

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

**Consolidated Financial Statements
December 31, 2020 and 2019**

Lotte Confectionery Co., Ltd. and Subsidiaries
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December 31, 2020 and 2019

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Independent Auditor's Report

(English Translation of a Report Originally Issued in Korean)

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

Opinion

We have audited the accompanying consolidated financial statements of Lotte Confectionery Co., Ltd. and its subsidiaries (collectively referred to as the "Group") which comprise the consolidated statements of financial position as at December 31, 2020 and 2019, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Lotte Confectionery Co., Ltd. and its subsidiaries as at December 31, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards as adopted by the Republic of Korea (Korean IFRS).

Basis for Opinion

We conducted our audits in accordance with Korean Standards on Auditing. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements of the Republic of Korea that are relevant to our audit of the consolidated financial statements and we have fulfilled our other ethical responsibilities in accordance with the ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 3 to the consolidated financial statements of the Group. Note 3 to the consolidated financial statements describes management's judgements about the uncertainty relating to the impact of Coronavirus disease 2019 (COVID-19) on the consolidated financial statements, and these events or circumstances.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The Group's Cash Generating Units Impairment including Goodwill of HAVMOR ICE CREAM LIMITED.

Key Audit Matter

As described in Note 18, goodwill balance of HAVMOR ICE CREAM LIMITED among amounts ₩ 70,898 million. And we recognized ₩ 4,826 million impairment losses for the goodwill of HAVMOR ICE CREAM LIMITED.

The assessment of the recoverable amount at goodwill impairment test involves the Group management's significant judgments and estimates about the discount rates, growth rate, future cash flow forecast and so on, and the goodwill balance of HAVMOR ICE CREAM LIMITED as at December 31, 2020 is significant. Therefore, we determined the accounting for impairment on goodwill of HAVMOR ICE CREAM LIMITED as a key audit matter.

How our audit addressed the Key Audit Matter

We have performed related audit procedures including the followings to address the key audit matters.

- We assessed the effectiveness of the designing and operating internal control of management in relation to reviewing and approving future cash flow estimates, key assumptions used for impairment test of cash generating unit including goodwill.
- We assessed the appropriateness of the valuation model used in the impairment test.
- We performed lookback analysis by comparing the estimation of prior year to actual results whether optimistic assumptions are included in the estimates.
- We assessed the appropriateness of the data used in estimation on the impairment test including review of the approval of the business plan.
- We assessed the rationality of the key assumptions used to impairment test.
- We assessed the competence and objectivity of management's expert.
- We assessed the accuracy of the calculation of goodwill impairment losses.

Other Matter

Auditing standards and their application in practice vary among countries. The procedures and practices used in the Republic of Korea to audit such consolidated financial statements may differ from those generally accepted and applied in other countries.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Korean IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Korean Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Korean Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Jae-Hyuk Lee, Certified Public Accountant.

Seoul, Korea

March 15, 2021

This report is effective as of March 15, 2021, 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
Consolidated Statements of Financial Position
December 31, 2020 and 2019

(in millions of Korean won)

	Notes	2020	2019
Assets			
Current assets			
Cash and cash equivalents	4,5,7,8	₩ 312,095	₩ 216,213
Trade and other receivables	4,5,7,10	209,406	234,871
Other current financial assets	4,5,7,11	49,264	56,529
Current tax assets		7,851	11,256
Inventories	12	231,030	235,096
Other current assets	11	20,405	17,117
		<u>830,051</u>	<u>771,082</u>
Non-current assets			
Investments in associates	14	1,316	-
Other non-current financial assets	4,5,7,11	9,809	27,007
Property, plant and equipment	15	1,255,471	1,314,794
Right-of-use assets	16	49,974	49,408
Intangible assets	17	346,699	405,459
Investment property	19	140,901	141,264
Deferred tax assets		7,906	4,406
Other non-current assets	11	908	2,755
		<u>1,812,984</u>	<u>1,945,093</u>
Total assets		<u>₩ 2,643,035</u>	<u>₩ 2,716,175</u>
Liabilities			
Current liabilities			
Trade and other payables	4,5,7,20	₩ 152,985	₩ 163,663
Borrowings	4,5,7,21	69,973	55,206
Debentures	4,5,7,21	163,200	159,965
Lease liabilities	4,16	11,595	10,253
Other current financial liabilities	4,5,7,11	49,350	48,575
Current tax liabilities		11,705	8,976
Deferred revenue		1,856	1,638
Provisions	24	26,920	30,310
Other current liabilities	11	20,542	22,285
		<u>508,126</u>	<u>500,871</u>
Non-current liabilities			
Borrowings	4,5,7,21	187,791	166,410
Debentures	4,5,7,21	449,491	513,180
Lease liabilities	4,16	25,967	28,664
Other non-current financial liabilities	4,5,7,11	10,338	13,811
Net defined benefit liabilities	22	8,819	7,910
Provisions	24	187	156
Deferred tax liabilities	23	159,635	171,266
Deferred revenue		2,018	3,109
Other non-current liabilities	11	10,767	10,007
		<u>855,013</u>	<u>914,513</u>
Total liabilities		<u>1,363,139</u>	<u>1,415,384</u>
Equity			
Share capital	25	3,208	3,208
Capital surplus	25	1,178,514	1,178,514
Other components of equity	25	(6,039)	(6,039)
Accumulated other comprehensive income	26	(57,926)	(2,178)
Retained earnings	27	69,626	36,051
Equity attributable to owners of the Parent Company		<u>1,187,383</u>	<u>1,174,802</u>
Non-controlling interest		<u>92,513</u>	<u>91,234</u>
Total equity		<u>1,279,896</u>	<u>1,300,791</u>
Total liabilities and equity		<u>₩ 2,643,035</u>	<u>₩ 2,716,175</u>

The above consolidated statements of financial position should be read in conjunction with the accompanying notes.

Lotte Confectionery Co., Ltd. and Subsidiaries
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2020 and 2019

<i>(in millions of Korean won)</i>	Notes	2020		2019	
Revenue	6	₩	2,076,048	₩	2,092,996
Cost of sales	12,29		<u>1,356,848</u>		<u>1,391,035</u>
Gross profit			719,200		701,961
Selling and administrative expenses	28,29		606,650		604,632
Impairment loss of trade receivables	10		<u>3,501</u>		<u>1,780</u>
Operating profit			112,550		97,329
Other income	30		14,411		26,386
Other expenses	31		43,971		54,114
Impairment loss of trade receivables			609		-
Finance income	32		21,304		14,742
Interest income			7,405		6,915
Finance costs	33		48,344		31,734
Share of profit of associates			<u>(4)</u>		<u>-</u>
Profit before income tax	23		55,946		52,609
Income tax expense	23		14,221		10,980
Profit for the year	34	₩	<u>41,725</u>	₩	<u>41,629</u>
Attributable to:					
Owners of the Parent Company		₩	40,986	₩	38,062
Non-controlling interests			740		3,567
Other comprehensive income					
<i>Items that will not be reclassified to profit or loss</i>					
Remeasurements of net defined benefit liability			1,230		(3,717)
Income tax effect	22		(304)		567
<i>Items that may be subsequently reclassified to profit or loss</i>					
Loss on valuation of debt instruments at fair value through other comprehensive income (relating to instruments held by the Group)	7,26		-		-
Loss on disposal of debt instruments at fair value through other comprehensive income	7,26		(1)		(11)
Cash flow hedges			(379)		457
Exchange differences on translating foreign operations			(53,695)		16,981
Income tax effect			<u>197</u>		<u>(185)</u>
Other comprehensive income for the year, net of tax			<u>(52,952)</u>		<u>(14,092)</u>
Total comprehensive income for the year		₩	<u>(11,227)</u>	₩	<u>55,721</u>
Attributable to:					
Owners of the Parent Company		₩	(13,838)	₩	50,278
Non-controlling interests			2,611		5,443
Earnings per share for profit					
attributable to owners of the Parent Company (in Korean won)					
Basic and diluted earnings per share	34	₩	6,392	₩	5,936

The above consolidated statements of comprehensive income should be read in conjunction with the accompanying notes.

Lotte Confectionery Co., Ltd. and Subsidiaries
Consolidated Statements of Changes in Equity
Years Ended December 31, 2020 and 2019

(in millions of Korean won)

	Notes	Attributable to owners of the Parent Company						Non-controlling interest	Total equity
		Share capital	Capital surplus	Other components of equity	Accumulated other comprehensive income	Retained earnings	Total		
Balance at January 1, 2019		₩ 3,208	₩ 1,178,514	₩ 1,149	₩ (17,544)	₩ 9,474	₩ 1,174,802	₩ 83,108	₩ 1,257,910
Total comprehensive income									
Profit for the year		-	-	-	-	38,062	38,062	3,567	41,629
Remeasurements of net defined benefit liability		-	-	-	-	(3,149)	(3,149)	-	(3,149)
Loss on valuation of debt instruments at fair value through other comprehensive income (relating to instruments held by the Group)	7,26	-	-	-	-	-	-	-	-
Loss on disposal of debt instruments at fair value through other comprehensive income	7,26	-	-	-	(8)	-	(8)	-	(8)
Cash flow hedges	7,9,26	-	-	-	269	-	269	-	269
Exchange differences on translating foreign operations		-	-	-	15,105	-	15,105	1,877	16,982
Total other comprehensive income		-	-	-	15,366	34,913	50,279	5,444	55,723
Transactions with owners									
Dividends	35	-	-	-	-	(8,336)	(8,336)	(1,219)	(9,555)
Transactions with non-controlling interests	40	-	-	(858)	-	-	(858)	(5,957)	(6,815)
Business combination	39	-	-	(6,330)	-	-	(6,330)	9,858	3,528
Total transactions with owners		-	-	(7,188)	-	(8,336)	(15,524)	2,682	(12,842)
Balance at December 31, 2019		₩ 3,208	₩ 1,178,514	₩ (6,039)	₩ (2,178)	₩ 36,051	₩ 1,209,557	₩ 91,234	₩ 1,300,791
Balance at January 1, 2020		₩ 3,208	₩ 1,178,514	₩ (6,039)	₩ (2,178)	₩ 36,051	₩ 1,209,557	₩ 91,234	₩ 1,300,791
Total comprehensive income									
Profit for the year		-	-	-	-	40,986	40,986	739	41,725
Remeasurements of net defined benefit liability		-	-	-	-	925	925	1	926
Loss on valuation of debt instruments at fair value through other comprehensive income (relating to instruments held by the Group)	7,26	-	-	-	(1)	-	(1)	-	(1)
Loss on disposal of debt instruments at fair value through other comprehensive income (relating to instruments held by the Group)	7,26	-	-	-	-	-	-	-	-
Cash flow hedges	7,9,26	-	-	-	(183)	-	(183)	-	(183)
Exchange differences on translating foreign operations		-	-	-	(55,564)	-	(55,565)	1,870	(53,695)
Total other comprehensive income		-	-	-	(55,748)	41,911	(13,838)	2,610	(11,228)
Transactions with owners									
Dividends	35	-	-	-	-	(8,336)	(8,336)	(1,331)	(9,667)
Business combination		-	-	-	-	-	-	-	-
Total transactions with owners		-	-	-	-	(8,336)	(8,336)	(1,331)	(9,667)
Balance at December 31, 2020		₩ 3,208	₩ 1,178,514	₩ (6,039)	₩ (57,926)	₩ 69,626	₩ 1,187,383	₩ 92,513	₩ 1,279,896

The above consolidated statements of changes in equity should be read in conjunction with the accompanying notes.

Lotte Confectionery Co., Ltd. and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2020 and 2019

<i>(in millions of Korean won)</i>	Notes	2020	2019
Cash flows from operating activities	38		
Profit for the year		₩ 41,725	₩ 41,629
Income tax expenses	23	14,221	10,980
Depreciation	15,16,19	110,596	110,875
Amortization	17	12,919	13,707
Severance benefits	22	16,507	16,353
Employee benefits		2,929	3,223
Interest expenses	33	25,279	24,362
Interest income	32	(7,405)	(6,915)
Share of loss of associates	14	4	-
Gain on disposal of debt instruments at fair value through other comprehensive income		-	(11)
Gain on valuation of hedging derivative		-	(5,955)
Loss on valuation of hedging derivative	9	11,203	-
Impairment loss	10	3,501	1,780
Other impairment loss		609	-
Gain on disposal of property, plant and equipment	15	(5,445)	(1,133)
Loss on disposal of property, plant and equipment	15	1,861	1,875
Gain on disposal of intangible assets	17	-	-
Gain on disposal of investment property	19	(130)	(4,238)
Loss on disposal of intangible assets	17	78	170
Impairment loss on property, plant and equipment	15	-	215
Reversal of impairment loss on property, plant and equipment	15	(233)	-
Impairment loss on intangible assets	17	20,717	29,295
Loss (gain) on foreign currency translation		(1,078)	(1,291)
Other expenses (income)		1,852	735
Decrease (increase) in inventories		(5,583)	13,054
Increase in trade receivables		10,594	5,313
Decrease (increase) in other receivables		4,840	(2,954)
Increase in other current financial assets		(10)	(67)
Decrease (increase) in other current assets		(6,006)	7,721
Increase in other non-current assets		(138)	(92)
Decrease in trade payables		(6,080)	(9,966)
Increase (decrease) in other payables		3,905	(9,820)
Decrease in post-employment benefit obligation		(15,203)	(25,134)
Decrease in other current financial liabilities		(1,666)	(570)
Increase (decrease) in other current liabilities		(1,836)	581
Increase (decrease) in other non-current financial liabilities		(260)	2,686
Decrease in other non-current liabilities		(2,421)	(1,382)
Increase (decrease) in deferred revenue		319	(251)
Decrease in provisions		(4,046)	(5,041)
Income taxes paid		(18,821)	(18,697)
Net cash inflow from operating activities		<u>207,298</u>	<u>191,037</u>
Cash flows from investing activities			
Increase in cash due to changes in scope of consolidation	39	-	6,408
Decrease in short-term investments		-	117
Decrease in other current financial assets		191,004	26,027
Decrease in other non-current financial assets		4,952	5,061
Proceeds from disposal of property, plant and equipment		14,616	2,685
Proceeds from disposal of intangible assets		6	-
Proceeds from disposal of investment property		609	9,729
Interest received		6,160	4,839
Cash inflow due to other investing activities		287	294
Decrease in cash due to changes in scope of consolidation	38,39	-	(100,519)
Increase in other current financial assets		(180,100)	(67,015)
Increase in other non-current financial assets		(3,760)	(2,424)
Acquisition of property, plant and equipment		(83,947)	(78,694)
Acquisition of intangible assets		(1,206)	(1,163)
Acquisition of investments in associates		(1,320)	-
Net cash outflow from investing activities		<u>(52,699)</u>	<u>(194,654)</u>

The above consolidated statements of cash flows should be read in conjunction with the accompanying notes.

Lotte Confectionery Co., Ltd. and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2020 and 2019

(in millions of Korean won)

	Notes	2020	2019
Cash flows from financing activities			
Proceeds from short-term borrowings		5,469	11,675
Proceeds from long-term borrowings		93,922	92,894
Proceeds from issuance of debentures		109,733	119,709
Increase in deposits received		13,925	-
Repayments of short-term borrowings		(8,996)	(139,596)
Repayments of current portion of long-term borrowings		(45,242)	(15,414)
Repayments of debentures		(160,000)	-
Lease payments paid		(11,001)	(12,964)
Interest paid		(24,173)	(22,843)
Additional acquisition of investments in subsidiaries		-	(6,815)
Dividends paid		(9,667)	(9,555)
Decrease in deposits received		(14,114)	-
Net cash inflow (outflow) from financing activities		<u>(50,144)</u>	<u>17,091</u>
Net increase in cash and cash equivalents			
Cash and cash equivalents at the beginning of the year		104,455	13,474
Cash and cash equivalents at the beginning of the year		216,213	198,591
Effects of exchange rate changes on cash and cash equivalents		(8,573)	4,148
Cash and cash equivalents at the end of the year	8	<u>₩ 312,095</u>	<u>₩ 216,213</u>

Lotte Confectionery Co., Ltd. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2020 and 2019

1. General Information

General information of Lotte Confectionery Co., Ltd. (the Parent Company) and its subsidiaries (collectively referred to as “the Group”) is as follows:

1.1 Description of the Parent Company

The Parent Company is newly established corporation which are established by a spin-off of investment division and business division of Lotte Corporation (formerly, Lotte Confectionery Co., Ltd.). The Parent Company engages in manufacturing and selling confectionery goods and ice cream at headquarter in Seoul and factories in Yangsan, Pyeongtaek, Deajeon and others. The Parent Company listed its shares on the Korea Exchange on October 30, 2017. As at December 31, 2020, share capital amounts to ₩ 3,208 million.

The Shareholders of the Parent Company and their ownership as at December 31, 2020, are as follows:

	Number of shares	Percentage of ownership (%)
Lotte Corporation Co., Ltd.	3,106,984	48.42
Lotte Aluminum Co., Ltd.	643,381	10.03
Lotte Holdings Co., Ltd.	416,338	6.49
The Lotte Scholarship Foundation	365,937	5.70
Shin Young Ja	202,031	3.15
Shin Dong Bin	119,753	1.87
Shin Dong Ju	71,852	1.12
Hotel Lotte Co., Ltd.	45,239	0.71
Treasury shares	4,578	0.07
Others	1,440,624	22.44
	6,416,717	100.00

1.2 Consolidated Subsidiaries

The Parent Company's consolidated subsidiaries as at December 31, 2020 and 2019, are as follows:

Subsidiaries	Location	Percentage of ownership (%)		Closing month
		2020	2019	
Lotte Qingdao Foods Co., Ltd.	China	90.00	90.00	December
Lotte Confectionery (S.E.A) Pte., Ltd.	Singapore	100.00	100.00	December

Lotte Confectionery Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2020 and 2019

Subsidiaries	Location	Percentage of ownership (%)		Closing month
		2020	2019	
HAVMOR ICECREAM LIMITED	India	100.00	100.00	March
Sweet With Co., Ltd.	South Korea	100.00	100.00	December
Lotte Confectionery RUS LLC	Russia	100.00	100.00	December
Lotte Kolson(Private)Limited	Pakistan	96.50	96.50	December
Rakhat JSC ¹	Kazakhstan	95.57	95.57	December
Rakhat-Shymkent LLP ¹	Kazakhstan	100.00	100.00	December
Rakhat-Shymkent Trading House LLP ¹	Kazakhstan	100.00	100.00	December
Rakhat-Astana LLP ¹	Kazakhstan	100.00	100.00	December
Rakhat-Aktobe LLP ¹	Kazakhstan	100.00	100.00	December
Rakhat-Aktau LLP ¹	Kazakhstan	100.00	100.00	December
Rakhat-Oral LLP ¹	Kazakhstan	100.00	100.00	December
Rakhat-Karaganda LLP ¹	Kazakhstan	100.00	100.00	December
Rakhat-Taldykorgan LLP ¹	Kazakhstan	100.00	100.00	December
Almaty Sweets LLC ¹	Kyrgyzstan	100.00	100.00	December
Rakhat TR LLP ¹	Kazakhstan	100.00	100.00	December
Lotte Confectionery Holdings (Europe) B.V. ²	Netherlands	51.00	51.00	December
Chocolaterie Guylian N.V. ²	Belgium	99.97	99.97	December
Chocolaterie Guylian Deutschland ²	Germany	100.00	100.00	December
Aimee BVBA ^{2,3}	Belgium	100.00	100.00	December
Guylian Asia ^{2,4}	Hong Kong	100.00	100.00	December
Guylian Iberia, LDA ^{2,5}	Portugal	100.00	100.00	December
Guylian UK Ltd ²	United Kingdom	100.00	100.00	December
Guylian USA Inc ²	USA	100.00	100.00	December
L&M Mayson Company Limited ⁶	Myanmar	80.00	80.00	September
L&M Confectionery Pte.,Ltd.	Singapore	100.00	100.00	March
Lotte India Co., Ltd.	India	98.57	98.57	March

¹ Rakhat JSC, an intermediate controlling company, holds 100% of shares of 9 subsidiaries, including shares of Shymkent LLP.

