

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

**Consolidated Financial Statements  
December 31, 2021 and 2020**

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
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**December 31, 2021 and 2020**

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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, 2021 and 2020, 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, 2021 and 2020, 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 assessment including Goodwill of L&M Mayson Company Limited**

### *Key Audit Matter*

As described in Note 19, goodwill balance of L&M Mayson Company Limited among amounts ₩ 5,751 million. And we recognized ₩ 10,019 million impairment losses for the goodwill of L&M Mayson Company 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, due to impact on coup occurred in Myanmar during 2021, there is relatively high degree of uncertainty for estimation of cash flows arising from L&M Mayson Company Limited which located in the country. Therefore, we determined the accounting for impairment on goodwill of L&M Mayson Company 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, 2022

This report is effective as of March 15, 2022, 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, 2021 and 2020**

<i>(in millions of Korean won)</i>	Notes	2021	2020
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	4,5,7,8	₩ 295,004	₩ 312,095
Trade and other receivables	4,5,7,10	184,437	209,406
Other current financial assets	4,5,7,11	47,846	49,264
Current tax assets		8,298	7,851
Inventories	12	247,178	231,030
Other current assets	11	30,013	20,405
Assets of disposal group held for sale	15	15,158	-
		<u>827,934</u>	<u>830,051</u>
<b>Non-current assets</b>			
Investments in associates	14	1,155	1,316
Other non-current financial assets	4,5,7,9,11	20,200	9,809
Property, plant and equipment	16	1,293,691	1,255,471
Right-of-use assets	17	37,930	49,974
Intangible assets	18	316,904	346,699
Investment property	20	152,996	140,901
Deferred tax assets	24	15,406	7,906
Other non-current assets	11	432	908
		<u>1,838,714</u>	<u>1,812,984</u>
<b>Total assets</b>		<u>₩ 2,666,648</u>	<u>₩ 2,643,035</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables		₩ 186,132	₩ 152,985
Borrowings	4,5,7,22	114,982	69,973
Debentures	4,5,7,22	249,957	163,200
Lease liabilities	4,17	9,425	11,595
Other current financial liabilities	4,5,7,11	69,094	49,350
Current tax liabilities		8,396	11,705
Deferred revenue		1,823	1,856
Provisions	25	20,814	26,920
Other current liabilities	11	22,625	20,542
Liabilities of disposal group held for sale	15	2,396	-
		<u>685,643</u>	<u>508,126</u>
<b>Non-current liabilities</b>			
Borrowings	4,5,7,22	136,625	187,791
Debentures	4,5,7,22	318,193	449,491
Lease liabilities	4,17	17,300	25,967
Other non-current financial liabilities	4,5,7,11	1,063	10,338
Net defined benefit liabilities	23	4,516	8,819
Provisions	25	134	187
Deferred tax liabilities	24	163,243	159,635
Deferred revenue		1,799	2,018
Other non-current liabilities	11	11,160	10,767
		<u>654,033</u>	<u>855,013</u>
<b>Total liabilities</b>		<u>1,339,676</u>	<u>1,363,139</u>
<b>Equity</b>			
Share capital	26	3,208	3,208
Capital surplus	26	1,178,514	1,178,514
Other components of equity	26	(6,039)	(6,039)
Accumulated other comprehensive income	27	(35,410)	(57,926)
Retained earnings	28	93,844	69,626
<b>Equity attributable to owners of the Parent Company</b>		<u>1,234,117</u>	<u>1,187,383</u>
<b>Non-controlling interest</b>		<u>92,855</u>	<u>92,513</u>
<b>Total equity</b>		<u>1,326,972</u>	<u>1,279,896</u>
<b>Total liabilities and equity</b>		<u>₩ 2,666,648</u>	<u>₩ 2,643,035</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, 2021 and 2020**

