuation of available-for-sale securities, net of tax of ₩(7,777) in 2010 and ₩(11,973) in 2009	27,571	42,449
Change in equity of equity-method investments, net of tax of ₩(2,188) and ₩(56,390) in 2009	(8,908)	197,791
Negative change in equity of equity-method investments, net of tax of ₩(430) and ₩(2,096) in 2009	(2,075)	(9,407)
Loss on valuation of derivatives, net of tax of ₩(601) in 2010 and ₩(320) in 2009	(2,128)	1,132
Gain on revaluation of property, plant and equipment, net of tax of ₩(2,935) in 2010 and ₩(83,101) in 2009	20,141	294,629
Overseas operations translation gain, net of tax of ₩(86) in 2010 and ₩(7,886) in 2009	(10,973)	(33,644)
Comprehensive income	<u>₩ 160,507</u>	<u>₩ 532,214</u>
Parent interest in comprehensive income	<u>₩ 172,212</u>	<u>₩ 622,960</u>
Minority interest in comprehensive income	<u>₩ (11,705)</u>	<u>₩ (90,746)</u>

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24. Significant Transactions

Significant transactions, which occurred in the normal course of business among the Controlling Company and subsidiaries, are as follows:

(in millions of Korean won)

	Sales		Purchases	
	2010	2009	2010	2009
Lotte Confectionery Co., Ltd.	₩ 3,387	3,542	₩ 32,889	₩ 15,977
Lotte Pharm Co., Ltd.	9,526	8,548	1,302	84
Kirin Foods Co., Ltd.	12,384	-	954	-
Lotte Qingdao Foods Co., Ltd.	8,220	6,672	3	-
Lotte India Co., Ltd.	2	97	970	2,364
Bibica Corporation	720	73	158	1,094
Chocolaterie Guylian NV	1,556	305	-	-
Lotte Shanghai Foods Co., Ltd.	481	282	-	-
	<u>₩ 36,276</u>	<u>₩ 19,519</u>	<u>₩ 36,276</u>	<u>₩ 19,519</u>

(in millions of Korean won)

	Receivables		Payables	
	2010	2009	2010	2009
Lotte Confectionery Co., Ltd.	₩ 17	₩ 697	₩ 3,742	₩ 1,494
Lotte Pharm Co., Ltd.	1,464	966	-	-
Kirin Foods Co., Ltd.	1,643	-	1	-
Lotte Qingdao Foods Co., Ltd.	636	528	3	-
Lotte India Co., Ltd.	-	-	-	538
Bibica Corporation	-	-	14	159
Chocolaterie Guylian NV	-	-	-	-
Lotte Shanghai Foods Co., Ltd.	-	-	-	-
	<u>₩ 3,760</u>	<u>₩ 2,191</u>	<u>₩ 3,760</u>	<u>₩ 2,191</u>

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2010

(in millions of Korean won)

Selling entity	Purchasing entity	Sales	Receivables
Lotte Shanghai Foods Co., Ltd.	Lotte Qingdao Foods Co., Ltd.	₩ 890	₩ 307
Lotte Qingdao Foods Co., Ltd.	Shandong Pengcheng Ice Co., Ltd.	37	-
Lotte Qingdao Foods Co., Ltd.	Lotte (China) Investment Co., Ltd.	323	177
Lotte Shanghai Foods Co.	Lotte (China) Investment Co., Ltd.	5,972	3,517
Lotte Shanghai Foods Co.	Shandong Pengcheng Ice Co., Ltd.	48	-
		₩7,270	₩ 4,001

2009

(in millions of Korean won)

Selling entity	Purchasing entity	Sales	Receivables
Lotte Shanghai Foods Co., Ltd.	Lotte Qingdao Foods Co., Ltd.	₩ 782	₩ 389
Lotte Qingdao Foods Co., Ltd.	Shandong Pengcheng Ice Co., Ltd.	-	-
Lotte Qingdao Foods Co., Ltd.	Lotte (China) Investment Co., Ltd.	-	-
Lotte Shanghai Foods Co.	Lotte (China) Investment Co., Ltd.	-	-
Lotte Shanghai Foods Co.	Shandong Pengcheng Ice Co., Ltd.	-	-
		₩ 782	₩ 389

As of December 31, 2010, the Company provides guarantees to Standard Chartered First Bank and Korea Exchange Bank for Lotte India Co., Ltd. and Lotte (China) Investment Co., Ltd., amounting to USD 10,000 and CNY 84,500, respectively.