² The Group holds 100% shares of Chocolaterie Guylian Deutschland GmbH, Aimee BVBA, Guylian Asia Ltd, Guylian Iberia, LDA, Guylian UK Ltd, Guylian USA, Inc. The percentage of ownership for

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Chocolaterie Guylian N.V. is the ownership held by Lotte Confectionery Holdings (Europe) B.V..

³ Chocolaterie Guylian N.V. holds 99% and Guylian Iberia, LDA holds 1% of shares.

⁴ Chocolaterie Guylian N.V. holds 99.9% and Aimee BVBA holds 0.1% of shares.

⁵ Chocolaterie Guylian N.V. holds 99.31% and Aimee BVBA holds 0.69% of shares

⁶ The Group has a total of 80% of shares of L&M Mayson Company Limited, through both direct and indirect ownership. The Group holds 45.5% of L&M Mayson Company Limited directly and 34.5% indirectly through L&M Confectionery Pte.,Ltd., which is a 100% subsidiary of the Group.

1.3 Summarized Financial Information

Summarized financial information for consolidated subsidiaries as at December 31, 2020 and 2019 and for the years ended December 31, 2020 and 2019, are as follows:

*(in millions of
Korean won)*

Subsidiary	2020						
	Assets	Liabilities	Equity	Sales	Profit (loss) for the year	Total comprehensive income (loss)	
Lotte Qingdao Foods Co., Ltd.	₩ 20,259	₩ 4,106	₩ 16,153	₩ 18,514	₩ (29)	₩ (29)	
Lotte Confectionery (S.E.A) Pte., Ltd.	5,436	2,853	2,583	10,292	246	246	
HAVMOR ICECREAM LIMITED	48,064	23,382	24,682	58,743	(1,844)	(1,826)	
Sweet With Co., Ltd.	970	794	176	1,298	(26)	(45)	
Lotte Confectionery RUS LLC	56,862	51,673	5,189	52,141	(4,193)	(4,193)	
Lotte Kolson(Private) Limited	77,079	38,441	38,638	86,687	(975)	(2,389)	
Rakhat JSC and its subsidiaries	153,588	20,997	132,591	178,363	23,082	22,908	
Lotte Confectionery Holdings (Europe) B.V. and its subsidiaries	188,545	18,249	170,296	89,608	1,304	1,163	
L&M Mayson Company Limited	47,444	2,014	45,430	30,008	3,421	3,421	
L&M Confectionery Pte.,Ltd	12,314	103	12,211	-	-	-	
Lotte India Co., Ltd.	108,001	39,469	68,532	58,191	(213)	(213)	

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Subsidiary	2019									
	Assets	Liabilities	Equity	Sales	Profit (loss) for the year	Total comprehensive income (loss)				
Lotte Qingdao Foods Co., Ltd.	₩ 20,806	₩ 4,747	₩ 16,059	₩ 15,524	₩ 90	₩ 90				
Lotte Confectionery (S.E.A) Pte., Ltd.	4,425	1,715	2,710	10,804	238	238				
HAVMOR ICECREAM LIMITED	54,743	25,924	28,819	102,030	8,058	8,058				
Sweet With Co., Ltd.	1,066	845	221	1,206	(67)	(67)				
Lotte Confectionery RUS LLC	67,102	55,705	11,397	51,405	7,721	7,721				
Lotte Kolson (Private) Limited	90,681	45,603	45,078	91,886	(2,100)	(3,005)				
Rakhat JSC and its subsidiaries	165,814	26,899	138,915	192,752	24,283	24,268				
Lotte Confectionery Holdings (Europe) B.V. and its subsidiaries	190,079	24,007	166,072	105,364	6,942	7,054				
L&M Mayson Company Limited ¹	40,277	2,009	38,268	30,227	3,262	3,262				
L&M Confectionery Pte.,Ltd ²	12,861	12,758	103	-	-	-				
Lotte India Co., Ltd. ³	124,101	49,034	75,067	69,809	270	270				

¹ The Parent Company acquired 45.5% of shares of L&M Mayson Company Limited for ₩ 43,471 million during the year ended December 31, 2018 and additional payment amounting to ₩ 785 million was settled during the year ended December 31, 2019. The Group has a total of 80% of shares of L&M Mayson Company Limited, through both direct and indirect ownership, adding the newly acquired 34.5% of shares to 45.5% of shares that are directly hold by the Group. Therefore, L&M Mayson Company Limited was transferred to the Group's subsidiaries from the associates. The consolidated financial statements have been prepared by the Parent Company as if business combination occurred as at January 1, 2019. Revenue and profit or loss of L&M Mayson Company Limited are included in the consolidated statements of comprehensive income for the year ended December 31, 2019.

² The Parent Company acquired 100% of shares of L&M Confectionery Pte., Ltd. for ₩ 33,655 million during the year ended December 31, 2019. The consolidated financial statements have been prepared by the Parent Company as if business combination occurred as at January 1, 2019. Revenue and profit

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or loss of L&M Confectionery Pte., Ltd. are included in the consolidated statements of comprehensive income for the year ended December 31, 2019.

³ The Parent Company acquired 98.57% of shares of Lotte India Co., Ltd. for ₩ 67,548 million during the year ended December 31, 2019. The consolidated financial statements have been prepared by the Parent Company as if business combination occurred as at December 31, 2019. Revenue and profit or loss of L&M Confectionery Pte., Ltd. are not included in the consolidated statements of comprehensive income for the year ended December 31, 2019.

2. Significant Accounting Policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of Preparation

The Group maintains its accounting records in Korean won and prepares statutory financial statements in the Korean language (Hangul) in accordance with International Financial Reporting Standards as adopted by the Republic of Korea (Korean IFRS). The accompanying consolidated financial statements have been condensed, restructured and translated into English from the Korean language financial statements.

Certain information attached to the Korean language financial statements, but not required for a fair presentation of the Group's financial position, financial performance or cash flows, is not presented in the accompanying consolidated financial statements.

The consolidated financial statements of the Group have been prepared in accordance with Korean IFRS. These are the standards, subsequent amendments and related interpretations issued by the International Accounting Standards Board (IASB) that have been adopted by the Republic of Korea.

The financial statements have been prepared on a historical cost basis, except for the following:

- Certain financial assets and liabilities (including derivative instruments), certain classes of property, plant and equipment and investment property – measured at fair value
- Assets held for sale – measured at fair value less costs to sell, and
- Defined benefit pension plans – plan assets measured at fair value

The preparation of financial statements requires the use of critical accounting estimates. Management also needs to exercise judgement in applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to

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the consolidated financial statements are disclosed in Note 3.

2.2 Changes in Accounting Policies and Disclosures

(a) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing January 1, 2020.

- *Amendments to Korean IFRS 1001 Presentation of Financial Statements and Korean IFRS 1008 Accounting policies, changes in accounting estimates and errors – Definition of Material*

The amendments clarify the definition of material. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general-purpose financial statements make on the basis of those financial statements. The amendments do not have a significant impact on the financial statements.

- *Amendments to Korean IFRS 1103 Business Combination – Definition of a Business*

The amended definition of a business requires an acquisition to include an input and a substantive process that together significantly contribute to the ability to create outputs and the definition of output excludes the returns in the form of lower costs and other economic benefits. If substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets, an entity may elect to apply an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The amendments do not have a significant impact on the financial statements.

- *Amendments to Korean IFRS 1109 Financial Instruments, Korean IFRS 1039 Financial Instruments: Recognition and Measurement and Korean IFRS 1107 Financial Instruments: Disclosure – Interest Rate Benchmark Reform*

The amendments allow to apply the exceptions in relation the application of hedge accounting while uncertainties arising from interest rate benchmark reform exist. The exceptions require the Group assumes that the interest rate benchmark on which the hedged items and the hedging instruments are based on is not altered as a result of interest rate benchmark reform, when determining whether the expected cash flows are highly probable, whether an economic relationship between the hedged item and the hedging instrument exists, and when assessing the hedging relationship is highly effective. The amendments do not have a significant impact on the financial statements.

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(b) New standards and interpretations not yet adopted by the Group

The following new accounting standards and interpretations have been published that are not mandatory for December 31, 2020 reporting periods and have not been early adopted by the Group.

- *Amendments to Korean IFRS 1116 Lease – Practical expedient for COVID-19 - Related Rent Exemption, Concessions, Suspension*

As a practical expedient, a lessee may elect not to assess whether a rent concession occurring as a direct consequence of the COVID-19 pandemic is a lease modification, and the amounts recognized in profit or loss as a result of applying this exemption should be disclosed. The amendments should be applied for annual periods beginning on or after June 1, 2020, and earlier application is permitted. The Group does not expect that these amendments have a significant impact on the financial statements.

- *Amendments to Korean IFRS 1109 Financial Instruments, Korean IFRS 1039 Financial Instruments: Recognition and Measurement, Korean IFRS 1107 Financial Instruments: Disclosure, Korean IFRS 1104 Insurance Contracts and Korean IFRS 1116 Lease – Interest Rate Benchmark Reform*

In relation to interest rate benchmark reform, the amendments provide exceptions including adjust effective interest rate instead of book amounts when interest rate benchmark of financial instruments at amortized costs is replaced, and apply hedge accounting without discontinuance although the interest rate benchmark is replaced in hedging relationship. The amendments should be applied for annual periods beginning on or after January 1, 2021, and earlier application is permitted. The Group does not expect that these amendments have a significant impact on the financial statements.

- *Amendments to Korean IFRS 1103 Business Combination – Reference to the Conceptual Framework*

The amendments update a reference of definition of assets and liabilities qualify for recognition in revised Conceptual Framework for Financial Reporting. However, the amendments add an exception for the recognition of liabilities and contingent liabilities within the scope of Korea IFRS 1037 *Provisions, Contingent Liabilities and Contingent Assets*, and Korean IFRS 2121 *Levies*. The amendments also confirm that contingent assets should not be recognized at the acquisition date. The amendments should be applied for annual periods beginning on or after January 1, 2022, and earlier application is permitted. The Group does not expect that these amendments have a significant impact on the financial statements.

- *Amendments to Korean IFRS 1016 Property, Plant and Equipment - Proceeds before intended use*

The amendments prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while the entity is preparing the asset for its intended use. Instead, the entity will recognize the proceeds from selling such items, and the costs of

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producing those items, in profit or loss. The amendments should be applied for annual periods beginning on or after January 1, 2022, and earlier application is permitted. The Group is in review for the impact of these amendments on the financial statements.

- *Amendments to Korean IFRS 1037 Provisions, Contingent Liabilities and Contingent Assets - Onerous Contracts : Cost of Fulfilling a Contract*

The amendments clarify that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling contracts when assessing whether the contract is onerous. The amendments should be applied for annual periods beginning on or after January 1, 2022, and earlier application is permitted. The Group does not expect that these amendments have a significant impact on the financial statements.

- *Annual improvements to Korean IFRS 2018-2020*

Annual improvements of Korean IFRS 2018-2020 Cycle should be applied for annual periods beginning on or after January 1, 2022, and earlier application is permitted. The Group does not expect that these amendments have a significant impact on the financial statements.

- Korean IFRS 1101 *First time Adoption of Korean International Financial Reporting Standards* – Subsidiaries that are first-time adopters
 - Korean IFRS 1109 *Financial Instruments* – Fees related to the 10% test for derecognition of financial liabilities
 - Korean IFRS 1116 *Leases* – Lease incentives
 - Korean IFRS 1041 *Agriculture* – Measuring fair value
- *Amendments to Korean IFRS 1001 Presentation of Financial Statements - Classification of Liabilities as Current or Non-current*

The amendments clarify that liabilities are classified as either current or non-current, depending on the substantive rights that exist at the end of the reporting period. Classification is unaffected by the likelihood that an entity will exercise right to defer settlement of the liability or the expectations of management. Also, the settlement of liability include the transfer of the entity's own equity instruments, however, it would be excluded if an option to settle them by the entity's own equity instruments if compound financial instruments is met the definition of equity instruments and recognized separately from the liability. The amendments should be applied for annual periods beginning on or after January 1, 2023, and earlier application is permitted. The Group is in review for the impact of these amendments on the financial statements.

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2.3 Consolidation

The Group has prepared the consolidated financial statements in accordance with Korean IFRS 1110 *Consolidated Financial Statements*.

(a) Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group. The consideration transferred is measured at the fair values of the assets transferred, and identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. All other non-controlling interests are measured at fair values, unless otherwise required by other standards. Acquisition-related costs are expensed as incurred.

The excess of consideration transferred, amount of any non-controlling interest in the acquired entity and acquisition-date fair value of any previous equity interest in the acquired entity over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognized directly in the profit or loss as a bargain purchase.

Goodwill is tested annually for impairment and carried at its cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains or losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognized immediately as an expense and is not subsequently reversed.

Intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment

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between the carrying amounts of the controlling and non-controlling interest to reflect their relative interest in the subsidiary. Any difference between the amount of the adjustment to non-controlling interest and any consideration paid or received is recognized in a separate reserve within equity attributable to owners of the Parent Company.

When the Group ceases to consolidate for a subsidiary because of a loss of control, any retained interest in the subsidiary is remeasured to its fair value with the changed in carrying amount recognized in profit or loss.

(b) Associates

Associates are entities over which the Group has significant influence but not control or joint control. Investments in associates are accounted for using the equity method of accounting, after initially being recognized at cost. Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. If the Group's share of losses of an associate equals or exceeds its interest in the associate (including long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognizing its share of further losses. After the Group's interest is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. If there is an objective evidence of impairment for the investment in the associate, the Group recognizes the difference between the recoverable amount of the associate and its book amount as impairment loss. If an associate uses accounting policies other than those of the Group for like transactions and events in similar circumstances, if necessary, adjustments shall be made to make the associate's accounting policies conform to those of the Group when the associate's financial statements are used by the Group in applying the equity method.

(c) Joint Arrangements

A joint arrangement, wherein two or more parties have joint control, is classified as either a joint operation or a joint venture. A joint operator recognizes its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses. Interests in joint ventures are accounted for using the equity method, after initially being recognized at cost in the consolidated statement of financial position.

2.4 Foreign Currency Translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which each entity operates (the "functional currency"). The consolidated financial statements are presented in Korean won, which is the Parent

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Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognized in profit or loss. They are deferred in other comprehensive income if they relate to qualifying cash flow hedges and qualifying effective portion of net investment hedges, or are attributable to monetary part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the statement of comprehensive income, within finance costs. All other foreign exchange gains and losses are presented in the statement of comprehensive income within 'other income or other expenses'.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities held at fair value through other comprehensive income are recognized in other comprehensive income.

2.5 Financial Assets

(a) Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured at fair value through profit or loss
- those to be measured at fair value through other comprehensive income, and
- those to be measured at amortized cost

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For financial assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. The Group reclassifies debt investments when, and only when its business model for managing those assets changes.

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For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

(b) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

A. Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. The Group classifies its debt instruments into one of the following three measurement categories:

- **Amortized cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt investment that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is included in 'finance income' using the effective interest rate method.
- **Fair value through other comprehensive income:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment loss (reversal of impairment loss), interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. Interest income from these financial assets is included in 'finance income' using the effective interest rate method. Foreign exchange gains and losses are presented in 'other income or expenses' and impairment losses are presented in 'other expenses'.
- **Fair value through profit or loss:** Assets that do not meet the criteria for amortized cost or fair value through other comprehensive income are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented net in

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the statement of profit or loss within 'other income or expenses' in the year in which it arises.

B. Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments, which held for long-term investment or strategic purpose, in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividend income from such investments continue to be recognized in profit or loss as 'finance income' when the right to receive payments is established.

Changes in the fair value of financial assets at fair value through profit or loss are recognized in 'other income and expenses' in the statement of profit or loss as applicable. Impairment loss (reversal of impairment loss) on equity investments measured at fair value through other comprehensive income are not reported separately from other changes in fair value.

(c) Impairment

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortized cost and fair value through other comprehensive income. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables and lease receivables, the Group applies the simplified approach, which requires expected lifetime credit losses to be recognized from initial recognition of the receivables. (Note 4.1.2 provides more detail of how the Group determines there has been a significant increase in credit risk.)

(d) Recognition and Derecognition

Regular way purchases and sales of financial assets are recognized or derecognized on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

If a transfer does not result in derecognition because the Group has retained substantially all the risks and rewards of ownership of the transferred asset, the Group continues to recognize the transferred asset in its entirety and recognizes a financial liability for the consideration received. The Group classified the financial liability as "borrowings" in the statement of financial position.

(e) Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the statements of financial position where there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the assets and settle the liability simultaneously. The legally

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enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

2.6 Derivative Instruments

Derivatives are initially recognized at fair value on the date when a derivative contract is entered into and are subsequently remeasured at their fair value at the end of each reporting period. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognized immediately in profit or loss within 'other income (expenses)' or 'finance income (costs)' based on the nature of transactions.