<i>(in millions of Korean won)</i>	<b>Notes</b>	<b>2021</b>		<b>2020</b>	
<b>Revenue</b>	6,38	₩	2,145,407	₩	2,076,048
<b>Cost of sales</b>	12,30		1,412,325		1,356,848
<b>Gross profit</b>			733,082		719,200
Selling and administrative expenses	29,30		624,611		606,650
Impairment loss of trade receivables (reversal)	10		(2,161)		3,501
<b>Operating profit</b>			108,471		112,550
Other income	31,38		15,623		14,411
Other expenses	32,38		55,962		43,971
Impairment loss of trade receivables			18		609
Finance income	33		18,753		21,304
Interest income			5,972		7,405
Finance costs	34		32,606		48,344
Share of losst of associates	14		(162)		(4)
Profit before income tax	24		54,117		55,946
Income tax expense	24		17,769		14,221
<b>Profit for the year</b>	35		₩ 36,348		₩ 41,725
<b>Attributable to:</b>					
Owners of the Parent Company		₩	34,894	₩	40,986
Non-controlling interests			1,454		740
<b>Other comprehensive income</b>					
<i>Items that will not be reclassified to profit or loss</i>					
Remeasurements of net defined benefit liability	23		(544)		1,230
Income tax effect			129		(304)
<i>Items that may be subsequently reclassified to profit or loss</i>					
Loss on disposal of debt instruments at fair value through other comprehensive income	7,27		-		(1)
Cash flow hedges			2,629		(379)
Exchange differences on translating foreign operations			20,985		(53,695)
Income tax effect			(1,490)		197
<b>Other comprehensive income for the year, net of tax</b>			21,710		(52,952)
<b>Total comprehensive income for the year</b>			₩ 58,058		₩ (11,227)
<b>Attributable to:</b>					
Owners of the Parent Company		₩	56,993	₩	(13,838)
Non-controlling interests			1,066		2,611
<b>Earnings per share for profit</b>					
<b>attributable to owners of the Parent Company (in Korean won)</b>					
Basic and diluted earnings per share	35	₩	5,442	₩	6,392

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, 2021 and 2020**

(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				
<b>Balance at January 1, 2020</b>	₩ 3,208	₩ 1,178,514	₩ (6,039)	₩ (2,178)	₩ 36,051	₩ 1,209,557	₩ 91,234	₩ 1,300,791		
<b>Total comprehensive income</b>										
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) 7,27	-	-	-	(1)	-	(1)	-	(1)		
Cash flow hedges 7,9,27	-	-	-	(183)	-	(183)	-	(183)		
Exchange differences on translating foreign operations	-	-	-	(55,564)	-	(55,565)	1,870	(53,695)		
<b>Total other comprehensive income</b>	-	-	-	(55,748)	41,911	(13,838)	2,610	(11,228)		
<b>Transactions with owners</b>										
Dividends 36	-	-	-	-	(8,336)	(8,336)	(1,331)	(9,667)		
<b>Total transactions with owners</b>	-	-	-	-	(8,336)	(8,336)	(1,331)	(9,667)		
<b>Balance at December 31, 2020</b>	₩ 3,208	₩ 1,178,514	₩ (6,039)	₩ (57,926)	₩ 69,626	₩ 1,187,383	₩ 92,513	₩ 1,279,896		
<b>Balance at January 1, 2021</b>	₩ 3,208	₩ 1,178,514	₩ (6,039)	₩ (57,926)	₩ 69,626	₩ 1,187,383	₩ 92,513	₩ 1,279,896		
<b>Total comprehensive income</b>										
Profit for the year	-	-	-	-	34,894	34,894	1,454	36,348		
Remeasurements of net defined benefit liability	-	-	-	-	(417)	(417)	2	(415)		
Cash flow hedges 7,9,27	-	-	-	1,925	-	1,925	23	1,948		
Exchange differences on translating foreign operations	-	-	-	20,591	-	20,591	(414)	20,177		
<b>Total other comprehensive income</b>	-	-	-	22,516	34,477	56,993	1,065	58,058		
<b>Transactions with owners</b>										
Dividends 36	-	-	-	-	(10,259)	(10,259)	(723)	(10,982)		
<b>Total transactions with owners</b>	-	-	-	-	(10,259)	(10,259)	(723)	(10,982)		
<b>Balance at December 31, 2021</b>	₩ 3,208	₩ 1,178,514	₩ (6,039)	₩ (35,410)	₩ 93,844	₩ 1,234,117	₩ 92,855	₩ 1,326,972		