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25. Earnings per Share

Basic earnings per share

	2010	2009
Income from continuing operations, net of tax	₩ 141,701,018,457	₩ 114,895,273,308
Parent interest in net income	141,701,018,457	96,736,898,051
Weighted average number of common stock outstanding ¹	1,407,400	1,407,400
Basic earnings per share for continuing operations	₩ 100,683	₩ 81,637
Basic earnings per share	₩ 100,683	₩ 68,734

¹ Calculation weighted average number of common stock outstanding

	Number of Shares	Weighted Average	Weighted Number of Shares
Carryover	₩ 1,421,400	365	518,811,000
Treasury stock	(14,000)	365	(5,110,000)
	<u>₩ 1,407,400</u>		<u>513,701,000</u>

Weighted average number of common stock : $513,701,000 / 365 = 1,407,400$

Diluted earnings per share

As there are no diluted securities outstanding as of December 31, 2010, diluted earnings per share is identical to basic earnings per share.

26. Dividends

<i>(in Korean won)</i>	2010	2009
Number of shares eligible for dividends:		
Common stock	1,407,400	1,407,400
Dividend rate	80%	70%
Dividend amount	5,629,600,000	4,925,900,000

Dividend payout ratio

	2010	2009
Dividend amount	5,629,600,000	4,925,900,000
Parent interest in net income	141,701,018,457	96,736,898,051
Dividend payout ratio	3.97%	5.09%

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Dividend yield ratio

	2010		2009	
Dividend amount per share	₩	4,000	₩	3,500
Market price at the fiscal date		1,508,000		1,289,000
Dividend yield ratio		0.27%		0.27%

27. Related Parties Transactions

Details of the parents and subsidiaries are as follows:

2010

Ultimate parent company	-
Investors with significant influence	Lotte Aluminum Co., Ltd., Hotel Lotte Co., Ltd, Daehong Communications Inc., Lotte Engineering & Construction Co., Ltd., Lotte Midopa Co., Ltd.
Equity-method investees	Lotte China Foods Co., Ltd., Lotte Packaging(Beijing) Co., Ltd., Lotte Europe Holdings B.V., Lotte Vietnam Co., Ltd., PT, Lotte Trade And Distribution, Lotte Taiwan Co., Ltd., PT, Lotte Indonesia, Lotteria Co., Ltd., Lotte Shopping Co., Ltd, Lotte Data Communication Company, Lotte Trading Co., Ltd., Lotte Logistics Co., Ltd, Lotte.com Inc., Korea Seven Co., Ltd.
Other related parties	Lotte Station B/D. Co., Lotte Samkang Co., Ltd., Lotte Ham Co., Ltd, Lotte Chilsung Beverage Co., Ltd., Canon Korea Business Solutions Inc., Lotte Card Co., Ltd., ZAO Lotte Rus, Lotte KF Rus LLC, Lotte Shopping Rus LLC, Confectionary Rus Kaluga LLC, Lotte Confectionery Pilipinas Co., Lotte Malaysia Sdn. Bhd, Lotte Giants and others

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Significant transactions, which occurred in the normal course of business with related companies, and their related balances are as follows:

(in millions of Korean won)

	Sales		Purchases	
	2010	2009	2010	2009
Investors with significant influence	₩ 5,171	₩ 4,985	₩ 83,263	₩276,254
Equity-method investees	152,967	116,927	156,502	110,755
Other related parties	78,547	57,218	86,809	51,203
	<u>₩ 236,685</u>	<u>₩179,130</u>	<u>₩326,574</u>	<u>₩438,212</u>

(in millions of Korean won)

	Receivables		Payables	
	2010	2009	2010	2009
Investors with significant influence	₩ 1,519	₩ 1,563	₩ 9,116	₩ 43,389
Equity-method investees	22,158	21,137	38,128	10,669
Other related parties	19,080	12,091	45,687	19,771
	<u>₩ 42,757</u>	<u>₩ 34,791</u>	<u>₩ 92,931</u>	<u>₩ 73,829</u>

Compensation for key management consists of:

(in millions of Korean won)

	2010	2009
Short-term salaries	₩ 6,173	₩ 5,029
Post-retirement benefits	1,799	3,115
	<u>₩ 7,972</u>	<u>₩ 8,144</u>

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28. Supplemental Cash Flow Information

Significant transactions not affecting cash flows are as follows:

<i>(in millions of Korean won)</i>	2010	2009
Reclassification of construction-in-progress	₩ 349,075	₩ -
Reclassification of available-for-sale securities to equity-method investment	10,354	-
Reclassification to current portion of debentures	153,568	-
Increase in asset revaluation surplus of land	-	377,730

29. Segment Information

Financial information by geographical segments follows:

2010	Korea	India	China	Vietnam	Belgium	Consolidation Adjustment	After Consolidation Adjustment
<i>(in millions of Korean won)</i>							
Sales	₩1,643,231	₩53,734	₩117,629	₩48,035	₩112,196	₩(43,546)	₩1,931,279
Internal revenue	(25,297)	(2)	(15,971)	(720)	(1,556)	43,546	-
Net Sales	1,617,934	53,732	101,658	47,315	110,640	-	1,931,279
Operating income(loss)	151,317	217	(32,457)	1,792	(4,081)	(2,296)	114,492
Total assets	3,834,593	123,078	221,462	44,439	178,519	(391,890)	4,010,201
2009	Korea	India	China	Vietnam	Belgium	Consolidation Adjustment	After Consolidation Adjustment
<i>(in millions of Korean won)</i>							
Sales	₩1,330,587	₩49,899	₩38,917	₩45,015	₩122,500	₩(20,302)	₩1,566,616
Internal revenue	(12,090)	(97)	(7,737)	(73)	(305)	20,302	-
Net Sales	1,318,497	49,802	31,180	44,942	122,195	-	1,566,616
Operating income(loss)	111,612	638	(685)	3,121	(13,030)	(2,206)	99,450
Total assets	3,474,742	28,018	144,477	46,509	200,153	(179,469)	3,714,430

30. Adoption of Korean International Financial Reporting Standards

Adoption plan and progress status

The Company is required to prepare its financial statements in accordance with the Korean International Financial Reporting Standards (K-IFRS) starting 2011, based on the roadmap on the adoption of International Financial Reporting Standards announced in March 2007. The Company formed a task force in September 2008 to prepare for its transition from generally accepted accounting principles in the Republic of Korea ("Korean GAAP") to Korean IFRS, and performed an analysis and employee training on the impact assessments over the Company's current accounting policies, financial reporting process that would be impacted by the transition to Korean IFRS. The Company has engaged an external advisory firm and completed an analysis on the

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significant differences between K-IFRS and current Korean Financial Accounting Standards. The Company is currently determining the accounting policies where significant differences have been identified.

Differences between K-IFRS and current Korean Financial Accounting Standards

		K-IFRS	K-GAAP
The first adoption of K-IFRS	Business combination	Business combination occurring before the date of transition, January 1, 2010, to IFRS should not be recognized retrospectively, according to Korean IFRS 1103 'Business Combination'.	Not applicable
	Deemed cost from fair value or revalued amounts	Apply deemed cost at the revaluation date, if the Company revalued its assets.	Not applicable
	Cumulative translation differences	Cumulative translation differences for all foreign operations are deemed to be zero at the date of transition to IFRS, January 1, 2010	Not applicable
Employee benefits		<p>For employees with defined benefits plan, defined benefit obligation and accruals for other long-term employee benefit is calculated using actuarial valuation.</p> <p>Annual leave is included in accumulating compensated absences and should be accounted for as a liability when the employees render services.</p>	<p>Severance payment that shall be paid to the employees who has worked for one year or more as of the period end is accounted for as accrued severance benefits.</p> <p>Other long-term employee benefit is expensed when payment obligation is fixed.</p> <p>No specific regulation. In general, cash payment to be made is accounted for as accrued expense.</p>
Capitalization of Borrowing Costs		Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset after Jan. 1, 2010(conversion date) form part of the acquisition cost of that asset.	Recognize all borrowing costs as expense.
Financial Assets and Financial Liabilities		Financial assets classified as loans and receivables should be recognized at their fair value and the difference between nominal value should be depreciated at the effective interest rate. Financial liabilities should be measured at amortized cost by applying the effective interest rate.	Valued at present value, if the difference between the nominal value and present value is significant for long-term sales transactions.