The Group applies cash flow hedge accounting to hedge interest rate risk and foreign exchange risk in borrowings denominated in foreign currency. The effective portion of changes in fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income, and the ineffective portion is recognized in 'finance income (costs)'.

2.7 Trade Receivables

Trade receivables are recognized initially at the amount of consideration that is unconditional, unless they contain significant financing components when they are recognized at fair value. Trade receivables are subsequently measured at amortized cost using the effective interest method, less loss allowance. See Note 10 for further information about the Group's accounting for trade receivables and Note 4.1.2 for a description of the Group's impairment policies.

2.8 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the moving average method, except for the cost of inventories in-transit that is determined using the specific identification method.

2.9 Non-current Assets Held for sale (or Disposal Group)

Non-current assets (or disposal group) are classified as held for sale when their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. The assets are measured at the lower amount between their carrying amount and the fair value less costs to sell.

2.10 Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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Depreciation of all property, plant and equipment, except for land, is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives as follows:

	Useful lives
Buildings	10 – 50 years
Structures	10 – 40
Machinery	3 – 20
Vehicles	4 – 10
Others	1 – 12

The assets' depreciation method, residual values and useful lives are reviewed at the end of each reporting period, and the change, if appropriate, are treated as changes in accounting estimates.

2.11 Borrowing Costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized during the period of time that is required to complete and prepare the asset for its intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. Other borrowing costs are expensed in the period in which they are incurred.

2.12 Government Grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants related to assets are presented in the statement of financial position by deducting the grant in arriving at the carrying amount of the asset, and government grants related to income are deferred and later deducted from the related expense.

2.13 Intangible Assets

Goodwill is measured as described in Note 2.3 (1), and carried at cost less accumulated impairment losses.

Intangible assets, except for goodwill, are initially recognized at its historical cost, and carried at cost less accumulated amortization and accumulated impairment losses.

Customer contracts acquired in a business combination are recognized at fair value at the acquisition date and included in other intangible assets. Membership rights that have an indefinite useful life are

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not subject to amortization because there is no foreseeable limit to the period over which the assets are expected to be utilized. The Group amortizes intangible assets with a limited useful life using the straight-line method over the following periods:

	Useful lives
Industrial property rights	5 - 10
Other intangible assets	2 – 25

The excess of consideration transferred, amount of any non-controlling interest in the acquired entity and acquisition-date fair value of any previous equity interest in the acquired entity over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognized directly in the profit or loss as a bargain purchase.

Goodwill is tested annually for impairment and carried at its cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains or losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The impairment test for goodwill is conducted by comparing the carrying amount of the cash-generating units or the group of cash-generating units to which the goodwill is allocated to the recoverable amount (value in use or fair value less costs to sell, whichever is higher). Any impairment is recognized immediately as an expense and is not subsequently reversed.

2.14 Investment Property

Investment property is property held to earn rentals or for capital appreciation or both. An investment property is measured initially at its cost. An investment property is measured after initial measurement at depreciated cost (less any accumulated impairment losses). After recognition as an asset, investment property is carried at cost less accumulated depreciation and impairment losses. The Group depreciates investment properties, except for land, using the straight-line method over their useful lives of 10 ~ 40 years.

2.15 Impairment of Non-financial Assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

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The recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the Group determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit). The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. Value in use is the present value of the future cash flows expected to be derived from an asset or cash generating unit that are discounted by a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is recognized immediately in profit or loss.

For the purpose of impairment testing, goodwill arising from in a business combination is allocated to each of the cash-generating units that are expected to benefit from the synergies of the combination. The impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period. The Group assesses at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset, other than goodwill, may no longer exist or may have decreased, and an impairment loss recognized in prior periods for an asset other than goodwill shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss cannot exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset in prior years.

2.16 Trade and Other Payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of reporting period which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities, unless payment is not due within 12 months after the reporting period. They are recognized initially at their fair value and subsequently measured at amortized cost using the effective interest method.

2.17 Financial Liabilities

(a) Classification and measurement

The Group's financial liabilities at fair value through profit or loss are financial instruments held for trading. A financial liability is held for trading if it is incurred principally for the purpose of repurchasing in the near term. A derivative that is not a designated as hedging instruments and an embedded derivative that is separated are also classified as held for trading.

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The Group classifies non-derivative financial liabilities, except for financial liabilities at fair value through profit or loss, financial guarantee contracts and financial liabilities that arise when a transfer of financial assets does not qualify for derecognition, as financial liabilities carried at amortized cost and present as 'trade payables and other financial liabilities', and 'borrowings' in the statement of financial position.

(b) Derecognition

Financial liabilities are removed from the statement of financial position when it is extinguished; for example, when the obligation specified in the contract is discharged or cancelled or expired or when the terms of an existing financial liability are substantially modified. The difference between the carrying amount of a financial liability extinguished or transferred to another party and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

2.18 Financial Guarantee Contracts

Financial guarantee contracts are recognized as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value, subsequently at the higher of following and recognized in the statement of financial position within 'other financial liabilities'.

- the amount determined in accordance with the expected credit loss model under Korean IFRS 1109 *Financial Instruments* and
- the amount initially recognized less, where appropriate, the cumulative amount of income recognized in accordance with Korean IFRS 1115 *Revenue from Contracts with Customers*

2.19 Provisions

Provisions for service warranties, make good obligation, and legal claims are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period, and the increase in the provision due to the passage of time is recognized as interest expense.

2.20 Current and Deferred Tax

The tax expense for the period consists of current and deferred tax. Current and deferred tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively. The current income tax expense is measured at the amount expected to be paid to the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

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Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. The Group recognizes current income tax on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting profit nor taxable profit or loss.

Deferred tax assets are recognized only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

The Group recognizes a deferred tax liability all taxable temporary differences associated with investments in subsidiaries, associates, and interests in joint arrangements, except to the extent that the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. In addition, The Group recognizes a deferred tax asset for all deductible temporary differences arising from such investments to the extent that it is probable the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset when the Group has a legally enforceable right to offset and intends either to settle on a net basis, or to realize the assets and settle the liability simultaneously.

2.21 Employee Benefits

(a) Post-employment benefits

The Group operates both defined contribution and defined benefit pension plans.

For defined contribution plans, the Group pays contribution to publicly or privately administered pension insurance plans on mandatory, contractual or voluntary basis. The Group has no further payment obligation once the contribution have been paid. The contribution are recognized as employee benefit expense when they are due.

A defined benefit plan is a pension plan that is not a defined contribution plan. Generally, post-employment benefits are payable after the completion of employment, and the benefit amount depended on the employee's age, periods of service or salary levels. The liability recognized in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit

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credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligation. Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in the period in which they occur, directly in other comprehensive income.

Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognized immediately in profit or loss as past service costs.

(b) Internal labor welfare fund

The Group operate internal labor welfare fund. The Group recognizes assets up to the level, that the net asset value of internal labor welfare fund can reduce payment of future related salaries

(c) Other long-term employee benefits

The Group provide long-term employee benefits that are entitled to employees with service period for ten years and above. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit pension plans. The Group recognizes service cost, net interest on other long-term employee benefits and remeasurements as profit or loss for the year. These liabilities are valued annually by an independent qualified actuary.

2.22 Revenue Recognition

(a) Revenue from Contracts with Customers

The Group mainly engages in manufacturing and selling confectionery products like gums, candies, chocolates, snacks and ice cream. In contracts with customers, the Group recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

a) Sales of goods

Revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

In the case where multiple products or services are sold through one contract, each product separately considered as a separate unit is recognized separately and the consideration received is based on the fair value of each unit based on distribution.

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i) Variable consideration

If the contract includes variable consideration, the Group transfers promised goods to customers and estimates the amount that reflects the consideration. The Group recognizes revenue with transaction price including variable consideration estimated at the contract inception only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with variable consideration has resolved. Some contracts provide customers with right to return and volume rebates that are variable consideration.

- A right to return

Some contracts provide customers with a right to return goods within a certain period of time. The Group estimates an amount of variable consideration by using the expected value, of which the entity expects to better predict the amount of consideration to which it will be entitled. Constraints in estimation of variable consideration, a requirement of Korean IFRS 1115, is applicable when determining variable consideration (amount) which is included in transaction price. A refund liability (provisions), not revenue, and a right to the returned goods (and corresponding adjustments in cost of sales,) are recognized for the products expected to be returned once they are sold.

b) Assets and liabilities arising from a right of return

i) A right to take back returned goods

A right for returned goods is the Group's right to take back products that are expected to be returned by customers. Assets are measured at the existing carrying amount of inventories, net of expected cost for collecting goods and potential reduction in value of the returned goods. The Group updates the measurement of assets to reflect changes in the expected volume of return and additional expectation of reduction in value of the goods to be returned.

ii) A refund liability (Provisions)

A refund liability is an obligation to refund some or all of the consideration received or to be received from customers. The refund liability is measured at the amount the Group expects to refund to the customers in the end. Therefore, a refund liability (included in other financial liabilities) and a right to the returned goods (included in other current assets) are recognized for the products expected to be returned. Accumulated experience is used to estimate such returns at the time of sale (expected value method). Returned goods are estimated for products within one month of expiration life and defective products. The validity of this assumption and the estimated amount of returns are reassessed at each reporting date. The Group updates the estimate of the refund liability and resulting changes in transaction price at the end of each fiscal year. See the above accounting policy for considerable consideration.

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c) Rendering of services

Revenue from services rendered is recognized when the amount of revenue can be reliably measured; it is probable that future economic benefits will flow into the Group; and the costs incurred for the transaction and the costs to complete the transaction can be reliably measured.

d) Rental income

Rental income from investment property is recognized in profit or loss on a straight-line basis over the term of the lease.

2.23 Lease

(a) Lessor

Lease income from operating leases where the Group is a lessor is recognized in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognized as expense over the lease term on the same basis as lease income. The respective leased assets are included in the statement of financial position based on their nature. The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

(b) Lessee

The Group leases various offices, warehouses, retail stores, equipment and cars. Lease contracts are typically made for fixed periods of 1 to 6 years, but may have extension options as described in (c) below. However, for leases of real estate for which the Group is lessee, the Group applies the practical expedient which has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

The Group determines the lease term as the non-cancellable period of a lease, together with both (a) periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and (b) periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option. When the lessee and the lessor each has the right to terminate the lease without permission from the other party, the Group should consider a termination penalty in determining the period for which the contract is enforceable.

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Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable
- Variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- Amounts expected to be payable by the Group (the lessee) under residual value guarantees
- The exercise price of a purchase option if the Group (the lessee) is reasonably certain to exercise that option, and
- Payments of penalties for terminating the lease, if the lease term reflects the Group (the lessee) exercising that option

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by a subsidiary of the Group, which does not have recent third-party financing, and
- makes adjustments specific to the lease, for example term, country, currency and security.

If a readily observable amortizing loan rate is available to the individual lessee (through recent financing or market data) which has a similar payment profile to the lease, then the Group uses that rate as a starting point to determine the incremental borrowing rate.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

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- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs

The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. Although the Group elected to apply the revaluation model to its land and buildings that are presented in property, plant and equipment, the Group elected not to apply that revaluation model to buildings held by the Group that are presented in the right-of-use assets.

Payments associated with short-term leases of water purifiers, air purifiers, vehicles and offices and leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise water purifiers and small items of air purifiers.

(c) Extension and termination options

Extension and termination options are included in a number of property and vehicle leases across the Group. These terms are used to maximize operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

2.24 Segment Reporting

Information of each operating segment is reported in a manner consistent with the internal business segment reporting provided to the chief operating decision-maker (Note 6). The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the steering committee that makes strategic decisions.

2.25 Approval of Issuance of the Financial Statements

The issuance of the December 31, 2020 financial statements of the Group was approved by the Board of Directors on March 2, 2021, which is subject to change with the approval of the shareholders at their annual shareholders' meeting.

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3. Critical Accounting Estimates and Assumptions

The preparation of financial statements requires the Group to make estimates and assumptions concerning the future. Management also needs to exercise judgement in applying the Group's accounting policies. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. As the resulting accounting estimates will, by definition, seldom equal the related actual results, it can contain a significant risk of causing a material adjustment.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. Additional information of significant judgement and assumptions of certain items are included in relevant notes.

(a) Estimated goodwill impairment

The Group tests whether goodwill has suffered any impairment on an annual basis. The recoverable amount of a cash generating unit (CGU) is determined based on value-in-use calculations (Note 18).

(b) Income taxes

The Group's taxable income generated from these operations are subject to income taxes based on tax laws and interpretations of tax authorities in numerous jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain (Note 23).

If certain portion of the taxable income is not used for investments or increase in wages or dividends in accordance with the *Tax System for Recirculation of Corporate Income*, the Group is liable to pay additional income tax calculated based on the tax laws. Accordingly, the measurement of current and deferred income tax is affected by the tax effects from the new tax system. As the Group's income tax is dependent on the investments, increase in wages and dividends, there is an uncertainty measuring the final tax effects.

(c) Fair value of financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period (Note 5).

(d) Impairment of financial assets

The provisions for impairment for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation based on the Group's past history, existing market conditions as well as

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forward looking estimates at the end of each reporting period (Note 4.1.2).

(e) Net defined benefit liability

The present value of net defined benefit liability depends on a number of factors that are determined on an actuarial basis using a number of assumptions including the discount rate (Note 22).

(f) Revenue recognition

A refund liability and a right to the returned goods are recognized for the products expected to be returned once they are sold. Accumulated experience is used to estimate such returns at the time of sale at a portfolio level (expected value method), and the Group's revenue is affected by changes in expected return rate.

During 2020, the spread of Coronavirus disease 2019 ("COVID-19") has a material impact on the global economy. It may have a negative impact; such as, decrease in productivity, decrease or delay in sales, collection of existing receivables and others. In particular, in the case of the Group's overseas entities, uncertainties related to future revenue generation and cash flow may be higher due to decrease in demand due to COVID-19 pandemic. Accordingly, it may have a negative impact on the financial position and financial performance of the Group.

Significant accounting estimates and assumptions applied in the preparation of the consolidated financial statements can be adjusted depending on changes in the uncertainty from COVID-19. Also, the ultimate effect of COVID-19 to the Group's business, financial position and financial performance cannot presently be determined.

4. Financial Risk Management

4.1 Financial Risk Factors

The Group's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The Group's overall risk management program focuses on minimizing potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by the Group's treasury department. The Group's treasury department works closely with the Group's business units to identify, assess and avoid financial risks. The Board provides policy on overall risk management, as well as documented policies on specific areas such as foreign exchange risk, interest rate risk, credit risk, use of derivatives and non-derivative instruments, and investment above liquidity.

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(a) Market risk

i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities.

The Group's management has set up a policy to manage foreign exchange risk against its functional currency. The Group manages their foreign exchange risk arising from future commercial transactions and recognized assets and liabilities in cooperation with the Group's finance department. Foreign exchange risk arises when future commercial transactions or recognized assets or liabilities are denominated in a currency other than its functional currency.

The Group manages the maximum foreign exchange loss to be within the acceptable range of risk by applying foreign exchange risk management model.

The Group's financial instruments denominated in major currencies as at December 31, 2020 and 2019, are as follows:

(in millions of Korean won)	2020		2019	
	Assets	Liabilities	Assets	Liabilities
USD ¹	₩ 27,864	₩ 11,137	₩ 30,862	₩ 11,972
JPY	882	209	347	552
EUR	7	3,557	-	4,058
Others	9,656	564	5,871	1,809

¹ Debentures denominated in USD (USD 150,000 thousand) were excluded because they were hedged against foreign currency risk as derivatives.

The impact of weakened/strengthened Korean won by 10% against foreign currencies with all other variables held constant on the profit before income tax for the years ended December 31, 2020 and 2019, are as follows:

(in millions of Korean won)	2020		2019	
	10% increase	10% decrease	10% increase	10% decrease
USD ¹	₩ 1,673	₩ (1,673)	₩ 1,889	₩ (1,889)
JPY	67	(67)	(21)	21
EUR	(355)	355	(406)	406

¹ Debentures denominated in USD (USD 150,000 thousand) were excluded because they were hedged against foreign currency risk as derivatives.

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The above sensitivity analysis was performed for assets and liabilities that are denominated in a currency other than its functional currency. The changes in exchange rate can have an effect on the sales prices and gross margin ratio of the Group in the future.

ii) Cash flow interest rate risk

The Group's cash flow interest rate risk arises from debentures and others. Short-term borrowings and others that are issued at variable rates expose the Group to the cash flow interest rate risk which is partially offset by derivative contracts.

The Group performs multilateral analytics on its exposure to interest rates. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the Group calculates the impact of change in defined interest rate on profit and loss. For each simulation, the same change in interest rate is applied for all currencies. The scenarios are run only for liabilities that represent the major interest-bearing positions.

(b) Credit risk

i) Maximum exposure of credit risk

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to retail customers, including outstanding receivables and committed transactions. The Group trades with business parties whose credit is upper standard to manage credit risks. The Group reviews the credit limits and adjusts collateral levels through re-evaluating credit rating of the business parties periodically.

No credit limits were exceeded during the reporting period and management does not expect any losses from nonperformance by the business parties.

The maximum exposure to credit risk as at December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>		2020		2019
Cash and cash equivalents ¹	₩	310,364	₩	214,323
Trade and other receivables		209,406		234,871
Financial assets at fair value through profit or loss		13,500		13,500
Other current financial assets		35,764		43,029
Other non-current financial assets		9,809		27,007

¹ The amount differs from the amount on the statement of financial position because cash on hand is excluded.

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ii) Trade receivables

The Group applies the simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The Group has, therefore, concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates.