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, 2021 and 2020**

<i>(in millions of Korean won)</i>	Notes	2021	2020
<b>Cash flows from operating activities</b>	39		
Profit for the year		₩ 36,348	₩ 41,725
Income tax expenses	24	17,769	14,221
Depreciation	16,17,20	105,567	110,596
Amortization	18	12,693	12,919
Severance benefits	23	15,423	16,507
Employee benefits		3,381	2,929
Interest expenses	34	20,023	25,279
Interest income	33	(5,972)	(7,405)
Share of loss of associates	14	162	4
Loss on disposal of investments in subsidiaries	1	-	-
Gain on valuation of hedging derivative	9,32	(8,500)	-
Loss on valuation of hedging derivative	9,33	-	11,203
Gain on transaction of hedging derivative	32	(1,470)	-
Loss on transaction of hedging derivative	33	13	-
Impairment loss	10	(2,161)	3,501
Other impairment loss		18	609
Gain on disposal of property, plant and equipment	16	(3,883)	(5,445)
Loss on disposal of property, plant and equipment	16	2,287	1,861
Gain on disposal of intangible assets	18	(14)	-
Gain on disposal of investment property	20	(121)	(130)
Loss on disposal of intangible assets	18	76	78
Impairment loss on property, plant and equipment	16	3,396	-
Reversal of impairment loss on property, plant and equipment	16	(283)	(233)
Impairment loss on intangible assets	18	27,506	20,717
Reversal of impairment loss on investment property	20	(70)	-
Loss (gain) on foreign currency translation		7,873	(1,078)
Loss on foreign currency transaction		1,470	-
Other expenses		2,580	1,852
Increase in inventories		(13,549)	(5,583)
Decrease in trade receivables		26,106	10,594
Decrease in other receivables		1,702	4,840
Increase in other current financial assets		(833)	(10)
Increase in other current assets		(8,714)	(6,006)
Decrease (increase) in other non-current assets		112	(138)
Increase (decrease) in trade payables		14,630	(6,080)
Increase in other payables		9,615	3,905
Decrease in post-employment benefit obligation		(21,639)	(15,203)
Increase (decrease) in other current financial liabilities		11,272	(1,666)
Decrease in other current liabilities		(572)	(1,836)
Increase (decrease) in other non-current financial liabilities		104	(260)
Decrease in other non-current liabilities		(2,282)	(2,421)
Increase in deferred revenue		289	319
Decrease in provisions		(8,569)	(4,046)
Income taxes paid		(29,034)	(18,821)
<b>Net cash inflow from operating activities</b>		<u>212,749</u>	<u>207,298</u>
<b>Cash flows from investing activities</b>			
Decrease in other current financial assets		129,998	191,004
Decrease in other non-current financial assets		3,121	4,952
Proceeds from disposal of property, plant and equipment		10,083	14,616
Proceeds from disposal of intangible assets		15	6
Proceeds from disposal of investment property		125	609
Interest received		4,977	6,160
Cash inflow due to other investing activities		829	287
Increase in other current financial assets		(129,985)	(180,100)
Increase in other non-current financial assets		(2,113)	(3,760)
Acquisition of property, plant and equipment		(142,942)	(83,947)
Acquisition of intangible assets		(400)	(1,206)
Acquisition of investments in associates		-	(1,320)

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, 2021 and 2020**

(in millions of Korean won)

	Notes	2021	2020
<b>Net cash outflow from investing activities</b>		<u>(126,292)</u>	<u>(52,699)</u>
<b>Cash flows from financing activities</b>			
Proceeds from short-term borrowings		8,009	5,469
Proceeds from long-term borrowings		54,094	93,922
Proceeds from issuance of debentures		109,829	109,733
Increase in deposits received		1,806	13,925
Decrease in current derivative assets		2,775	-
Repayments of short-term borrowings		(5,214)	(8,996)
Repayments of current portion of long-term borrowings		(70,176)	(45,242)
Repayments of current portion of debentures		(163,200)	(160,000)
Lease payments paid		(12,599)	(11,001)
Interest paid		(19,784)	(24,173)
Dividends paid		(10,983)	(9,667)
Decrease in deposits received		<u>(1,702)</u>	<u>(14,114)</u>
<b>Net cash outflow from financing activities</b>		<u>(107,145)</u>	<u>(50,144)</u>
<b>Net increase (decrease) in cash and cash equivalents</b>		(20,689)	104,455
Cash and cash equivalents at the beginning of the year		312,095	216,213
Effects of exchange rate changes on cash and cash equivalents		3,598	(8,573)
<b>Cash and cash equivalents at the end of the year</b>	8	<u>₩ 295,004</u>	<u>₩ 312,095</u>

# Lotte Confectionery Co., Ltd. and Subsidiaries

## Notes to the Consolidated Financial Statements

### December 31, 2021 and 2020

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#### 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, 2021, share capital amounts to ₩ 3,208 million.