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Equity-Method Investments	Classify as available-for-sale securities and be valued at their fair value, if the percentage of ownership is below 20% and joint registered directors exist since it is determined to have no significant influence	Apply the equity method, if joint registered directors exist since it is determined to have significant influence
Reclassification of Investment Property	Classify as investment property when the property is held to earn rentals or for profit-taking	Classify rent property as property, plant and equipment
Valuation of Property, Plant and Equipment	Cost model	Revaluation model for some property, plant and equipment
Depreciation Method of Property, Plant and Equipment	Apply method that reflects the consumption pattern of the asset's future economic benefits	Declining-balance method (straight-line method for buildings)
Intangible Assets with Indefinite Useful Life	Intangible assets with indefinite use life should not be depreciated, however, perform impairment tests regularly	Depreciate within 20 years, excluding regulations or contracts specified as an exclusive right
Deferred Tax	Recognition of deferred tax asset and liabilities depending on the method of reversal of temporary differences for subsidiaries, jointly controlled companies and related companies Disclose all deferred tax assets and liabilities as non-current	Determine recognition of deferred tax assets and liabilities of temporary differences of investment for subsidiaries, jointly controlled companies and related companies without the distinction of sources Distinguish the related items into current or non-current according to the classification of financial statements and if not classified in the financial statements, distinguish according to the expected reversal time of the item
Goodwill	Goodwill should not be depreciated, however, perform impairment tests at the end of the reporting period and recognized gain from a bargain purchase in profit or loss on the business combination date	Depreciate goodwill recognized during business combination and reverse the gain from a bargain purchases using straight-line method
Application of Equity-Method Investments	Exemption from small and medium-sized entities do not exist, thus, apply the same accounting estimates and accounting principles for parent and investee companies for	Accounting methods for similar transactions should be in agreement between the parent and investee companies. However, if the regulation for small and

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	similar transactions	medium-sized entities is applicable for parent or investee companies, the difference in accounting principles and estimates are acceptable
Financial Guarantee Contracts	Recognize financial liabilities at fair value and perform additional review for recognition of provisions	Recognize provisions for the expected loss
Elimination of Financial Assets	Discount of accounts receivable with credit risk, factoring and securitization of commitments do not satisfy the conditions for elimination	Discount of accounts receivable with credit risk, factoring, and securitization according to regulation of asset securitization satisfy the conditions for elimination
Revaluation of Land	The deferred tax liability or asset that arises from the revaluation of a non-depreciable asset shall be measured based on the basis of the tax consequences that would follow from recovery of the carrying amount of that asset through sale, regardless of the basis of measuring the carrying amount of that asset.	Recognition of deferred tax liability is not required if the temporary difference from revaluation of land according to the Asset Revaluation Law will not be sold in the foreseeable future
Allowance for Bad Debts	Recognized loss incurred at the end of the reporting date	Recognize loss incurred and expected loss at the end of the reporting date

The differences above do not include all the difference between Korea IFRS and Korean GAAP and may change as a result of additional prospective analysis.

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Change of Consolidated Companies

Details of change in consolidated companies are as follows:

K-GAAP	K-IFRS	Difference
Lotte India Co., Ltd., Lotte Qingdao Foods Co., Ltd., Lotte Pharm Co., Ltd., Lotte Food Holding Co., Ltd., Lotte Shanghai Foods Co., Ltd., LH Foods Co., Ltd., Lotte Confectionery Holdings(Europe) B.V., Chocolaterie Guylian NV, Bibica Corporation, Kirin Foods Co., Ltd., Shandong Pengcheng Ice Co., Ltd., Lotte (China) Investment Co., Ltd.	Lotte India Co., Ltd., Lotte Qingdao Foods Co., Ltd., Lotte Pharm Co., Lotte Food Holding Co., Ltd., Lotte Confectionery Holdings (Europe) B.V., Chocolaterie Guylian NV, Kirin Foods Co., Ltd., Shandong Pengcheng Ice Co., Ltd.	Excluding companies without control under K-IFRS
-	Chocolaterie Guylian Deutschland, Chocolaterie Guylian Espana, Aimee BVBA, GRPI BVBA, Guylian Asia, Guylian Portugal, Guylian UK, Guylian USA, SAS Chocolaterie Guylian France	Under K-GAAP, if total assets amount of the prior period was below ₩10 billion (if established in the current year, paid-in-capital), companies were excluded from consolidation. However, under K-IFRS, included in consolidation companies.

31. Subsequent Event

The Company participated in the paid-in capital increase for K.S. Sulemanji Esmailji & Sons (Private) Limited located in Pakistan on January 3, 2011. Percentage of shares owned is 69.45% and the amount of paid was PKR 1,334 million.