On that basis, the loss allowance was determined as follows for trade receivables:

(in millions of Korean won)

		2020					
		Receivables 3 months or less	Receivables 6 months or less	Receivables 9 months or less	Receivables 12 months or less	Receivables over 12 months	Total
Expected loss rate	Good receivables	0.38%	15.74%	30.13%	50.23%	51.78%	
	Bad receivables	65.56%	86.53%	99.42%	99.83%	99.92%	
	Excluded receivables	-	-	-	-	-	
Trade receivables	Good receivables	₩ 192,858	₩ 5,203	₩ 1,930	₩ 3,256	₩ 3,087	₩ 206,334
	Bad receivables	574	101	330	165	5,353	6,523
	Excluded receivables	4,693	2	33	11	119	4,858
Loss allowance provision	Good receivables	730	819	582	1,635	1,598	5,364
	Bad receivables	377	87	328	165	5,348	6,305
	Excluded receivables	-	-	-	-	-	-

(in millions of Korean won)

		2019					
		Receivables 3 months or less	Receivables 6 months or less	Receivables 9 months or less	Receivables 12 months or less	Receivables over 12 months	Total
Expected loss rate	Good receivables	0.13%	3.26%	14.38%	28.72%	39.82%	
	Bad receivables	78.67%	87.77%	91.84%	96.88%	98.54%	
	Excluded receivables	-	-	-	-	-	
Trade receivables	Good receivables	₩ 211,470	₩ 7,850	₩ 2,899	₩ 1,128	₩ 3,557	₩ 226,904
	Bad receivables	525	188	748	545	6,282	8,288
	Excluded receivables	3,386	321	546	13	92	4,358
Loss allowance provision	Good receivables	272	256	417	324	1,403	2,672
	Bad receivables	413	165	687	528	6,190	7,983
	Excluded receivables	-	-	-	-	-	-

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(c) Liquidity risk

Cash flow forecasting is performed by each subsidiary within the Group and gathered by the Group's finance department. The Group's finance department monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal financial ratio targets and, if applicable external regulatory or legal requirements - for example, currency restrictions.

The Group's finance department invests surplus cash in interest bearing current accounts, time deposits, and money market deposits, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient headroom as determined by the above-mentioned forecasts. At the reporting date, the Group held cash and cash equivalents of ₩ 312,095 million that are expected to readily generate cash inflows for managing liquidity risk.

Details of the Group's liquidity risk analysis as at December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>	2020			
	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 year
Borrowings ¹	₩ 74,276	₩ 99,513	₩ 81,063	₩ -
Debentures ¹	170,351	255,470	205,453	-
Trade and other payables	152,985	-	-	-
Other financial liabilities	18,345	9,812	-	-
Lease liabilities	12,236	10,311	14,833	1,890
	<u>₩ 428,193</u>	<u>₩ 375,106</u>	<u>₩ 301,349</u>	<u>₩ 1,890</u>

Cash flows in the table above represent undiscounted amounts.

¹ The undiscounted nominal amounts of borrowings incurred by discounts on trade receivables which were unsatisfied to meet the derecognition requirements of financial assets, principal and interest expenses to be paid until maturities. For debentures in foreign currency, cash flows reflecting hedging effects from derivatives are included.

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<i>(in millions of Korean won)</i>	2019			
	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 year
Borrowings ¹	₩ 63,911	₩ 63,361	₩ 112,614	₩ -
Debentures ¹	172,867	168,643	297,703	51,084
Trade and other payables	163,663	-	-	-
Other financial liabilities	48,575	13,811	-	-
Lease liabilities	11,262	11,398	15,544	3,207
	<u>₩ 460,278</u>	<u>₩ 257,213</u>	<u>₩ 425,861</u>	<u>₩ 53,291</u>

Cash flows in the table above represent undiscounted amounts.

¹ The undiscounted nominal amounts of borrowings incurred by discounts on trade receivables which were unsatisfied to meet the derecognition requirements of financial assets, principal and interest expenses to be paid until maturities. For debentures in foreign currency, cash flows reflecting hedging effects from derivatives are included.

4.2 Capital Risk Management

The Group's objectives when managing capital are to maximize profit of shareholders by keeping sound capital structure. The Group performs adequate capital structure improvement program by monitoring financial ratio every months such as debt ratio and net borrowing ratio to achieve the optimal capital structure.

The debt-to-equity ratios as at December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>	2020	2019
Total liabilities (a)	₩ 1,363,139	₩ 1,415,384
Total equity(b)	1,279,896	1,300,791
Debt-to-equity ratio ((a/b))	106.5%	108.8%

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5. Fair Value of Financial Instruments

There are no changes in the business or economic circumstances that affect the fair value of the Group's financial assets and financial liabilities in 2020.

5.1 Fair Value of Financial Instruments by Category

Carrying amount and fair value of financial instruments by category as at December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>	2020		2019	
	Carrying amount	Fair value²	Carrying amount	Fair value²
Financial assets				
Cash and cash equivalents	₩ 312,095	₩ 312,095	₩ 216,213	₩ 216,213
Trade and other receivables	209,406	209,406	234,871	234,871
Financial assets at fair value through profit or loss	13,500	13,500	13,500	13,500
Other current financial assets	35,764	35,764	43,029	43,029
Other non-current financial assets	9,809	9,809	27,007	27,007
	<u>₩ 580,574</u>	<u>₩ 580,574</u>	<u>₩ 534,620</u>	<u>₩ 534,620</u>
Financial liabilities				
Trade and other payables	₩ 152,985	₩ 152,985	₩ 163,663	₩ 163,663
Borrowings ¹	257,764	259,685	221,615	222,910
Debentures ¹	612,691	621,503	673,146	668,498
Other current financial liabilities	18,345	18,345	48,575	48,575
Other non-current financial liabilities	10,338	10,338	13,811	13,811
	<u>₩ 1,052,123</u>	<u>₩ 1,062,856</u>	<u>₩ 1,120,810</u>	<u>₩ 1,117,457</u>

¹ As at December 31, 2020, fair value of the borrowings and the debentures is calculated by discounting the cash flows using corporate bond yields determined based on the Group's credit rating (AA0).

² Carrying amount of non-current financial assets and financial liabilities, other than debt instruments measured at fair value, borrowings whose carrying amount is separately disclosed, and debentures (refer to Note 21), is approximation of fair value. Fair value of current financial assets and financial liabilities is identical to these carrying amount.

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5.2 Fair Value Hierarchy

Items that are measured at fair value are categorized by the fair value hierarchy levels, and the defined levels are as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date (Level 1).
- All inputs other than quoted prices included in level 1 that are observable (either directly that is, prices, or indirectly that is, derived from prices) for the asset or liability (Level 2).
- Unobservable inputs for the asset or liability (Level 3).

<i>(in millions of Korean won)</i>	2020			
	Level 1	Level 2	Level 3	Total
		-		
Current derivative financial assets	₩	-	₩ 1,806	₩ 1,806
Non-current derivative financial liabilities		-	526	526
Financial assets at fair value through profit or loss		-	13,500	13,500

<i>(in millions of Korean won)</i>	2019			
	Level 1	Level 2	Level 3	Total
		-		
Non-current derivative financial assets	₩	-	₩ 13,587	₩ 13,587
Non-current derivative financial liabilities		-	858	858
Financial assets at fair value through profit or loss		-	13,500	13,500

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5.3 Valuation Techniques and the Inputs

Valuation techniques and inputs used in the fair value measurements categorized within Level 2 of the fair value hierarchy as at December 31, 2020 and 2019, are as follows:

2020			
Level	Valuation techniques	Inputs	
Non-current derivative financial assets	2	Discounted cash flow method	Forward rate, market interest rate, exchange rate
Financial assets at fair value through profit or loss	2	Discounted cash flow method	Market interest rate
2019			
Level	Valuation techniques	Inputs	
Non-current derivative financial assets	2	Discounted cash flow method	Forward rate, market interest rate, exchange rate
Financial assets at fair value through profit or loss	2	Discounted cash flow method	Market interest rate

6. Operating Segment Information

The Group's reportable segments and details are as follows:

Segment	Products or services	Major customers
Dry confectionery	Snacks, Gums, Health food, Bread and others	E-mart, Lotte Mart, Home plus and others
Frozen confectionery	Ice cream	E-mart, Lotte Mart, Home plus and others

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The segment information on revenue and operating profit for the years ended December 31, 2020 and 2019, are as follows:

(in millions of Korean won)

	2020					
	Dry confectionery		Frozen confectionery		Total	
Total segment revenue	₩	1,708,242	₩	406,787	₩	2,115,029
Inter-segment revenue		(38,981)		-		(38,981)
Revenue from external customers		1,669,261		406,787		2,076,048
Operating profit		91,960		20,590		112,550
Depreciation and amortization		98,409		25,106		123,515

(in millions of Korean won)

	2019					
	Dry confectionery		Frozen confectionery		Total	
Total segment revenue	₩	1,701,354	₩	429,990	₩	2,131,344
Inter-segment revenue		(38,348)		-		(38,348)
Revenue from external customers		1,663,006		429,990		2,092,996
Operating profit		78,232		19,097		97,329
Depreciation and amortization		99,587		24,995		124,582

Details of revenue by location are as follows:

(in millions of Korean won)

	2020		2019	
Korea	₩	1,511,970	₩	1,511,949
India		115,146		102,030
Europe		88,847		103,467
Kazakhstan		173,184		187,334
Pakistan		85,821		90,592
Others		101,080		97,624
	₩	<u>2,076,048</u>	₩	<u>2,092,996</u>

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The Group derives the following types of revenue:

<i>(in millions of Korean won)</i>	2020		2019	
Sales of goods	₩	2,039,142	₩	2,047,574
Provision of services		20,584		29,458
Rental income		16,322		15,964
	₩	<u>2,076,048</u>	₩	<u>2,092,996</u>

The Group's assets and liabilities by each segment as at December 31, 2020, are as follows:

<i>(In millions of Korean won)</i>	Dry confectionery		Frozen confectionery		Internal transaction adjustments		Total	
Assets	₩	2,512,981	₩	541,711	₩	(411,656)	₩	2,643,036
Investment in associate assets		1,316		-		-		1,316
Non-current assets		1,802,184		410,053		(400,569)		1,811,668
Liabilities		925,938		397,627		39,574		1,363,139

6.1 Revenue from Contracts with Customers

The Group has recognized the following amounts relating to revenue in the statement of profit or loss:

<i>(in millions of Korean won)</i>	2020		2019	
Revenue from contracts with customers	₩	2,059,726	₩	2,077,032
Revenue from other sources: rental income		16,322		15,964
Total revenue	₩	<u>2,076,048</u>	₩	<u>2,092,996</u>

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Disaggregation of Revenue from Contracts with Customers

The Group derives revenue from the transfer of goods and services over time and at a point in time in the following major product lines and geographical regions:

<i>(in millions of Korean won)</i>		2020		2019
Revenue from external customers	₩	2,059,726	₩	2,077,032
Timing of revenue recognition				
At a point in time		2,039,142		2,047,574
Over time		20,584		29,458

Sales with a right of return

The Group estimates the amount of expected sales returns based on the historical experience, collection turnover and expiration date and recognizes the provision for return (Note 24).

7. Financial Instruments by Category

Categorizations of financial assets and liabilities as at December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>	2020						
	Financial assets at amortized cost		Financial assets at fair value through profit or loss		Derivative financial assets for hedging purpose		Total
Cash and cash equivalents	₩	312,095	₩	-	₩	-	₩ 312,095
Trade and other receivables		209,406		-		-	209,406
Other current financial assets		33,958		13,500		1,806	49,264
Other non-current financial assets		9,809		-		-	9,809
	₩	565,268	₩	13,500	₩	1,806	₩ 580,574

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	2020					
	Other financial liabilities measured at amortized cost		Derivative financial liabilities for hedging purpose		Total	
Trade and other payables	₩	152,985	₩	-	₩	152,985
Borrowings		257,764		-		257,764
Debentures		612,691		-		612,691
Other current financial liabilities		18,345		-		18,345
Other non-current financial liabilities		9,812		526		10,338
	₩	1,051,597	₩	526	₩	1,052,123

(in millions of Korean won)

	2019					
	Financial assets at amortized cost		Financial assets at fair value through profit or loss		Derivative financial assets for hedging purpose	
Cash and cash equivalents	₩	216,213	₩	-	₩	-
Trade and other receivables		234,871		-		-
Other current financial assets		43,029		13,500		-
Other non-current financial assets		13,419		-		13,587
	₩	507,532	₩	13,500	₩	13,587
	₩		₩		₩	
					₩	534,619

(in millions of Korean won)

	2019					
	Other financial liabilities measured at amortized cost		Derivative financial liabilities for hedging purpose		Total	
Trade and other payables	₩	163,663	₩	-	₩	163,663
Borrowings		221,615		-		221,615
Debentures		673,146		-		673,146
Other current financial liabilities		48,575		-		48,575
Other non-current financial liabilities		12,953		858		13,811
	₩	1,119,951	₩	858	₩	1,120,809

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Net gains or net losses on each category of financial instruments for the years ended December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>	2020	2019
Financial assets at amortized cost		
Interest income	₩ 7,405	₩ 6,915
Gain on foreign currency translations	3,038	2,345
Loss on foreign currency translations	(3,528)	(1,374)
Gain on foreign currency transactions	1,401	2,021
Loss on foreign currency transactions	(3,537)	(1,338)
Impairment loss	(4,110)	(1,780)
Financial assets at fair value through other comprehensive income		
Loss on valuation (other comprehensive income) (relating to instruments held by the Group)	-	-
Loss on valuation (other comprehensive income) (reclassification of profit or loss)	(1)	(11)
Gain on disposal of financial assets at fair value through other comprehensive income	-	11
Derivative instruments used for hedging purpose		
Gain on valuation of derivatives	-	5,955
Loss on valuation of derivatives	(11,203)	-
Gain (loss) on valuation of derivatives (other comprehensive income)	(379)	457
Financial liabilities measured at amortized cost		
Interest expenses ¹	(23,381)	(22,978)
Gain on foreign currency translations	11,862	10,060
Loss on foreign currency translations	(10,294)	(9,740)
Gain on foreign currency transactions	1,702	676
Loss on foreign currency transactions	(1,547)	(1,661)

¹ Interest expenses on lease liabilities amounting to ₩1,898 million is excluded.

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8. Cash and Cash Equivalents

Cash and cash equivalents as at December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>	2020		2019	
Cash on hand	₩	1,731	₩	1,891
Ordinary deposits and others		132,661		124,838
Time deposits		177,703		89,485
	₩	<u>312,095</u>	₩	<u>216,214</u>

9. Derivative Financial Instruments

Types of derivative financial instruments held by the Group are as follows:

Purpose	Types	Description
Hedging	Currency swap	At the maturity of the swap, the principal and the interest payments for debentures in foreign currency are exchanged back with the principal and interest rate payments in Korean won
	Interest rate swap	Pays fixed interest to receive floating interest for debentures and borrowings in foreign currency
	Currency forward	At the maturity of the contract, make transactions of currency at contracted exchange rate

Details of derivative financial instruments are as follows:

Types	Title	Contractual price	Contracted exchange rate	Receipt interest rate	Payment interest rate	Maturity
Currency and Interest rate swaps	2 nd debentures in foreign currency	USD 150,000,000	₩ 1,069.50	3M USD Libor	2.39%	2021.01.12
Interest rate swap	Borrowings	PKR 3,600,000,000	-	3M KIBOR+0.35%	8.20%	2023.12.29
Interest rate swap	Borrowings	PKR 400,000,000	-	3M KIBOR+0.35%	9.42%	2023.12.29
Interest rate swap	Borrowings	PKR 1,000,000,000	-	3M KIBOR+0.35%	9.21%	2024.12.30
Currency forward	Borrowings	USD 5,000,000	INR 85.50	-	-	2021.05.03
Interest rate swap	Borrowings	USD 5,000,000	-	6M USD Libor+1.00%	2.65%	2021.05.03
Interest rate swap	Borrowings	USD 5,000,000	-	6M USD Libor+1.00%	2.65%	2021.05.03

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Outstanding balances of derivative financial instruments as at December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>	2020		2019	
Derivative financial assets	₩	1,806	₩	13,587
Derivative financial liabilities		526		858

Gain or loss on valuation of derivative financial instruments is as follows:

<i>(in millions of Korean won)</i>			
Purpose	Types	Gain on valuation	Remarks
Hedging	Currency swap	₩ (11,513)	Profit or loss
	Interest rate swap	(62)	Profit or loss
	Currency forward	372	Profit or loss
	Interest rate swap	(379)	Other comprehensive income ¹

¹ For the year ended December 31, 2020, loss on valuation of derivative financial instruments amounts to ₩ 379 million and loss on valuation of derivative financial instruments recognized in other comprehensive income is ₩ 183 million, which is net of tax effect amounting to ₩ 196 million.

10. Trade and Other Receivables

Trade and other receivables as at December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>	2020		2019	
Trade receivables	₩	217,715	₩	239,550
Less: Provision for impairment		(11,669)		(10,655)
		<u>206,046</u>		<u>228,895</u>
Other receivables ¹		3,360		5,976
	₩	<u>209,406</u>	₩	<u>234,871</u>

¹ Other receivables consist of short-term loans and non-trade receivables.

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Movements on provisions for impairment of trade receivables for the years ended December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>	2020		2019	
Beginning balance	₩	10,655	₩	10,657
Impairment loss		3,501		1,780
Receivables written-off		(2,765)		(2,455)
Collection of receivables written-off		401		271
Changes due to business combination		-		221
Exchange differences		(123)		181
Ending balance	₩	<u>11,669</u>	₩	<u>10,655</u>

11. Other Financial Assets and Liabilities, Other Assets and Liabilities

11.1 Other Financial Assets and Liabilities

Details of other financial assets as at December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>		2020		2019	
Current	Short-term financial instruments	₩	26,921	₩	38,467
	Financial assets at fair value through profit or loss		13,500		13,500
	Accrued income		462		384
	Current deposits provided		6,496		4,178
	Current derivative financial assets		1,806		-
	Other current financial assets		79		-
			<u>49,264</u>		<u>56,529</u>
Non-current	Long-term financial instruments ¹		26		22
	Loans		2		6
	Deposits provided		9,774		13,391
	Derivative financial assets		-		13,588
	Financial asset at fair value through other comprehensive income		7		-
			<u>9,809</u>		<u>27,007</u>
		<u>₩ 59,073</u>		<u>₩ 83,536</u>	

¹ As at December 31, 2020, all of long-term financial instruments are restricted to use.

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Financial assets at fair value through profit or loss include the following classes of financial assets:

<i>(in millions of Korean won)</i>	2020		2019	
Deposits for Win-win Growth Cooperative loans ¹	₩	13,500	₩	13,500

¹ It is the contracted amount for a mutual cooperation fund to support small and medium sized companies. The contracted amount is restricted to use.