The Shareholders of the Parent Company and their ownership as at December 31, 2021, 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
Treasury shares	4,578	0.07
Others	1,485,863	23.15
	6,416,717	100.00

##### 1.2 Consolidated Subsidiaries

The Parent Company's consolidated subsidiaries as at December 31, 2021 and 2020, are as follows:

Subsidiaries	Location	Percentage of ownership (%)		Closing month
		2021	2020	
Lotte Qingdao Foods Co., Ltd.	China	90.00	90.00	December
Lotte Confectionery (S.E.A) Pte., Ltd.	Singapore	100.00	100.00	December
HAVMOR ICECREAM LIMITED	India	100.00	100.00	March
Sweet With Co., Ltd.	South Korea	100.00	100.00	December

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2021 and 2020**

Subsidiaries	Location	Percentage of ownership (%)		Closing month
		2021	2020	
Lotte Confectionery RUS LLC	Russia	100.00	100.00	December
Lotte Kolson(Private)Limited	Pakistan	96.50	96.50	December
LOTTE Rakhat JSC <sup>1,7</sup>	Kazakhstan	95.57	95.57	December
Rakhat-Shymkent LLP <sup>1</sup>	Kazakhstan	100.00	100.00	December
Rakhat-Shymkent Trading House LLP <sup>1</sup>	Kazakhstan	100.00	100.00	December
Rakhat-Astana LLP <sup>1</sup>	Kazakhstan	100.00	100.00	December
Rakhat-Aktobe LLP <sup>1</sup>	Kazakhstan	100.00	100.00	December
Rakhat-Aktau LLP <sup>1</sup>	Kazakhstan	100.00	100.00	December
Rakhat-Oral LLP <sup>1</sup>	Kazakhstan	100.00	100.00	December
Rakhat-Karaganda LLP <sup>1</sup>	Kazakhstan	100.00	100.00	December
Rakhat-Taldykorgan LLP <sup>1</sup>	Kazakhstan	100.00	100.00	December
Almaty Sweets LLC <sup>1</sup>	Kyrgyzstan	100.00	100.00	December
Rakhat TR LLP <sup>1</sup>	Kazakhstan	100.00	100.00	December
Lotte Confectionery Holdings (Europe) B.V. <sup>2</sup>	Netherlands	51.00	51.00	December
Chocolaterie Guylian N.V. <sup>2</sup>	Belgium	99.97	99.97	December
Chocolaterie Guylian Deutschland <sup>2</sup>	Germany	100.00	100.00	December
Aimee BVBA <sup>2,3</sup>	Belgium	100.00	100.00	December
Guylian Asia <sup>4</sup>	Hong Kong	-	100.00	December
Guylian Iberia, LDA <sup>2, 5</sup>	Portugal	100.00	100.00	December
Guylian UK Ltd <sup>2</sup>	United Kingdom	100.00	100.00	December
Guylian USA Inc <sup>2</sup>	USA	100.00	100.00	December
L&M Mayson Company Limited <sup>6</sup>	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

<sup>1</sup> LOTTE Rakhat JSC, an intermediate controlling company, holds 100% of shares of 9 subsidiaries, including shares of Shymkent LLP.

<sup>2</sup> The Group holds 100% shares of Chocolaterie Guylian Deutschland GmbH, Aimee BVBA, Guylian Iberia, LDA, Guylian UK Ltd, Guylian USA, Inc. The percentage of ownership for Chocolaterie Guylian N.V. is the ownership held by Lotte Confectionery Holdings (Europe) B.V.

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

<sup>4</sup> Guylian Asia Ltd was excluded from subsidiaries of Lotte Confectionery Holdings (Europe) B.V. due to

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liquidation during the year ended December 31, 2021.

<sup>5</sup> Chocolaterie Guylian N.V. holds 99.31% and Aimee BVBA holds 0.69% of shares.

<sup>6</sup> The Group has a total of 80% of shares of L&M Mayson Company Limited, through both direct and indirect ownership, adding 34.5% of shares of L&M Mayson Company Limited held by L&M Confectionery Pte., Ltd. to 45.5% of shares that are directly held by the Group.

<sup>7</sup> Rakhat JSC, an intermediate controlling company, changed its name to LOTTE Rakhat JSC during the year ended December 31, 2021.