Changes in debt instruments at fair value through other comprehensive income for the years ended December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>	2020		2019	
Beginning balance	₩	-	₩	119
Increase (decrease) due to evaluation		-		1
Disposal		-		(109)
Net loss reclassified from equity		-		(11)
Ending balance	<u>₩</u>	<u>-</u>	<u>₩</u>	<u>-</u>

Details of other financial liabilities as at December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>		2020		2019	
Current	Accrued expenses	₩	40,235	₩	40,953
	Current deposits received		9,115		7,622
			<u>49,350</u>		<u>48,575</u>
Non-current	Deposits received		9,812		12,953
	Derivative financial liabilities		526		858
			<u>10,338</u>		<u>13,811</u>
		<u>₩</u>	<u>59,688</u>	<u>₩</u>	<u>62,386</u>

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11.2 Other Assets and Liabilities

Details of other assets as at December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>		2020		2019	
Current	Advanced payment	₩	11,470	₩	7,031
	Prepaid expenses		7,750		8,180
	Value added tax refundable		1,090		1,835
	Other current assets		95		71
			<u>20,405</u>		<u>17,117</u>
Non-current	Long-term prepaid expenses		908		2,470
	Other non-current assets		-		285
			<u>908</u>		<u>2,755</u>
		₩	<u>21,313</u>	₩	<u>19,872</u>

Details of other liabilities as at December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>		2020		2019	
Current	Withholdings	₩	4,172	₩	4,382
	Advance received		3,540		4,283
	Other current liabilities		12,830		13,620
			<u>20,542</u>		<u>22,285</u>
Non-current	Other non-current liabilities		10,767		10,007
			<u>10,767</u>		<u>10,007</u>
		₩	<u>31,309</u>	₩	<u>32,292</u>

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12. Inventories

Inventories as at December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>	2020		2019	
Merchandise	₩	22,465	₩	25,410
Finished goods		74,091		76,965
Work-in-process		11,227		12,615
Raw materials		103,619		97,790
Supplies		1,877		2,089
Raw materials in transit		18,271		20,982
		<u>231,550</u>		<u>235,851</u>
Provision for valuation of inventories		(520)		(755)
	₩	<u>231,030</u>	₩	<u>235,096</u>

The cost of inventories recognized as expense and included in 'cost of sales', excluding 'cost of other goods sold' and 'cost of rental', amounts to ₩ 1,345,044 million (2019: ₩ 1,371,309 million). Reversal of loss on valuation of inventories to net realizable value amounted to ₩ 235 million (2019: ₩ 332 million).

Details of cost of sales for the years ended December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>	2020		2019	
Cost of merchandise sold	₩	196,284	₩	242,632
Cost of finished goods sold		1,148,760		1,128,677
Cost of rental		2,003		4,616
Cost of other goods sold		9,801		15,110
	₩	<u>1,356,848</u>	₩	<u>1,391,035</u>

13. Seasonal Characteristics of Operations

Among the main businesses of the Group, the frozen confectionery is highly affected by seasonal factors while dry confectionery is not highly affected. The peak season for revenue is from May to August, and it accounts for a high percentage of the total revenue of the frozen confectionery.

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14. Investments in Associates

Details of associates of the Group as at December 31, 2020 and 2019, are as follows:

Investee	Percentage of ownership (%)		Location	Closing date
	2020	2019		
Lotte Agri-food Tech Fund No.1 ¹	21.71	-	Korea	December 31, 2020

¹ The Group acquired shares of Lotte Agri-food Tech Fund No.1 for ₩ 1,320 million during the year ended December 31, 2020, and has entered into an agreement for additional investment of ₩ 1,980 million.

Details of valuation of investments in associates under the equity method for the years ended December 31, 2020 are as follows:

(in millions of Korean won)

	2020					
	Beginning balance	Acquisition	Valuation of equity method			Ending balance
			Share of profit or loss of associates	Shares of other comprehensive income of associates	Foreign currency translations	
Lotte Agri-food Tech Fund No.1	₩ -	₩ 1,320	₩ (4)	₩ -	₩ -	₩ 1,316
	₩ -	₩ 1,320	₩ (4)	₩ -	₩ -	₩ 1,316

Summary of condensed financial information of major associates and dividends received from associates as at and for the year ended December 31, 2020, are as follows

(in millions of Korean won)

	2020								
	Condensed financial information of associates								
	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Profit (loss) from continuing operations	Profit (loss) for the year	Total comprehensive income (loss)	Dividends from associates
Lotte Agri-food Tech Fund No.1	₩ 6,063	₩ -	₩ -	₩ -	₩ 1	₩ (17)	₩ (17)	₩ (17)	₩ -

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15. Property, Plant and Equipment

Changes in property, plant and equipment for the years ended December 31, 2020 and 2019, are as follows:

(in millions of Korean won)	2020										
	Land	Building	Structures	Machinery	Vehicles	Others	Construction- in-progress	Total			
Beginning net book amount	₩ 630,846	₩ 302,863	₩ 11,748	₩ 294,772	₩ 5,418	₩ 47,501	₩ 21,646	₩ 1,314,794			
Acquisition	-	2,860	358	31,743	4,678	16,624	28,208	84,471			
Transfer	(2,720)	3,247	223	23,665	31	(3,493)	(25,251)	(4,298)			
Disposals	(5,548)	(2,240)	(169)	(1,298)	(410)	(686)	(717)	(11,068)			
Depreciation	-	(13,148)	(649)	(60,346)	(2,029)	(18,084)	-	(94,256)			
Reversal of impairment loss	-	-	-	-	-	-	233	233			
Exchanges differences	(3,630)	(14,081)	(1,677)	(12,324)	(113)	(1,544)	(1,036)	(34,405)			
Ending net book amount	₩ 618,948	₩ 279,501	₩ 9,834	₩ 276,212	₩ 7,575	₩ 40,318	₩ 23,083	₩ 1,255,471			
Acquisition cost	₩ 626,065	₩ 523,637	₩ 24,215	₩ 1,180,581	₩ 15,805	₩ 276,979	₩ 23,108	₩ 2,670,390			
Accumulated depreciation	-	(217,470)	(10,604)	(894,448)	(8,230)	(236,657)	-	(1,367,409)			
Government grants ¹	-	(821)	-	-	-	-	-	(821)			
Accumulated impairment loss	(7,117)	(25,845)	(3,777)	(9,921)	-	(4)	(25)	(46,689)			

¹ The Group has received government grants amounting to ₩ 1,000 million related to buildings. There are conditions for compliance with government grants, such as the duration of employment obligations, and must be maintained for seven years from the month following the first new employment obligation. If not, there is a possibility that government grants will be reimbursed.

Recognized expense related to the depreciation for the ended December 31, 2020 is ₩ 94,256 million (2019: ₩ 97,151 million). Among this total amount, ₩ 71,086 million (2019: ₩ 62,058 million) is included in cost of sales, and ₩ 23,170 million (2019: ₩ 35,094 million) is included in selling and administrative expenses.

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	2019											
	Land	Building	Structures	Machinery	Vehicles	Others	Construction-in-progress	Total				
Beginning net book amount	₩ 640,105	₩ 281,139	₩ 10,604	₩ 278,920	₩ 3,496	₩ 52,270	₩ 22,967	₩ 1,289,501				
Acquisition	-	1,209	561	31,465	2,254	16,160	29,895	81,544				
Transfer	(26,532)	(1,941)	575	24,012	(21)	475	(32,846)	(36,278)				
Disposals	(650)	(37)	(17)	(907)	(575)	(1,462)	(1)	(3,649)				
Depreciation	-	(12,871)	(706)	(60,870)	(1,586)	(21,118)	-	(97,151)				
Changes due to business combination	17,804	34,165	-	20,132	1,698	439	1,573	75,811				
Impairment loss	-	-	-	-	-	-	(215)	(215)				
Exchanges differences	119	1,199	731	2,020	152	737	273	5,231				
Ending net book amount	₩ 630,846	₩ 302,863	₩ 11,748	₩ 294,772	₩ 5,418	₩ 47,501	₩ 21,646	₩ 1,314,794				
Acquisition cost	₩ 638,555	₩ 544,949	₩ 28,157	₩ 1,176,299	₩ 14,424	₩ 282,338	₩ 21,919	₩ 2,706,641				
Accumulated depreciation	-	(211,317)	(11,586)	(870,691)	(9,006)	(234,833)	-	(1,337,433)				
Government grants ¹	-	(871)	-	-	-	-	-	(871)				
Accumulated impairment loss	(7,709)	(29,898)	(4,823)	(10,836)	-	(4)	(273)	(53,543)				

Contractual commitments for acquisition of assets

The Group entered into contractual commitments for the acquisition of lands and investment of facilities (Note 36).

Assets provided as collateral

Land, building and machinery are provided as collateral with the maximum credit amount of ₩ 41,330 million for borrowings (Note 36).

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16. Leases

Set out below is information for leases when the Group is a lessee.

(a) *Amounts recognized in the consolidated statement of financial position*

The consolidated statement of financial position shows the following amounts relating to leases:

<i>(in millions of Korean won)</i>	2020		2019	
Right-of-use assets				
Building	₩	13,038	₩	11,115
Vehicles		13,052		17,398
Machinery		5,303		5,786
Others		18,581		15,109
	₩	<u>49,974</u>	₩	<u>49,408</u>

<i>(in millions of Korean won)</i>	2020		2019	
Lease liabilities				
Current	₩	11,595	₩	10,253
Non-current		25,967		28,664
	₩	<u>37,562</u>	₩	<u>38,917</u>

Additions to the right-of-use assets during the 2020 financial year were ₩ 21,304 million.

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(b) Amounts recognized in the consolidated statement of profit or loss

The consolidated statement of profit or loss shows the following amounts relating to leases:

<i>(in millions of Korean won)</i>	2020		2019	
Depreciation of right-of-use assets				
Building	₩	6,981	₩	4,932
Machinery		808		752
Vehicles		4,391		4,580
Others		2,287		1,629
	₩	14,467	₩	11,893
Interest expense relating to lease liabilities (included in finance cost)	₩	1,898	₩	1,384
Expense relating to short-term leases (included in cost of sales and administrative expenses)		6,313		5,378
Expense relating to leases of low-value assets that are not short-term leases (included in administrative expenses)		1,085		1,136
Expense relating to variable lease payments not included in lease liabilities (included in administrative expenses)		363		1,256

Recognized expense related to the depreciation of right-of-use assets for the year ended December 31, 2020 is ₩ 14,467 million. Among this total amount, ₩ 2,682 million is included in cost of sales, and ₩ 11,785 million is included in selling and administrative expenses.

The total cash outflow for leases in 2020 was ₩ 18,762 million.

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17. Intangible Assets

Changes in intangible assets for the years ended December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>	2020									
	Industrial property rights		Memberships	Goodwill	Others ¹	Total				
Beginning balance	₩	10,289	₩	4,428	₩	198,580	₩	192,162	₩	405,459
Acquisition		255		-		-		952		1,207
Transfer		135		-		(1,693)		(193)		(1,751)
Disposal		(49)		-		-		(35)		(84)
Amortization		(904)		-		-		(12,015)		(12,919)
Impairment ²		-		-		(20,717)		-		(20,717)
Foreign currency translations		476		-		(11,171)		(13,801)		(24,496)
Ending balance	₩	10,202	₩	4,428	₩	164,999	₩	167,070	₩	346,699

Recognized expense related to the amortization for the ended December 31, 2020 is ₩ 12,919 million (2019: ₩ 13,707 million). Among this total amount, ₩ 56 million (2019: ₩ 29 million) is included in cost of sales, and ₩ 12,863 million (2019: ₩ 13,678 million) is included in selling and administrative expenses.

¹ Others consist of brand value, customer relationships value and others.

² See Note 18 for the impairment tests for goodwill.

<i>(in millions of Korean won)</i>	2019									
	Industrial property rights		Memberships	Goodwill	Others ¹	Total				
Beginning balance	₩	4,745	₩	4,428	₩	179,396	₩	181,464	₩	370,033
Acquisition		637		-		-		687		1,324
Transfer		205		-		-		(9,486)		(9,281)
Disposal		(169)		-		-		(1)		(170)
Amortization		(923)		-		-		(12,784)		(13,707)
Changes due to business combination		5,623		-		42,030		27,337		74,990
Impairment ²		-		-		(29,295)		-		(29,295)
Foreign currency translations		171		-		6,449		4,945		11,302
Ending balance	₩	10,289	₩	4,428	₩	198,580	₩	192,162	₩	405,459

¹ Others consist of brand value, customer relationships value and others.

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² See Note 18 for the impairment tests for goodwill.

Recognized expense related to research and development for the year ended December 31, 2020 is ₩ 2,094 million (2019: ₩ 2,088 million).

<i>(in millions of Korean won)</i>	2020		2019	
Cost of sales (manufacturing cost)	₩	2,090	₩	2,087
Selling and administration expenses		4		1

18. Impairment Tests for Goodwill

Goodwill as at December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>	2020		2019	
Frozen confectionery	₩	10,376	₩	12,069
HAVMOR ICE CREAM LIMITED ¹		70,898		82,354
Lotte Confectionery RUS LLC		3,587		4,581
Lotte Confectionery Holdings (Europe) B.V. ²		26,029		42,183
Rakhat JSC		35,918		39,387
Lotte Kolson(Private)Limited		1,108		1,223
L&M Mayson Company Limited ³		17,083		16,783
	₩	164,999	₩	198,580

¹ For the goodwill which was recognized as a result of acquisition of HAVMOR ICE CREAM LIMITED in the past, the Group recognized impairment loss amounting to ₩ 4,826 million, which exceeds the recoverable amount of cash generating unit.

² For the goodwill which was recognized as a result of acquisition of Lotte Confectionery Holdings (Europe) B.V. in the past, the Group recognized impairment loss amounting to ₩ 14,681 million, which exceeds the recoverable amount of cash generating unit.

³ The Group has a total of 80% of shares of L&M Mayson Company Limited, through both direct and indirect ownership. The Group holds 45.5% of L&M Mayson Company Limited directly and 34.5% indirectly through L&M Confectionery Pte., Ltd., which is a 100% subsidiary of the Group. As L&M Confectionery Pte.,Ltd. is a special purpose corporation(SPC) with no substance, the goodwill recognized at the time of acquisition was fully allocated to L&M Mayson Company Limited. The Group recognized impairment loss for the goodwill of L&M Mayson Company Limited amounting to ₩ 1,210 million which exceeds the recoverable amount of the cash generating unit..

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The recoverable amount of cash generating unit is calculated based on the calculation of value-in-use. Cash flows were estimated based on past experience, actual historical results of operations and the five-year business plan approved by management. When measuring the value-in-use, cash flow was estimated by assuming that the COVID-19 would be ceased within the estimated period, and the recovery rate and period of the cash flow were estimated by taking into account the characteristics of the industry which each entity is operating in. In addition, when estimating the discount rate, the Group considers the situation of increased volatility of key indicators due to the uncertainty of market arising from COVID-19. Accordingly, the discount rate was calculated by considering the characteristics of the industry and country which each entity is operating in. Except for the impairment loss mentioned above, the carrying amount of cash generating units does not exceed the recoverable amount.

The calculation of recoverable amount was conducted by objective and competent external expert. The key assumptions used in calculating value-in-use, recoverable amount and impairment amount are as follows:

(in millions of Korean won)

		Recoverable amount	Impairment¹	Discount rate (WACC)	Perpetual growth rate
Frozen confectionery ²	₩	324,363	₩ -	6.4%	1.0%
HAVMOR ICE CREAM LIMITED ³		165,816	4,826	11.2%	2.0%
Lotte Confectionery RUS LLC ²		72,082	-	13.0%	1.0%
Lotte Confectionery Holdings (Europe) B.V. ³		158,435	14,681	5.5%	1.0%
Rakhat JSC ³		219,144	-	15.8%	1.0%
Lotte Kolson Limited ²		75,384	-	14.8%	1.0%
L&M Mayson Company Limited ³		66,930	1,210	13.9%	2.0%
	₩	<u>1,082,154</u>	₩ <u>20,717</u>		

¹ The amount was calculated by applying average exchange rate to the foreign currency-denominated recoverable amount and impairment loss. The difference between recoverable amount and goodwill is from the difference between end of the year exchange rate and average rate. The amount is recognized as other comprehensive income, as exchange differences on translating foreign operations.

² The assumptions of discount rate and perpetual growth rate do not affect impairment loss, since changes in these assumptions are within the range of sensitivity based on external assessment report.

³ The results of the analysis of the effect of the changes in discount rate and perpetual growth rate assumptions on the impairment loss according to changes within the range of sensitivity of the external evaluation report are as follows:

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Discount rate (WACC)

(in millions of Korean won)

1% increase	Recoverable amount	Changes in impairment
HAVMOR ICE CREAM LIMITED	₩ 148,272	₩ 17,544
Lotte Confectionery Holdings (Europe) B.V.	129,797	14,605
Rakhat JSC	204,524	4,262
L&M Mayson Company Limited	61,491	4,351

Perpetual growth rate

(in millions of Korean won)

1% decrease	Recoverable amount	Changes in impairment
HAVMOR ICE CREAM LIMITED	₩ 154,037	₩ 11,779
Lotte Confectionery Holdings (Europe) B.V.	139,071	9,876
Rakhat JSC ¹	212,286	-
L&M Mayson Company Limited	63,291	2,911

¹ 1% decrease in perpetual growth rate does not result in impairment.

19. Investment Property

Changes in investment property for the years ended December 31, 2020 and 2019, are as follows:

(in millions of Korean won)

	2020		
	Land	Buildings	Total
Beginning balance	₩ 92,996	₩ 48,268	₩ 141,264
Transfer	2,720	1,540	4,260
Disposal	(215)	(264)	(479)
Depreciation	-	(1,873)	(1,873)
Foreign currency translations	(1,989)	(282)	(2,271)
Ending balance	₩ 93,512	₩ 47,389	₩ 140,901
Acquisition cost	₩ 93,580	₩ 84,435	₩ 178,015
Accumulated depreciation	-	(37,046)	(37,046)
Accumulated impairment loss	(68)	-	(68)

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Fair value of investment property as at December 31, 2020, is ₩ 186,309 million (2019: ₩ 179,378 million).

Rental income from investment property during the year ended December 31, 2020, is ₩ 15,472 million (2019: ₩ 15,128 million).

Operating expenses from investment property consist of depreciation and repairs and maintenance expenses. Recognized expense related to the depreciation for the ended December 31, 2020 is ₩ 1,873 million (2019: ₩ 1,831 million). Among this total amount, ₩ 1,780 million (2019: ₩ 1,765 million) is included in cost of sales, and ₩ 92 million (2019: ₩ 66 million) is included in selling and administrative expenses. Repairs and maintenance expenses amount to ₩ 217 million (2019: ₩ 216 million).

(in millions of Korean won)

	2019		
	Land	Buildings	Total
Beginning balance	₩ 47,894	₩ 42,630	₩ 90,524
Acquisitions	-	-	-
Transfer	27,711	5,409	33,120
Disposal	(4,939)	(552)	(5,491)
Depreciation	-	(1,831)	(1,831)
Changes due to business combination	22,401	2,595	24,996
Foreign currency translations	(71)	17	(54)
Ending balance	<u>₩ 92,996</u>	<u>₩ 48,268</u>	<u>₩ 141,264</u>
Acquisition cost	₩ 93,071	₩ 83,220	₩ 176,291
Accumulated depreciation	-	(34,952)	(34,952)
Accumulated impairment loss	(75)	-	(75)

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20. Trade and Other Payables

Trade and other payables as at December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>	2020		2019	
Trade payables	₩	96,195	₩	109,881
Non-trade payables		56,790		53,782
	₩	<u>152,985</u>	₩	<u>163,663</u>

21. Borrowings

Details of carrying amount of borrowings as at December 31, 2020 and 2019, are as follows:

Current Borrowings

(in millions of Korean won)

	Bank	Maturity date	Annual interest rate (%) as at December 31, 2020	2020	2019
Short-term borrowings	Woori Bank, Dalian Branch	-	-	₩ -	₩ 1,326
	Shinhan Bank	2021-01-04	1.88	84	-
	HDFC Bank and others	-	9.60	1,727	1,449
	Faysal bank Limited		-	-	2,742
Current-portion of borrowings	Shinsei Bank	-	-	-	18,515
	Mizuho Bank, Ltd.	2021-10-29	2.31	20,000	-
	Woori Bank, London Branch and others	2021-03-05	2.54~8.55	9,336	5,208
	KEB Hana, Amsterdam Branch and others	2021-12-07	3.00~9.42	38,826	25,966
				<u>₩ 69,973</u>	<u>₩ 55,206</u>

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Non-current Borrowings

(in millions of Korean won)

	Bank	Maturity date	Annual interest rate (%) as at December 31, 2020	2020	2019
		-	-	₩ -	₩ 20,000
		2022-01-25	2.10	80,000	80,000
	Mizuho Bank, Ltd.	2023-07-31	1.57	23,000	-
		2023-09-27	1.59	7,000	-
		2023-10-30	1.58	20,000	-
	KEB Hana, Amsterdam branch and others	-	-	-	33,518
Long-term borrowings	Habib Bank Limited and others	2023-12-29	3.00~9.42	20,905	22,440
	KEB Hana, Bahrain Branch	-	-	-	5,207
	Woori Bank	2025-12-31	2.54	15,198	-
	Woori Bank, Bahrain Branch	2022-12-16	1.55	15,121	-
	VTB Bank and others	2025-12-08	4.90~5.50	6,567	5,245
				<u>₩ 187,791</u>	<u>₩ 166,410</u>

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Debentures

(in millions of Korean won)

	Bank	Maturity date	Annual interest rate (%) as at December 31, 2020	2020	2019
61 st -2 Debenture in KRW	MIRAE ASSET DAEWOO CO.,LTD. and others	2025-07-03	2.89	₩ 50,000	₩ 50,000
62 nd -2 Debenture in KRW	KB SECURITIES CO.,LTD. and others	2020-11-27	2.42	-	50,000
63 rd -1 Debenture in KRW	Korea Investment & Securities Co., Ltd.	-	-	-	110,000
63 rd -2 Debenture in KRW	and others	2022-02-22	2.22	170,000	170,000
64 th -1 Debenture in KRW	NH INVESTMENT & SECURITIES CO.,LTD.	2022-06-13	1.68	80,000	80,000
64 th -2 Debenture in KRW		2024-06-13	1.75	40,000	40,000
65 th Debenture in KRW	Korea Investment & Securities Co., Ltd. and others	2023-02-17	1.55	110,000	-
2 nd Debenture in foreign currency	MUFG	2021-01-12	Three-month LIBOR	163,200	173,670
				<u>613,200</u>	<u>673,670</u>
Less: discount on debentures				(509)	(524)
Total book amount of debentures				<u>612,691</u>	<u>673,146</u>
Current portions:				<u>163,200</u>	<u>159,965</u>
Current debentures				163,200	160,000
Current discounts on debentures				-	(35)
Total book amount of non-current debentures				<u>₩ 449,491</u>	<u>₩ 513,180</u>

Debentures above will be paid on their maturity date. Interest expenses are paid every three months.

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Details of carrying amount and fair value of debentures as at December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>	2020		2019	
	Carrying amount	Fair value ¹	Carrying amount	Fair value ¹
Debentures	₩ 612,691	₩ 621,503	₩ 673,146	₩ 668,498

¹ The fair value is calculated by discounting the future cash flows using corporate bond yields determined based on the Group's credit rating (AA0).

Changes in borrowings and debentures for the years ended December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>	2020		2019	
	Borrowings	Debentures	Borrowings	Debentures
Beginning balance	₩ 221,616	₩ 673,146	₩ 245,002	₩ 547,236
Amortization	-	283	-	246
Repayments	(54,238)	(160,000)	(155,010)	-
Increase	99,392	109,732	104,571	119,709
Changes due to business combination	-	-	28,930	-
Exchange differences	(9,006)	(10,470)	(1,877)	5,955
Ending balance	₩ 257,764	₩ 612,691	₩ 221,616	₩ 673,146

22. Post-employment Benefits

22.1 Defined Benefit Plan

The Group operates defined benefit pension plans in various countries. The majority of the plans are final salary pension plans, which provide benefit to employees in the form of a guaranteed level of pension payable for life. The level of benefits provided depends on employees' length of service and their salary in the final years leading up to retirement. The majority of benefit payments are from trustee administered funds; however, there are also a number of unfunded plans. Plan assets held in trusts are governed by local regulations and practice in each country.

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Details of net defined benefit obligations recognized on the consolidated statements of financial position as at December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>	2020	2019
Present value of defined benefit obligations	₩ 131,068	₩ 129,174
Fair value of plan assets ¹	(122,249)	(121,264)
Liabilities in the consolidated statement of financial position	<u>₩ 8,819</u>	<u>₩ 7,910</u>

¹ Fair value of plan assets includes ₩ 48 million (2019: ₩ 48 million) of contributions to the National Pension Fund.

Changes in the present value of defined benefit obligations for the years ended December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>	2020	2019
Beginning balance	₩ 129,174	₩ 116,002
Current service cost	17,490	16,965
Interest expenses	2,541	2,575
Remeasurements of actuarial gains and losses:		
- Actuarial gains and losses arising from changes in demographic assumptions	(1,274)	(42)
- Actuarial gains and losses arising from changes in financial assumptions	(2,460)	3,716
- Actuarial gains and losses arising from experience adjustments	2,227	(331)
Payments from plans:		
- Benefit payments	(15,762)	(10,575)
- Benefit payments due to participation in defined contribution pension	(5,077)	(4,048)
Liabilities transferred from affiliated company	4,382	4,571
Liabilities assumed due to businesses combination	-	461
Exchange differences	(173)	(120)
Ending balance	<u>₩ 131,068</u>	<u>₩ 129,174</u>

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Changes in the fair value of plan assets for the years ended December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>		2020	2019
Beginning balance	₩	121,264	103,767
Return on plan assets		2,835	2,783
Contributions of employers		15,125	25,202
Payments from plans:			
- Benefit payments		(16,004)	(10,165)
- Benefit payments due to participation in defined contribution pension		(5,017)	(4,048)
Management commissions		-	(480)
Remeasurements of actuarial gains and losses		(278)	(374)
Transfer amount from affiliated company		4,382	4,572
Assets acquired due to businesses combination		-	-
Exchange differences		(58)	7
Ending balance	₩	<u>122,249</u>	<u>121,264</u>

Plan assets as at December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>	2020		2019	
	Amount	Proportion (%)	Amount	Proportion (%)
Insurance instrument	₩ 122,201	99.96	₩ 121,216	99.96
National pension fund	48	0.04	48	0.04
	<u>₩ 122,249</u>	<u>100.00</u>	<u>₩ 121,264</u>	<u>100.00</u>

The principal actuarial assumptions as at December 31, 2020 and 2019, are as follows:

<i>(in percentage, %)</i>	2020	2019
Discount rate	2.22 ~ 10.25	2.48 ~ 6.75
Salary growth rate	1.96 ~ 10.25	2.26 ~ 7.00
Future salary increase rate	2.38 ~ 7.00	2.98 ~ 7.00

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The sensitivity of the defined benefit obligations as at December 31, 2020, to changes in the weight principal assumptions is:

	2020		
	Changes in principal assumptions	Increase in principal assumptions	Decrease in principal assumption
Discount rate	1.00%	4.31% decrease	4.74% increase
Salary growth rate	1.00%	4.71% increase	4.37% decrease
Future salary increase rate	1.00%	4.67% increase	3.80% decrease

A decrease in corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the plans' bond holdings.

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions maybe correlated. The sensitivity of the defined benefit obligation to changes in principal actuarial assumptions is calculated using the projected unit credit method, the same method applied when calculating the defined benefit obligations recognized on the statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

The impact on future cash flows by the defined benefit plan is as follows:

The Group reviews the funding level on an annual basis and has a policy to eliminate deficit in the fund.

Expected contributions to post-employment benefit plans for the year ended December 31, 2021, are ₩ 16,370 million.

The expected maturity analysis of undiscounted pension benefits as at December 31, 2020, is as follows:

<i>(in millions of Korean won)</i>	Less than 1 year		Between 1-2 years		Between 2-5 years		Over 5 years		Total	
Pension benefits	₩	23,812	₩	20,387	₩	43,959	₩	61,326	₩	149,484

The weighted average duration of the defined benefit obligations is 4.53 years.

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22.2 Defined Contribution Plan

Recognized expense related to the defined contribution plan for the year ended December 31, 2020, is ₩ 4,700 million (2019: ₩ 3,995 million). Among this total amount, ₩ 1,952 million (2019: ₩ 2,296 million) is included in cost of sales, and ₩ 2,748 million (2019: ₩ 1,699 million) is included in selling and administrative expenses.

22.3 Other Long-term and Short-term Employee Benefits

The short-term employee benefits include paid absences recognized in respect of service rendered by employees in the current period. Other long-term employee benefits include amounts recognized in relation to souvenirs given for long-term services.

<i>(in millions of Korean won)</i>	2020	2019
Short-term employee benefits	₩ 12,411	₩ 11,935
Other long-term employee benefits	11,128	10,220
	<u>₩ 23,539</u>	<u>₩ 22,155</u>

23. Income Tax Expenses and Deferred Income Tax

Income tax expense for the years ended December 31, 2020 and 2019, consist of:

<i>(in millions of Korean won)</i>	2020	2019
Current tax:		
Current tax on profits for the year	₩ 23,770	₩ 20,736
Adjustments in respect of prior periods	(280)	(29)
Total current tax	<u>23,490</u>	<u>20,707</u>
Deferred tax:		
Origination and reversal of temporary differences	(10,426)	(9,727)
Others	1,157	-
Total deferred tax	<u>(9,269)</u>	<u>(9,727)</u>
Income tax expense	<u>₩ 14,221</u>	<u>₩ 10,980</u>

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The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

<i>(in millions of Korean won)</i>	2020		2019	
Profit before tax	₩	55,946	₩	52,609
Tax calculated at domestic tax rates applicable to profits in the respective countries		13,442		19,510
Tax effects of:				
Income not subject to tax		(429)		(1,219)
Expenses not deductible for tax purposes		983		1,053
Re-measurement of deferred tax – change in the Korean tax rate		-		(8,431)
Tax credit		(1,953)		(1,754)
Changes in temporary differences not recognized		5,260		2,331
Prior temporary differences recognized during the current year		(2,505)		-
Income tax refunds		(280)		(143)
Tax effects on profit or loss of subsidiaries for the year		2,232		1,320
Others		(2,529)		(1,687)
Income tax expense	₩	<u>14,221</u>	₩	<u>10,980</u>

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The income tax credited (charged) directly to equity for the years ended December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>	2020			2019		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Gain (loss) on valuation of financial assets at fair value through other comprehensive income	₩ (1)	₩ -	₩ (1)	₩ (11)	₩ 3	₩ (9)
Cash flow hedge	(379)	196	(183)	457	(187)	269
Actuarial gain (loss) on defined benefit obligations	1,229	(304)	925	(3,717)	567	(3,149)
	<u>₩ 849</u>	<u>₩ (108)</u>	<u>₩ 741</u>	<u>₩ (3,271)</u>	<u>₩ 383</u>	<u>₩ (2,889)</u>

The analysis of deferred tax assets and liabilities as at December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>	2020	2019
Deferred tax assets		
Deferred tax asset to be recovered after more than 12 months	₩ 42,793	₩ 35,817
Deferred tax asset to be recovered within 12 months	20,442	19,690
Deferred tax liabilities		
Deferred tax liability to be recovered after more than 12 months	(211,358)	(222,330)
Deferred tax liability to be recovered within 12 months	(3,606)	(37)
Deferred tax liabilities, net	<u>₩ (151,729)</u>	<u>₩ (166,860)</u>

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

(in millions of Korean won)	2020							December 31, 2020
	January 1, 2020	Statement of profit or loss	Other comprehen- sive income	Retained earnings	Others	Currency translation differences		
Deferred tax liabilities								
Revaluation of land	₩ (82,875)	₩ 168	₩ -	₩ -	₩ -	₩ -	₩ -	₩ (82,707)
Advanced depreciation provision	(17,542)	161	-	-	-	-	-	(17,381)
Depreciation	(23,305)	2,259	-	-	-	-	-	(21,046)
Retirement deposits	(25,103)	616	-	-	-	-	-	(24,487)
Business combination assessment	(56,745)	4,017	-	-	-	4,697	-	(48,031)
Others	(16,797)	(7,532)	632	(10)	1,693	702	-	(21,312)
	<u>(222,367)</u>	<u>(311)</u>	<u>632</u>	<u>(10)</u>	<u>1,693</u>	<u>5,399</u>		<u>(214,964)</u>
Deferred tax assets								
Accrual for retirement and severance benefits	19,774	(321)	-	(6)	-	(26)	-	19,421
Provisions for sales return	4,768	(696)	-	-	-	-	-	4,072
Bad debt expense at the end of prior period	4,917	215	-	-	-	(16)	-	5,116
Remeasurements of net defined benefit liabilities	5,518	-	-	(288)	-	-	-	5,230
Accrued expenses	4,535	275	-	-	-	(124)	-	4,686
Non-deductible bad debt reserves	1,572	240	-	-	-	-	-	1,812
Others	14,423	11,329	(435)	-	-	(2,419)	-	22,898
	<u>55,507</u>	<u>11,042</u>	<u>(435)</u>	<u>(294)</u>	<u>-</u>	<u>(2,585)</u>		<u>63,235</u>
	<u>₩ (166,860)</u>	<u>₩ 10,731</u>	<u>₩ 197</u>	<u>₩ (304)</u>	<u>₩ 1,693</u>	<u>₩ 2,814</u>		<u>₩ (151,729)</u>

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(in millions of
Korean won)

2019

	January 1, 2019	Statement of profit or loss	Other comprehen- sive income	Retained earnings	Acquisition of subsidiaries	Currency translation differences	December 31, 2019
Deferred tax liabilities							
Gain on valuation of financial assets at fair value through other comprehensive income	₩ (3)	₩ -	₩ 3	₩ -	₩ -	₩ -	₩ -
Revaluation of land	(83,540)	665	-	-	-	-	(82,875)
Advanced depreciation provision	(17,855)	313	-	-	-	-	(17,542)
Depreciation	(31,871)	8,607	-	-	-	(41)	(23,305)
Retirement deposits	(23,145)	(1,958)	-	-	-	-	(25,103)
Business combination assessment	(65,216)	13,816	-	-	(3,558)	(1,787)	(56,745)
Others	(1,897)	(15,374)	178	-	-	296	(16,797)
	<u>(223,527)</u>	<u>6,069</u>	<u>181</u>	<u>-</u>	<u>(3,558)</u>	<u>(1,532)</u>	<u>(222,367)</u>
Deferred tax assets							
Accrual for retirement and severance benefits	18,792	994	-	-	-	(12)	19,774
Provisions for sales return	5,385	(617)	-	-	-	-	4,768
Bad debt expense at the end of prior period	4,857	60	-	-	-	-	4,917
Remeasurements of net defined benefit liabilities	4,951	-	-	567	-	-	5,518
Accrued expenses	4,115	413	-	-	-	7	4,535
Non-deductible bad debt reserves	1,686	(114)	-	-	-	-	1,572
Others	11,275	3,163	(366)	-	-	351	14,423
	<u>51,061</u>	<u>3,899</u>	<u>(366)</u>	<u>567</u>	<u>-</u>	<u>346</u>	<u>55,507</u>
	<u>₩ (172,466)</u>	<u>₩ 9,968</u>	<u>₩ (185)</u>	<u>₩ 567</u>	<u>₩ (3,558)</u>	<u>₩ (1,186)</u>	<u>₩ (166,860)</u>

As at December 31, 2020, the Group did not recognize deductible temporary differences ₩ 185,210 million from impairment loss on investments in subsidiaries and associates and tax losses as deferred tax assets because it was not determined to be realizable in the foreseeable future.

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As at December 31, 2020, the Group did not recognize temporary differences ₩ 128,245 million as deferred tax liabilities arising on investments in subsidiaries and associates as timing of reversal of the temporary differences are controllable and is not subject to extinction with dividend paid and it is probable that the temporary difference will not be reversed in the foreseeable future.

The deferred tax assets include carried-forward tax losses of Lotte Confectionery RUS LLC and Lotte Kolson (Private) Limited, subsidiaries of the Group. The Group has concluded that the deferred assets will be recoverable using the estimated future taxable income based on the approved business plans and budgets for the subsidiaries. The subsidiaries are expected to generate taxable income from 2020 onwards.

24. Provisions

Changes in provisions for the years ended December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>	2020	2019
Beginning balance	₩ 30,466	₩ 27,093
Used during the year	(20,175)	(24,238)
Additional provisions	16,883	27,648
Others	(67)	(37)
Ending balance ¹	<u>₩ 27,107</u>	<u>₩ 30,466</u>
Less: current	<u>(26,920)</u>	<u>(30,310)</u>
Non-current	<u>₩ 187</u>	<u>₩ 156</u>

¹ Provisions on sales return have been accrued for the estimated sales returns determined based on historical experience. The amounts that are expected to be paid in the future in accordance with the Group's bonus plan for executives and employees are also included in provisions.

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25. Share Capital, Capital Surplus and Other Components of Equity

(a) Share capital

The Parent Company's total number of authorized shares is 30,000,000 shares and the total number of ordinary shares issued is 6,416,717 shares with a par value of ₩ 500 per share.