**1.3 Summarized Financial Information**

Summarized financial information for consolidated subsidiaries as at December 31, 2021 and 2020 and for the years ended December 31, 2021 and 2020, are as follows:

(in millions of Korean won)

Subsidiary	2021 <sup>1</sup>						
	Assets	Liabilities	Equity	Sales	Profit (loss) for the year	Total comprehensive income (loss)	
Lotte Qingdao Foods Co., Ltd.	₩ 21,875	₩ 5,916	₩ 15,959	₩ 23,025	₩ (1,442)	₩ (194)	
Lotte Confectionery (S.E.A) Pte., Ltd.	5,841	2,749	3,092	11,558	327	510	
HAVMOR ICECREAM LIMITED	60,993	26,565	34,428	99,427	7,833	9,746	
Sweet With Co., Ltd.	843	771	72	1,159	(94)	(104)	
Lotte Confectionery RUS LLC	85,358	58,553	26,805	52,538	(1,997)	(896)	
Lotte Kolson(Private) Limited	74,380	36,920	37,460	85,492	(1,192)	(1,178)	
LOTTE Rakhat JSC and its subsidiaries	163,195	22,182	141,013	175,362	17,954	24,090	
Lotte Confectionery Holdings (Europe) B.V. and its subsidiaries	197,632	22,503	175,129	99,291	4,243	4,889	
L&M Mayson Company Limited	43,943	1,548	42,395	30,313	2,436	(3,035)	
L&M Confectionery Pte.,Ltd	13,121	104	13,017	-	-	807	
Lotte India Co., Ltd.	113,153	37,669	75,484	66,833	1,833	6,952	

<sup>1</sup> The above financial information of the subsidiaries is unadjusted amount for investment differences

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occurred from business combination and intercompany transactions.

(in millions of Korean  
won)

Subsidiary	2020 <sup>1</sup>						Total comprehensive income (loss)
	Assets	Liabilities	Equity	Sales	Profit (loss) for the year		
Lotte Qingdao Foods Co., Ltd.	₩ 20,259	₩ 4,106	₩ 16,153	₩ 18,514	₩ (29)	₩ 90	
Lotte Confectionery (S.E.A) Pte., Ltd.	5,436	2,853	2,583	10,292	246	132	
HAVMOR ICECREAM LIMITED	48,064	23,382	24,682	58,743	(1,844)	(4,137)	
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)	(6,208)	
Lotte Kolson(Private)Limit ed	77,079	38,441	38,638	86,687	(975)	(6,440)	
LOTTE Rakhat JSC and its subsidiaries	153,588	20,997	132,591	178,363	23,082	723	
Lotte Confectionery Holdings (Europe) B.V. and its subsidiaries	188,545	18,249	170,296	89,608	1,304	6,390	
L&M Mayson Company Limited	47,444	2,014	45,430	30,008	3,421	7,053	
L&M Confectionery Pte.,Ltd	12,314	103	12,211	-	-	-	
Lotte India Co., Ltd.	108,001	39,469	68,532	58,191	(213)	(6,535)	

<sup>1</sup> The above financial information of the subsidiaries is unadjusted amount for investment differences occurred from business combination and intercompany transactions.

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## **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 the consolidated financial statements are disclosed in Note 3.

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#### **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, 2021.

- *Amendments to Korean IFRS 1116 Lease – A practical expedient for waiving, discounting, and deferring rental fees related to COVID-19*
- *As a practical expedient, a lessee may select not to assess whether a rent concession occurring as a direct consequence of the COVID-19 pandemic is a lease modification. A lessee that makes this selection shall account for any change in lease payments resulting from the rent concession the same way it would account for the change applying this Standard if the change were not a lease modification. The amendment does not 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 (Phase 2 amendments)*

In relation to interest rate benchmark reform, the amendments provide exceptions including adjust effective interest rate instead of book value 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 amendment does not have a significant impact on the financial statements.

- *Amendment to Korean IFRS 1116 Lease - Covid-19 - Related Rent Concessions beyond June 30, 2021*

The application of the practical expedient, a lessee may select not to assess whether a rent concession occurring as a direct consequence of the COVID-19 pandemic is a lease modification, is extended to lease payments originally due on or before June 30, 2022. A lessee shall apply the practical expedient consistently to eligible contracts with similar characteristics and in similar circumstances. The Group changed the accounting policy for the rent concessions that meet the requirements by early adopting this amendment. Under the specific transitional provisions, the Group applied the changed accounting policy retrospectively. There is no cumulative effect of retroactive application.