(b) Capital surplus

(in millions of Korean won)

	2020		2019
Share premium	₩ 1,178,514	₩	1,178,514

(c) Other components of equity

(in millions of Korean won)

	2020		2019
Treasury shares	₩ (870)	₩	(870)
Others	(5,169)		(5,169)
	<u>₩ (6,039)</u>	₩	<u>(6,039)</u>

As at December 31, 2020, the Group has 4,578 non-voting shares (2019: 4,578 shares) under the Commercial Law.

26. Accumulated Other Comprehensive Income

Accumulated other comprehensive income as at December 31, 2020 and 2019, consists of:

(in millions of Korean won)

	2020		2019
Gain on valuation of financial asset at fair value through other comprehensive income	₩ -	₩	1
Cash flow hedge	(3,158)		(2,975)
Cumulative effect of foreign currency translations	(54,769)		796
	<u>₩ (57,927)</u>	₩	<u>(2,178)</u>

Changes in accumulated other comprehensive income represent net of tax effect amounts.

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Changes in accumulated other comprehensive income for the years ended December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>	2020			
	Beginning balance	Increase¹ (Decrease)	Reclassification to profit or loss	Ending balance
Gain (loss) on valuation of financial asset at fair value through other comprehensive income	₩ 1	₩ -	₩ (1)	₩ -
Cash flow hedge	(2,975)	(183)	-	(3,158)
Cumulative effect of foreign currency translations	796	(55,565)	-	(54,769)
	<u>₩ (2,178)</u>	<u>₩ (55,748)</u>	<u>₩ (1)</u>	<u>₩ (57,927)</u>

¹ Changes in accumulated other comprehensive income represent net of tax effect amounts.

<i>(in millions of Korean won)</i>	2019			
	Beginning balance	Increase¹ (Decrease)	Reclassification to profit or loss	Ending balance
Gain (loss) on valuation of financial asset at fair value through other comprehensive income	₩ 9	₩ (8)	₩ -	₩ 1
Cash flow hedge	(3,245)	270	-	(2,975)
Cumulative effect of foreign currency translations	(14,308)	15,104	-	796
	<u>₩ (17,544)</u>	<u>₩ 15,366</u>	<u>₩ -</u>	<u>₩ (2,178)</u>

¹ Changes in accumulated other comprehensive income represent net of tax effect amounts.

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27. Retained Earnings

Details of retained earnings as at December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>	2020		2019	
Legal reserves ¹	₩	1,604	₩	1,604
Discretionary reserves ²		200		-
Retained earnings before appropriation		<u>67,822</u>		<u>34,447</u>
	₩	<u>69,626</u>	₩	<u>36,051</u>

¹ The Commercial Code of the Republic of Korea requires the Parent Company to appropriate for each financial period, 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 cash dividends payment, but may be transferred to capital stock, or used to reduce accumulated deficit.

² In accordance with Korean Information Communications Network Act 32-3, the Group has accumulated discretionary reserves to guarantee of fulfillment of liability for damages according to the increasing damages caused by personal information leakage.

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28. Selling and Administrative Expenses

Selling and administrative expenses for the years ended December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>	2020	2019
Salaries	₩ 158,835	₩ 160,850
Severance benefits	13,385	12,395
Employee fringe benefits	29,194	30,544
Travel expenses	2,672	3,914
Vehicles maintenance expenses	6,571	7,550
Insurance	2,351	2,390
Taxes and dues	6,234	5,863
Entertainment	928	1,242
Supplies expenses	4,617	4,941
Communications	2,209	2,129
Repairs and maintenance	5,698	5,955
Rental expenses	5,399	7,770
Depreciation	35,047	35,188
Amortization	12,863	13,678
Commission expenses	161,108	166,091
Advertising expenses	51,258	46,911
Sale commissions	44,983	36,409
Sales promotional expenses	20,903	21,543
Impairment loss	3,501	1,780
Transportation and storage expenses	27,974	26,351
Miscellaneous expenses	10,920	11,138
	<u>₩ 606,650</u>	<u>₩ 604,632</u>

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29. Expenses by Nature

Cost of sales and selling and administrative expenses that are recorded by nature for the years ended December 31, 2020 and 2019, consist of:

<i>(in millions of Korean won)</i>	2020		2019	
Changes in finished goods, merchandise and work-in-process	₩	(39,013)	₩	(52,654)
Raw materials and supplies used		712,983		671,651
Purchasing merchandise		236,987		223,848
Employee benefit expense		312,136		306,370
Advertising expense		51,258		49,177
Rental expense		7,762		9,981
Commission expenses		246,469		258,365
Depreciation		110,596		110,875
Amortization		12,919		13,707
Sales commissions		44,983		37,480
Sales promotional expense		20,903		22,835
Miscellaneous expenses		245,515		344,032
	₩	<u>1,963,498</u>	₩	<u>1,995,667</u>

30. Other Income

Other income for the years ended December 31, 2020 and 2019, consist of:

<i>(in millions of Korean won)</i>	2020		2019	
Gain on foreign currency transaction	₩	2,235	₩	2,049
Gain on foreign currency translation		1,869		11,193
Gain on disposal of property, plant and equipment		5,445		1,133
Gain on disposal of investment property		130		4,238
Reversal of loss on impairment of property, plant and equipment		233		-
Miscellaneous gains		4,499		7,773
	₩	<u>14,411</u>	₩	<u>26,386</u>

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31. Other Expenses

Other non-operating expenses for the years ended December 31, 2020 and 2019, consist of:

<i>(in millions of Korean won)</i>	2020		2019	
Loss on foreign currency transaction	₩	3,214	₩	1,625
Loss on foreign currency translation		3,831		5,116
Loss on impairment of property, plant and equipment		-		215
Loss on disposal of property, plant and equipment		1,861		1,875
Loss on disposal of intangible assets		78		170
Loss on impairment of intangible assets		20,717		29,295
Donations		6,189		9,597
Other Impairment loss of other receivables		609		-
Miscellaneous losses		7,472		6,220
	₩	<u>43,971</u>	₩	<u>54,113</u>

32. Finance Income

Finance income for the years ended December 31, 2020 and 2019, consist of:

<i>(in millions of Korean won)</i>	2020		2019	
Interest income	₩	7,405	₩	6,915
Gain on foreign currency transaction		867		648
Gain on foreign currency translation		13,032		1,212
Gain on disposal of debt instruments at fair value through other comprehensive income		-		11
Gain on valuation of derivatives for hedging purpose		-		5,955
	₩	<u>21,304</u>	₩	<u>14,741</u>

33. Finance Costs

Finance costs for the years ended December 31, 2020 and 2019, consist of:

<i>(in millions of Korean won)</i>	2020		2019	
Interest expenses	₩	25,279	₩	24,362
Loss on foreign currency transaction		1,871		1,374
Loss on foreign currency translation		9,991		5,998
Loss on valuation of derivatives for hedging purpose		11,203		-
	₩	<u>48,344</u>	₩	<u>31,734</u>

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34. Earnings per Share

(a) Basic earnings per share

Basic earnings per ordinary share for the years ended December 31, 2020 and 2019, are as follows:

	2020	2019
Profit attributable to ordinary shares (in Korean won)	₩ 40,985,719,946	₩ 38,062,016,979
Weighted average number of ordinary shares outstanding (unit: shares) ¹	<u>6,412,139</u>	<u>6,412,139</u>
Basic earnings per ordinary share (in Korean won)	<u>₩ 6,392</u>	<u>₩ 5,936</u>

¹ Weighted average numbers of shares outstanding are calculated as follows:

<i>(unit: shares)</i>	2020		
	Number of Shares	Number of days	Accumulated amount
Ordinary shares issued	6,416,717	366	2,348,518,422
Ordinary treasury shares	<u>(4,578)</u>	366	<u>(1,675,548)</u>
	<u>6,412,139</u>		<u>2,346,842,874</u>

Weighted average numbers of shares outstanding: $2,346,842,874 \div 366 \text{ days} = 6,412,139 \text{ shares}$

<i>(unit: shares)</i>	2020		
	Number of Shares	Number of days	Accumulated amount
Ordinary shares issued	6,416,717	365	2,342,101,705
Ordinary treasury shares	<u>(4,578)</u>	365	<u>(1,670,970)</u>
	<u>6,412,139</u>		<u>2,340,430,735</u>

Weighted average numbers of shares outstanding: $2,340,430,735 \div 365 \text{ days} = 6,412,139 \text{ shares}$

(b) Diluted earnings per share

The Group has no potential dilutive ordinary shares. Accordingly, basic earnings per share is identical to diluted earnings per share.

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35. Dividends

A dividend in respect of the year ended December 31, 2019, amounts to ₩ 9,667 million (2019: ₩ 9,555 million). ₩ 9,416 million of the dividend was paid in the second quarter of 2020, and ₩ 251 million of the dividend was paid in the fourth quarter of 2020.

Details of dividends are as follows:

<i>(in millions of Korean won)</i>	2020		2019	
Lotte Confectionery Co., Ltd.	₩	8,336	₩	8,336
Rakhat JSC ¹		314		292
Lotte Confectionery Holdings (Europe) B.V. ¹		1,017		927
	₩	9,667	₩	9,555

¹ For Rakhat JSC and Lotte Confectionery Holdings (Europe) B.V., the amount of the dividend paid to Lotte Confectionery Co., Ltd. was offset and eliminated. The amount was paid to non-controlling interest.

A dividend in respect of the year ended December 31, 2020, of ₩ 1,600 per share, amounting to a total dividend of ₩ 10,259 million, is to be proposed to shareholders at the annual general meeting on March 23, 2021. These financial statements do not reflect this dividend payable.

36. Contingencies and Commitments

As at December 31, 2020, the Group is a plaintiff in 63 lawsuits amounting to ₩ 3,503 million (2019: 53 lawsuits and ₩ 4,008 million) and a defendant in 24 lawsuits amounting to ₩ 79,844 million (2019: 18 lawsuits and ₩ 85,320 million). The outcome of the above cases cannot be reasonably estimated, and outflows of resources and the timing are also uncertain. The Group expects that these cases would not have any material impact on its financial statements.

Details of agreements with financial institutions as at December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won and in thousands of US dollar)</i>		2020		2019	
Overdrafts	Shinhan Bank and others	₩	40,261	₩	39,360
General borrowings	Woori Bank and others	₩	16,000	₩	12,000
Secured loan of credit sales and others	IBK Bank and others	₩	40,000	₩	40,000
L/C	Woori Bank and others	USD	17,956	USD	17,951

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*(in millions of Korean won
and in thousands of US
dollar)*

			2020		2019
Local L/C	KEB Hana Bank	₩	-	₩	1,500
Performance guarantees and others	Seoul Guarantee Insurance Company and others	₩	6,729	₩	8,210

As at December 31, 2020, the Group has entered into technology license agreements with PEPSICO and others for the production of certain products and has paid royalty fees in accordance with the agreements. Details of the technology license agreements are as follows:

Provided by	Related products	Royalty	Expiry date
PEPSICO	Snack (Cheetos) production technology	Max [3.00% of Net sales, 2.00% of Gross sales]	December, 2021
	Snack (Doritos) production technology	Max [3.00% of Net sales, 2.18% of Gross sales]	December, 2021
	Quaker production technology	Max [3.00% of Net sales, 2.00% of Gross sales]	December, 2022

In addition, the Group entered into a technology exchange and support agreement with Lotte Co., Ltd., in Japan, and at March 31, 2019, contract period was automatically extended. According to this agreement, each party can use the other party's patents and trademarks. The related costs amounting to ₩ 190 million was recognized for the year ended December 31, 2020 (2019: ₩ 298 million).

Joint liability existed before the spin-off

After the spin-off, the newly established, the Group and existing corporation, Lotte Corporation Co., Ltd. are jointly liable for the liabilities that existed before the spin-off in accordance with Paragraph 1 of Article 530-9 of the Commercial Code of Korea.

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Assets provided as collateral

Assets provided as collateral as at December 31, 2020, are as follows:

(in millions of Korean won)

Secured assets	Secured party	Carrying amount	Secured amount
Land		₩ 3,033	₩ 33,900
Buildings	Habib Bank Limited	13,990	
Machinery		32,410	
Land, buildings		2,050	7,430
Machinery	HDFC Bank	13,133	
		₩ 64,616	₩ 41,330

Brand usage contract, etc.

As at December 31, 2020, the Group has entered into contracts for brand use, management consulting and management support contracts with Lotte Corporation Co., Ltd. The consideration for usage of the brand is 0.15% of the sales amount deducted from advertising expenses. The management consulting and management support service costs are calculated by multiplying 5% by the amount which is calculated by allocating the expenses incurred in the course of performing the target business with reasonable criteria.

As at December 31, 2020, the Group has entered into a management support arrangement with Lotte Corporation Co., Ltd. for overseas subsidiaries. The Group receives service fee based on actual costs incurred with agreed margins.

Shareholders' agreement

The Group acquired L&M Mayson Company Limited, a subsidiary of which the Group holds 80% of its ownership, and entered into shareholders' agreement with MYANMAR MAYSON INDUSTRIES CO., LTD (hereafter MMI) which holds the remaining interests. Under this agreement, the Group and MMI both have call options and put options that requires the Group or the entity designated by the Group to directly purchase / sell the shares at the higher price between fair value and base price.

For put options, since foreign investment enactment of Myanmar prohibits the Group to acquire additional shares, the option can only be exercised by the third party designated by the Group. The Group holds the right to designate the third party, and the Group can permanently postpone the exercise of the put option until the Group finds the third party that will accept the transaction at the price above the base price. However, if the foreign investment act of Myanmar is amended and

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additional acquiring of shares are permitted under the amended enactment, the put option can be exercised through the Group, and the present value of the put option can be recognized as financial liabilities.

Acquisition of property, plant and equipment and capital expenditure contracted

Capital expenditure contracted for at the end of the reporting period but not recognized as liabilities is as follows:

<i>(in millions of Korean won)</i>		2020
Property, plant and equipment	₩	7,815

Greenhouse gas emission permits

Emission permits

The Parent Company is subject to greenhouse emission permits trading entity from 2015 in accordance with Article 8 of The Act on the Allocation and Trading of Greenhouse Gas Emission Permits. The Parent Company has been trading the emission permits from the first plan period (2015~2017), and as a result, has carried forward 17,218 tCO₂-eq to the second plan period (2018~2020).

The details of allocated emission rights that are received free of charge for each period during the second plan period are as follows:

<i>(in tCO₂-eq)</i>		The second plan period			
Plan period	2018	2019	2020	Remarks	
Emission permits (Allocation with nil consideration)	125,718	120,062	120,061	¹	

¹ The emission permits carried over for the first plan period were 17,218tCO₂-eq.

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The following shows details of emission rights submitted to the government during the second plan period. The estimated emission for the year ended December 31, 2020 is 124,570tCO₂-eq, but is tentative to changes after the inspection of the third party or the related agencies.

(in tCO₂-eq)

Plan period	The second plan period			Remarks
	2018	2019	2020 (projection)	
Certified emission amount	127,234	122,874	124,570	1

¹ There were no traded emission rights for the emissions of 2020.

The details of allocated emission rights that are received free of charge for each reporting period during the third plan period are as follows:

(in tCO₂-eq)

Plan period	The third plan period					Remarks
	2021	2022	2023	2024	2025	
Certified emission amount	117,813	117,813	117,813	116,710	116,710	1

¹ The allocated emission rights that are received free of charge during the third plan period were settled after the end of reporting period.

Emission obligations

The allowances that are received free of charge from the government are measured at zero. The emission rights are sufficient to fulfill the obligations under the emission liabilities incurred during the year ended December 31, 2020, and therefore, the emission liability was measured as zero.

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37. Related Party Transactions

The Parent Company and its respective percentage of ownership as at December 31, 2020 and 2019, are as follows:

	Percentage of ownership (%)		Remark
	2020	2019	
Lotte Corporation Co., Ltd	48.42	48.42	-

Details of associates of the Group as at December 31, 2020 and 2019, are as follows:

	Percentage of ownership (%)		Remark
	2020	2019	
Lotte Agri-food Tech Fund No.1	21.71	-	1

¹ During the year ended December 31, 2020, the Group has acquired 21.71% interests of Lotte Agri-food Tech Fund No.1 for ₩ 1,320 million. Lotte Accelerator Corporation, the entities that belong to the Large Enterprise Group to which the Group in accordance with the Monopoly Regulation and Fair Trade Act is acting as general partner (GP) of the fund. The Group has entered into an agreement for additional investment of ₩ 1,980 million.

Details of associates and other related parties that have sales and other transactions with the Group or have outstanding balances as at December 31, 2020 and 2019, are as follows:

	2020	2019	Remark
Other related parties	Lotte GRS Co., Ltd.	Lotte GRS Co., Ltd.	
	Lotte Foods Co., Ltd.	Lotte Foods Co., Ltd.	
	Korea Seven Co., Ltd.	Korea Seven Co., Ltd.	
	Daehong Communications Inc.	Daehong Communications Inc.	1
	Lotte Global Logistics Co., Ltd.	Lotte Global Logistics Co., Ltd.	
Others	Lotte Shopping Co., Ltd	Lotte Shopping Co., Ltd	
	Lotte Data Communication Company and others	Lotte Data Communication Company and others	
	Lotte Aluminum Co., Ltd.	Lotte Aluminum Co., Ltd.	
	Lotte Capital Co., Ltd.	Lotte Capital Co., Ltd.	2
	Lotte Auto Lease Co., Ltd. and others	Lotte Auto Lease Co., Ltd. and others	

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¹ Other related parties include subsidiaries, associates and joint ventures of the Parent Company.

² Although the entities are not the related parties of the Group in accordance with Korean IFRS 1024, the entities that belong to the Large Enterprise Group to which the Group belongs in accordance with the Monopoly Regulation and Fair Trade Act and other overseas entities are included.

Sales and purchases with related parties for the years ended December 31, 2020 and 2019, are as follows:

(in millions of Korean won)

Name of entity	2020													
	Sales		Purchase		Acquisition of right-of-use assets		Acquisition of property, plant and equipment		Disposal of property, plant and equipment		Other income		Other expenses ¹	
Parent Company														
Lotte Corporation Co.,Ltd	₩	2,344	₩	5	₩	1,730	₩	-	₩	-	₩	1,215	₩	4,726
Other related parties														
Lotte GRS Co., Ltd		9,935		-		-		-		-		1,364		55
Lotte Foods Co., Ltd.		6,541		48,275		-		-		-		5,401		3,377
Korea Seven Co., Ltd.		69,739		-		-		-		-		6		13,986
Daehong Communications Inc.		323		-		-		-		-		169		6,191
Lotte Global Logistics Co., Ltd.		14,738		79		3,645		-		-		-		80,627
Lotte Shopping Co., Ltd		63,798		-		-		-		-		1,269		4,225
Lotte Data Communication Company and others		20,191		1,405		210		2,659		-		4,781		16,094
Others														
Lotte Aluminum Co., Ltd.		340		42,819		-		1,693		-		-		522
Lotte Capital Co., Ltd.		259		-		159		383		-		-		2,735
Lotte Auto Lease Co.,Ltd. and others		9,727		48		2,220		-		45		894		13,134
	₩	197,935	₩	92,631	₩	7,964	₩	4,735	₩	45	₩	15,099	₩	145,672

¹ The Group has entered into lease contracts with the related parties, and the amount of interest expenses recognized for amortization of the lease liabilities for the year ended December 31, 2020, is

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included in other expenses.

(in millions of Korean won)

Name of entity	2019						
	Sales	Purchase	Acquisition of right-of-use assets	Acquisition of property, plant and equipment	Disposal of property, plant and equipment	Other income	Other expenses ¹
Parent Company							
Lotte Corporation Co.,Ltd	₩ 5,630	₩ 5	₩ -	₩ -	₩ -	₩ -	₩ 5,130
Subsidiaries							
Lotte India Co., Ltd ²	1,586	3,706	-	-	-	168	-
Other related parties							
Lotte GRS Co., Ltd	15,910	15	-	-	-	-	140
Lotte Foods Co., Ltd.	7,133	54,092	-	-	-	5,833	3,651
Korea Seven Co., Ltd.	71,311	-	-	-	-	3	15,205
Daehong Communications Inc.	565	-	-	-	-	-	6,293
Lotte Logistics Co., Ltd ³	2,371	9	-	-	-	404	13,083
Lotte Global Logistics Co., Ltd. ³	12,463	32	-	-	-	-	75,604
Lotte Shopping Co., Ltd	78,361	-	-	-	-	-	7,616
Lotte Data Communication Company and others	27,412	2,782	-	1,779	-	2	14,782
Others							
Lotte Aluminum Co., Ltd.	397	46,179	-	712	-	-	768
Lotte Capital Co., Ltd. ⁴	309	-	-	1,288	-	-	3,783
Lotte Auto Lease Co.,Ltd. and others	16,745	1,414	10,757	13	-	36	8,894
	<u>₩ 240,193</u>	<u>₩ 108,234</u>	<u>₩ 10,757</u>	<u>₩ 3,792</u>	<u>₩ -</u>	<u>₩ 6,446</u>	<u>₩ 154,949</u>

¹ The Group has entered into lease contracts with the related parties, and the amount of interest expenses recognized for amortization of the lease liabilities for the year ended December 31, 2019, is included in other expenses.

² The Group acquired 98.57% of shares of Lotte India Co., Ltd. amounting to ₩ 67,548 million during the year ended December 31, 2019, so the entity became a subsidiary of the Group. The transaction amount of Lotte India Co., Ltd is the transaction amount of other special parties before the subsidiary is incorporated.

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³ Lotte Logistics Co., Ltd. has been merged with Lotte Global Logistics Co., Ltd. as at March 1, 2019.

⁴ The entity has been reclassified from other related parties to others during the year ended December 31, 2019, and the transaction amount before the reclassification is included.

Fund transactions with related parties for the years ended December 31, 2020 and 2019, are as follows:

(in millions of Korean won)

Name of entity	2020		
	Dividend	Repayment of lease liabilities	Cash contributions ¹
Parent Company			
Lotte Corporation Co., Ltd	₩ 4,039	₩ 361	₩ -
Associates			
Lotte Agri-food Tech Fund No.1	-	-	1,320
Other related parties			
Lotte Global Logistics Co.,Ltd.	-	1,549	-
Lotte Data Communication Company and others	-	107	-
Others			
Lotte Aluminum Co., Ltd.	836	-	-
Lotte Capital Co., Ltd.	-	1,634	-
Lotte Auto Lease Co.,Ltd. and others	2,721	4,172	-
	<u>₩ 7,596</u>	<u>₩ 7,823</u>	<u>₩ 1,320</u>

¹ During the year ended December 31, 2020, the Group has acquired 21.71% interests of Lotte Agri-food Tech Fund No.1 for ₩ 1,320 million. Lotte Accelerator Corporation, the entities that belong to the Large Enterprise Group to which the Group belongs in accordance with the Monopoly Regulation and Fair Trade Act is acting as general partner (GP) of the fund. The Group has entered into an agreement for additional investment of ₩ 1,980 million.

(in millions of Korean won)

Name of entity	2019	
	Dividend	Repayment of lease liabilities
Parent Company		
Lotte Corporation Co., Ltd ¹	₩ 4,039	₩ 335
Other related parties		
Lotte Global Logistics Co., Ltd.	-	1,334
Lotte GRS Co., Ltd.	-	4
Others		
Lotte Auto Lease Co., Ltd.	836	-
Lotte Capital Co., Ltd ²	-	2,276
Lotte Auto Lease Co., Ltd.	2,632	2,338
	<u>₩ 7,507</u>	<u>₩ 6,287</u>

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¹ Further to the transactions above, the Group acquired 98.57% of shares of Lotte India Co., Ltd. amounting to ₩ 67,548 million from Lotte Corporation Co., Ltd. for the year ended December 31, 2019.

² The entity has been reclassified from other related parties to others during the year ended December 31, 2019, and the transaction amount before the reclassification is included.

Outstanding balances arising from sales/purchases of goods and services as at December 31, 2020 and 2019, are as follows:

(in millions of Korean won)

Name of entity	2020				
	Receivables		Payables		
	Trade receivables	Other receivables	Trade payables	Other payables	Lease liabilities
Parent Company					
Lotte Corporation Co.,Ltd	₩ 167	₩ 1,089	₩ -	₩ 1,088	₩ 1,452
Other related parties					
Lotte GRS Co., Ltd	1,606	114	-	50	-
Lotte Foods Co., Ltd.	195	434	11,498	6,895	-
Korea Seven Co., Ltd.	11,976	2	-	2	-
Daehong Communications Inc.	20	18	-	5,277	-
Lotte Global Logistics Co.,Ltd.	43	2	740	5,879	2,831
Lotte Shopping Co., Ltd	6,608	109	-	473	-
Lotte Data Communication Company and others	3,265	412	126	4,647	106
Others					
Lotte Aluminum Co., Ltd.	20	3	14,867	358	-
Lotte Capital Co., Ltd.	-	-	-	156	4,867
Lotte Auto Lease Co.,Ltd. and others	2,369	4,702	578	1,376	11,900
	<u>₩ 26,269</u>	<u>₩ 6,885</u>	<u>₩ 27,809</u>	<u>₩ 26,201</u>	<u>₩ 21,156</u>

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Name of entity	2019				
	Receivables		Payables		
	Trade receivables	Other receivables	Trade payables	Other payables	Lease liabilities
Parent Company					
Lotte Corporation Co.,Ltd	₩ 313	₩ 836	₩ -	₩ 1,546	₩ 742
Other related parties					
Lotte GRS Co., Ltd	1,977	168	-	105	-
Lotte Foods Co., Ltd.	425	433	12,321	6,643	-
Korea Seven Co., Ltd.	12,088	1	-	33	-
Daehong Communications Inc.	37	18	-	3,820	-
Lotte Global Logistics Co.,Ltd.	50	1	816	5,516	-
Lotte Shopping Co., Ltd	7,779	116	-	56	-
Lotte Data Communication Company and others	4,177	390	809	3,123	-
Others					
Lotte Aluminum Co., Ltd.	19	2	15,275	177	-
LOTTE CAPITAL CO., LTD.	-	-	-	202	6,052
Lotte Auto Lease Co.,Ltd. and others	1,687	4,878	1,546	1,245	13,964
	₩ 28,552	₩ 6,843	₩ 30,767	₩ 22,466	₩ 20,758

As at December 31, 2020, the Group has entered into contracts for brand use, management consulting and management support contracts with Lotte Corporation Co., Ltd. The consideration for usage of the brand is 0.15% of the sales amount deducted from advertising expenses. The management consulting and management support service costs are calculated by multiplying 5% by the amount which is calculated by allocating the expenses incurred in the course of performing the target business with reasonable criteria.

As at December 31, 2020, the Group has entered into a management support arrangement with Lotte Corporation Co., Ltd. for overseas subsidiaries. The Group receives service fee based on actual costs incurred with agreed margins.

Joint liability existed before the spin-off

After the spin-off, the newly established, the Group and the existing corporation, Lotte Corporation Co., Ltd. are jointly liable for the liabilities that existed before the spin-off in accordance with Paragraph 1 of Article 530-9 of the Commercial Code of Korea.

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The compensation paid or payable to key management for employee services for the years ended December 31, 2020 and 2019, consist of:

<i>(in millions of Korean won)</i>	2020		2019	
Short-term employee benefits	₩	15,960	₩	17,582
Post-employment benefits		1,783		1,709
	₩	<u>17,743</u>	₩	<u>19,291</u>

Key management includes the directors (executive and non-executive) and internal auditors who have the authority and responsibilities for planning, operation and control of the business of the Group.

38. Cash Flow Information

(a) Significant non-cash transactions

<i>(in millions of Korean won)</i>	2020		2019	
Reclassification of construction-in-progress to property, plant and equipment	₩	25,251	₩	32,847
Changes in other payables to acquire property, plant and equipment		524		2,850
Changes in prepaid to acquire intangible assets		135		205
Changes in non-trade receivables to dispose property, plant and equipment		36		240
Acquisition of right-of-use assets		21,304		55,064
Changes in prepaid related to Combinations		-		(1,469)

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(b) Changes in liabilities arising from financing activities

(in millions of Korean won)

	2020					
	At January 1	Cash flow	Non-cash transactions		At December 31	
			Reclassifica- tion	Others		
Liabilities arising from financing activities						
Short-term borrowings	₩ 55,206	₩ (48,769)	₩ 67,749	₩ (4,213)	₩ 69,973	
Long-term borrowings	166,410	93,923	(67,749)	(4,793)	187,791	
Current portion of debentures	159,965	(160,000)	173,669	(10,434)	163,200	
Debentures	513,180	109,733	(173,669)	247	449,491	
Lease liabilities	38,917	(11,001)	-	9,646	37,562	
Deposits received	20,575	(189)	-	(1,458)	18,928	
	<u>₩ 954,253</u>	<u>₩ (16,303)</u>	<u>₩ -</u>	<u>₩ (11,005)</u>	<u>₩ 926,945</u>	

(in millions of Korean won)

	2019					
	At January 1	Cash flow	Changes due to business combination	Non-cash transactions		At December 31
				Reclassifica- tion	Others	
Liabilities arising from financing activities						
Short-term borrowings	₩ 175,694	₩ (143,334)	₩ 23,723	₩ (465)	₩ (412)	₩ 55,206
Long-term borrowings	69,307	92,895	5,207	465	(1,464)	166,410
Current portion of debentures	-	-	-	159,965	-	159,965
Debentures	547,236	119,709	-	(159,965)	6,200	513,180
Lease liabilities	29,727	(12,964)	-	-	22,154	38,917
	<u>₩ 821,964</u>	<u>₩ 56,306</u>	<u>₩ 28,930</u>	<u>₩ -</u>	<u>₩ 26,478</u>	<u>₩ 933,678</u>

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39. Business Combinations

(a) L&M Mayson Company Limited

The Group acquired 100% of shares of L&M Confectionery Pte., Ltd. on January 20, 2019. L&M Confectionery Pte., Ltd. has 34.5% of shares of L&M Mayson Company Limited. Ultimately, the Group has a total of 80% of shares of L&M Mayson Company Limited, through both direct and indirect ownership, and L&M Mayson Company Limited was included as a subsidiary. The Group expects to expand confectionery market in Myanmar as a result of acquisition of the shares.

The goodwill of ₩ 42,030 million arising from the acquisition is attributable to acquired Myanmar customer base and synergy effect with companies in the same category of industry.

The assets and liabilities recognized on the acquisition date were estimated at fair values. Details of the purchase consideration, the assets and liabilities recognized as a result of the acquisition at the acquisition date are as follows:

<i>(in millions of Korean won)</i>	Amount	
Purchase consideration		
Equity instruments ¹	₩	43,471
Cash ²		34,441
Recognized amounts of identifiable assets acquired and liabilities assumed		
Cash and cash equivalents	₩	269
Trade and other receivables		2,075
Inventories		1,885
Other current assets		861
Property, plant and equipment		13,345
Intangible assets ³		32,951
Trade and other payables		(2,065)
Other liabilities		(4,468)
Total identifiable net assets		44,853
Non-controlling interest		(8,971)
Goodwill		42,030
	₩	<u>77,912</u>

¹ It is the current replacement amount for 34.5% of the shares of L&M Mayson Company Limited acquired at 2018.

² Settlement amount ₩ 785 million related to acquisition of L&M Company Limited at 2018 is included.

³ Previously recognized goodwill amounting to ₩ 4,082 million was excluded.

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(b) *Lotte India Co., Ltd.*

The Group acquired 98.57% of shares of Lotte India Co., Ltd. on December 18, 2019, from Lotte Corporation Co., Ltd. and gained control over Lotte India Co., Ltd. The Group expects to expand confectionery market in India as a result of acquisition of the shares.

As a business combination under a common control, the relative difference between the purchase consideration and net assets acquired is recognized in other capital adjustments. Details of the purchase consideration, the assets and liabilities recognized as a result of the acquisition at the acquisition date (proposed acquisition date: December 31, 2019) are as follows:

<i>(in millions of Korean won)</i>	Amount	
Purchase consideration		
Cash	₩	67,548
Recognized amounts of identifiable assets acquired and liabilities assumed		
Cash and cash equivalents		6,139
Trade and other receivables		3,828
Inventories		6,598
Other current financial assets		22
Other current assets		3,562
Other non-current financial assets		1,801
Other non-current assets		1,720
Property, plant and equipment		62,466
Investment properties		24,995
Intangible assets		9
Trade and other payables		(8,857)
Borrowings		(28,930)
Other current financial liabilities		(2,962)
Other current liabilities		(6,833)
Other non-current financial liabilities		(991)
Other non-current liabilities		(461)
Total identifiable net assets	₩	62,106
Difference between the purchase consideration and net assets acquired		
Capital adjustments		6,330
Non-controlling interest		(888)
	₩	(5,442)

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40. Transactions with Non-controlling Interests

Effects of transactions with non-controlling interests on the equity attributable to owners of the Parent Company for the years ended December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>	2020		2019	
Acquisition of additional interests in a subsidiary ¹	₩	-	₩	6,815
Disposal of interests in a subsidiary without loss of control		-		-
Net effect on equity	₩	-	₩	6,815

¹ In March, 2019, the Group acquired the remaining 3.12% of the issued shares of Rakhat JSC, a subsidiary, for ₩ 6,815 million. The Group now holds 95.57% equity interest in Rakhat JSC. The Group derecognized non-controlling interests of ₩ 5,957 million and recorded a decrease in equity attributable to owners of the Parent Company of ₩ 858 million. The effects of changes in the ownership interest of Rakhat JSC on the equity attributable to owners of the Parent Company during 2020 and 2019, are summarized as follows:

<i>(in millions of Korean won)</i>	2020		2019	
Carrying amount of non-controlling interests acquired	₩	-	₩	5,957
Consideration paid to non-controlling interests		-		6,815
Excess of consideration paid recognized in the transactions with non-controlling interests reserve within equity	₩	-	₩	(858)

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41. Non-controlling Interests

Details of information of subsidiaries related to significant non-controlling interests of the Group as at December 31, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>	Lotte Confectionery Holdings (Europe) B.V.¹			
	2020		2019	
Ownership of non-controlling interests		49%		49%
Current assets	₩	84,039	₩	84,617
Non-current assets		104,507		105,462
Current liabilities		13,089		17,986
Non-current liabilities		5,161		6,021
Net assets		170,296		166,072
Amount of non-controlling interests		83,445		81,375
Dividends paid to non-controlling interests		1,017		927
Revenue		89,608		105,364
Profit for the year		1,304		6,942
Total comprehensive income		1,163		7,054
Profit for the year attributable to non-controlling interests		639		3,402
Comprehensive income attributable to non-controlling interests		570		3,456
Cash flows from operating activities		8,922		10,103
Cash flows from investing activities		(1,581)		(5,599)
Cash flows from financing activities		(2,193)		(3,836)
Effect of exchange rate changes on cash and cash equivalents		1,941		1,658
Net increase in cash and cash equivalents		7,089		2,326

¹ All amounts presented are the amounts on consolidated financial statements.

Shareholders' agreement

The Group acquired L&M Mayson Company Limited, a subsidiary of which the Group holds 80% of its ownership, and entered into shareholders' agreement with MYANMAR MAYSON INDUSTRIES CO., LTD (hereafter MMI) which holds the remaining interests. Under this agreement, the Group and MMI both have call options and put options that requires the Group or the entity designated by the Group to directly purchase / sell the shares at the higher price between fair value and base price.

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For put options, since foreign investment enactment of Myanmar prohibits the Group to acquire additional shares, the option can only be exercised by the third party designated by the Group. The Group holds the right to designate the third party, and the Group can permanently postpone the exercise of the put option until the Group finds the third party that will accept the transaction at the price above the base price. However, if the foreign investment act of Myanmar is amended and additional acquiring of shares are permitted under the amended enactment, the put option can be exercised through the Group, and the present value of the put option can be recognized as financial liabilities.

The nature and extent to which protective rights of non-controlling interests can significantly restrict the ability to access or use assets and to repay liabilities of the Group are as follows:

Name of the entity	Details of significant restrictions
L&M Mayson Company Limited	<p>1. The following items require consent from all directors, including those appointed by the non-controlling interests</p> <ul style="list-style-type: none"> - Transactions, contracts and processing and settling of lawsuits that entails more than 50% of total assets - Transfer, sale, disposal, and lease of assets whose total amount is more than 50% of total assets - Establishment or liquidation of subsidiaries or joint ventures that have no relation with the existing business, or merging with other entities - Borrowing, loans and pledged assets with no relation with the existing business - Liquidation or dissolution <p>2. The following items require consent from all shareholders, including the non-controlling interest</p> <ul style="list-style-type: none"> - Merging, acquisition, restructuring, liquidation and dissolution - Issuance of preferred shares, conversion between common and preferred shares