- *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 includes the transfer of the entity's own equity

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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 Group has early adopted this amendment and changed its accounting policy. The amendment does not have a significant impact on the financial statements.

#### *(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, 2021 reporting periods and have not been early adopted by the Group.

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

The amendments update a reference of definition of assets and liabilities to be recognized in a business combination 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 Korea IFRS 2121 *Levies*. The amendments also clarifies 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 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.

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- 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
- *New Standard: Korean IFRS 1117 Insurance Contract*

Korean IFRS 1117 *Insurance Contracts* replaces Korean IFRS 1104 *Insurance Contracts*. This Standard estimates future cash flows of an insurance contract and measures insurance liabilities using discount rates applied with assumptions and risks at the measurement date. The entity recognizes insurance revenue on an accrual basis including services (insurance coverage) provided to the policyholder by each annual period. In addition, investment components (Refunds due to termination/maturity) repaid to a policyholder even if an insured event does not occur, are excluded from insurance revenue, and insurance financial income or expense and the investment income or expense are presented separately to enable users of the information to understand the sources of income or expenses. This Standard should be applied for annual periods beginning on or after January 1, 2023, and earlier application is permitted for entities that applied Korean IFRS 1109 *Financial Instruments*. The Group does not expect that these amendments have a significant impact on the financial statements.

### **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.

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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 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 change 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

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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 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 is responsible for allocating resources and assessing performance of the operating segments.

As a manner consistent with the internal business segment reporting provided the chief operating decision-maker, the operating information is reviewed from both a geographic and product perspective. Management geographically classifies the performances in Korea, Kazakhstan, India, Pakistan and others, and from a product perspective, management classifies dry confectionery and frozen confectionery.

## **2.5 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 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.

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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.

#### **2.6 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.

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.

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#### *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 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.

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#### *(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 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.

## **2.7 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 in the statement of comprehensive income as 'other income (expenses)' or 'financial income (cost)' 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)'.

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#### **2.8 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.

#### **2.9 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.

#### **2.10 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.

#### **2.11 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.

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:

	<b>Useful lives</b>
Buildings	10 – 50 years
Structures	10 – 40
Machinery	3 – 20
Vehicles	4 – 5
Others	3 – 10

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.

#### **2.12 Borrowing Costs**

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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.

**2.13 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.

**2.14 Intangible Assets**

Goodwill is measured as described in Note 2.3 (a), 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 and trademark rights acquired in a business combination that have an indefinite useful life are 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:

	<b>Useful lives</b>
Industrial property rights	5 – 10 years
Other intangible assets	2 – 25

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.

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#### **2.15 Investment Property**

Investment property (including right-of-use assets) 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.

#### **2.16 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.

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

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depreciation) had no impairment loss been recognized for the asset in prior years.

#### **2.17 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.

#### **2.18 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.

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.

Borrowings are initially recognized at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognized in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a prepayment for liquidity services and amortized over the period of the facility to which it relates.

##### *(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.

#### **2.19 Financial Guarantee Contracts**

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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*

#### **2.20 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.

#### **2.21 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.

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

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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.

#### **2.22 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 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

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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.

#### **2.23 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.

##### *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.

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#### *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.

#### *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.

## **2.24 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.

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#### *(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.

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.

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

Measurement of lease liability also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease.

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.

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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:

- 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.

Payments associated with short-term leases of equipment and vehicles 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 IT-equipment and small items of office furniture.

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*(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.

**2.25 Approval of Issuance of the Financial Statements**

The issuance of the December 31, 2021 financial statements of the Group was approved by the Board of Directors on March 4, 2022, 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 impairment on goodwill and cash-generating unit*

The Group tests whether goodwill and cash-generating unit (CGU) has suffered any impairment on an annual basis. The recoverable amount of a CGU is determined based on value-in-use calculations (Note 19).

#### *(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 24).

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

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*(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 23).

*(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 2021, 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.

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**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.

*(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, 2021 and 2020, are as follows:

*(in millions of Korean won)*

	2021		2020	
	Assets	Liabilities	Assets	Liabilities
USD <sup>1</sup>	₩ 24,754	₩ 80,207	₩ 27,864	₩ 11,137
JPY	1,002	59	882	209
EUR	37	5,682	7	3,557
Others	4,142	2,798	9,656	564

<sup>1</sup> Debentures denominated in USD amounting to USD 100,000 thousand (2020: USD 150,000 thousand) were excluded because they were hedged against foreign currency risk as derivatives as at December 31, 2021.

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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, 2021 and 2020, are as follows:

(in millions of Korean won)

	2021		2020	
	10% increase	10% decrease	10% increase	10% decrease
USD <sup>1</sup>	₩ (5,545)	₩ 5,545	₩ 1,673	₩ (1,673)
JPY	94	(94)	67	(67)
EUR	(565)	565	(355)	355
Others	134	(134)	909	(909)

<sup>1</sup> Debentures denominated in USD amounting to USD 100,000 thousand (2020: USD 150,000 thousand) were excluded because they were hedged against foreign currency risk as derivatives as at December 31, 2021.

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.

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The maximum exposure to credit risk as at December 31, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>	<b>2021</b>		<b>2020</b>	
Cash and cash equivalents <sup>1</sup>	₩	294,408	₩	310,364
Trade and other receivables		184,437		209,406
Financial assets at fair value through profit or loss		13,500		13,500
Other current financial assets		34,346		35,764
Other non-current financial assets		20,200		9,809

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

*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:

<i>(in millions of Korean won)</i>		<b>2021</b>					
		<b>Receivables 3 months or less</b>	<b>Receivables 6 months or less</b>	<b>Receivables 9 months or less</b>	<b>Receivables 12 months or less</b>	<b>Receivables over 12 months</b>	<b>Total</b>
Expected loss rate	Good receivables	0.26%	17.02%	45.06%	62.57%	68.95%	
	Bad receivables	74.31%	86.37%	97.16%	98.72%	100.00%	
	Excluded receivables	-	-	-	-	-	
Trade receivables	Good receivables	₩ 171,830	₩ 3,405	₩ 1,009	₩ 1,088	₩ 279	₩ 177,611
	Bad receivables	142	1,005	274	102	3,202	4,725
	Excluded receivables	3,579	100	320	-	1,444	5,443
Loss allowance provision	Good receivables	₩ 455	₩ 580	₩ 455	₩ 681	₩ 192	₩ 2,363
	Bad receivables	106	868	266	100	3,202	4,542
	Excluded receivables	-	-	-	-	-	-

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(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	-	-	-	-	-	-

(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 ₩ 295,004 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, 2021 and 2020, are as follows. Cash flows in the table above represent undiscounted amounts.

(in millions of  
Korean won)

	2021			
	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Borrowings <sup>1</sup>	₩ 120,080	₩ 93,763	₩ 47,555	₩ -
Debentures <sup>1</sup>	256,845	113,952	203,274	-
Trade and other payables	186,132	-	-	-

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Other financial liabilities	69,094	1,064	-	-
Lease liabilities <sup>2</sup>	10,720	7,225	11,362	570
	<u>₩ 642,871</u>	<u>₩ 216,004</u>	<u>₩ 262,191</u>	<u>₩ 570</u>

<sup>1</sup> 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. Meanwhile, an event of default can be occurred if the Group fails to satisfy covenants of commitments for borrowings and debentures (financial ratios, maintaining credit ratings, etc.),

<sup>2</sup> The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months other than financial guarantee contracts equal their carrying amounts as the impact of discounting is not significant.

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

<sup>1</sup> 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. Meanwhile, an event of default can be occurred if the Group fails to satisfy covenants of commitments for borrowings and debentures (financial ratios, maintaining credit ratings, etc.),

<sup>2</sup> The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months other than financial guarantee contracts equal their carrying amounts as the impact of discounting is not significant.

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#### 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, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>		<b>2021</b>		<b>2020</b>
Total liabilities (a)	₩	1,339,677	₩	1,363,139
Total equity(b)		1,326,972		1,279,896
Debt-to-equity ratio ((a/b))		101.0%		106.5%

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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 2021.

**5.1 Fair Value of Financial Instruments by Category**

Carrying amount and fair value of financial instruments by category as at December 31, 2021 and 2020, are as follows:

(in millions of Korean won)

	2021		2020	
	Carrying amount	Fair value <sup>2</sup>	Carrying amount	Fair value <sup>2</sup>
<b>Financial assets</b>				
Cash and cash equivalents	₩ 295,004	₩ 295,004	₩ 312,095	₩ 312,095
Trade and other receivables	184,437	184,437	209,406	209,406
Financial assets at fair value through profit or loss	13,500	13,500	13,500	13,500
Other current financial assets	34,346	34,346	35,764	35,764
Other non-current financial assets	20,200	20,200	9,809	9,809
	<u>₩ 547,487</u>	<u>₩ 547,487</u>	<u>₩ 580,574</u>	<u>₩ 580,574</u>
<b>Financial liabilities</b>				
Trade and other payables	₩ 186,132	₩ 186,132	₩ 152,985	₩ 152,985
Borrowings <sup>1</sup>	251,607	251,524	257,764	259,685
Debentures <sup>1</sup>	568,149	569,689	612,691	621,503
Other current financial liabilities <sup>3</sup>	36,706	36,706	18,345	18,345
Other non-current financial liabilities	1,064	1,064	10,338	10,338
	<u>₩ 1,043,658</u>	<u>₩ 1,045,115</u>	<u>₩ 1,052,123</u>	<u>₩ 1,062,856</u>

<sup>1</sup> As at December 31, 2021, 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).

<sup>2</sup> 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 22), is approximation of fair value. Fair value of current financial assets and financial liabilities is identical to these carrying amount.

<sup>3</sup> Other current financial liabilities exclude payables related to employee benefits that are not subject to

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categorization of financial liabilities.

**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).

*(in millions of Korean won)*

	<b>2021</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Non-current derivative financial assets	₩ -	₩ 10,119	₩ -	₩ 10,119
Financial assets at fair value through profit or loss	-	13,500	-	13,500

*(in millions of Korean won)*

	<b>2020</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
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

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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, 2021 and 2020, are as follows:

<b>2021</b>			
<b>Level</b>	<b>Valuation techniques</b>	<b>Inputs</b>	
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
<b>2020</b>			
<b>Level</b>	<b>Valuation techniques</b>	<b>Inputs</b>	
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

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**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

The segment information on revenue and operating profit for the years ended December 31, 2021 and 2020, are as follows:

(in millions of Korean won)

	2021			
	Dry confectionery	Frozen confectionery	Adjustment	Total
Total segment revenue	₩ 1,710,350	₩ 481,020	₩ -	₩ 2,191,370
Inter-segment revenue <sup>1</sup>	(45,963)	-	-	(45,963)
Revenue from external customers	1,664,387	481,020	-	2,145,407
Operating profit (loss) <sup>2</sup>	95,579	24,202	(11,310)	108,471
Depreciation and amortization	81,081	24,991	12,188	118,260
Interest income	4,878	1,103	(9)	5,972
Interest expenses	15,542	4,505	(24)	20,023
Shares of loss of associates	-	-	(162)	(162)

<sup>1</sup> Sales between segments are accounted for as they are carried out at arm's length. Such sales are measured in a manner consistent with that in the statement of profit or loss.

<sup>2</sup> Profit or loss for the reportable segments of the Group is measured as same way for operating profit (loss) in the statements of profit or loss, except for effects of internal transactions. Operating profit(loss) in the statements of profit or loss is identical with the sum of operating profit of each segment, and also identical with operating profit before tax from continuing operations with considering items such as financial income and costs in the statements of profit or loss.

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(in millions of Korean won)

	<b>2020</b>					
	<b>Dry confectionery</b>	<b>Frozen confectionery</b>	<b>Adjustment</b>		<b>Total</b>	
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 (loss) <sup>2</sup>	103,337	20,590	(11,377)	-	112,550	
Depreciation and amortization	85,810	25,106	12,599	-	123,515	
Interest income	6,518	896	(9)	-	7,405	
Interest expenses	19,904	5,400	(25)	-	25,279	
Shares of loss of associates	-	-	(4)	-	(4)	

<sup>1</sup> Sales between segments are accounted for as they are carried out at arm's length. Such sales are measured in a manner consistent with that in the statement of profit or loss.

<sup>2</sup> Profit or loss for the reportable segments of the Group is measured as same way for operating profit (loss) in the statements of profit or loss, except for effects of interal transactions. Operating profit(loss) in the statements of profit or loss is identical with the sum of operating profit of each segment, and also identical with operating profit before tax from continuing operations with considering items such as financial income and costs in the statements of profit or loss.

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Details of revenue by location and non-current assets are as follows:

<i>(in millions of Korean won)</i>	Revenue by location		Non-current assets	
	2021	2020	2021	2020
Korea	₩ 1,524,451	₩ 1,511,970	₩ 1,119,133	₩ 1,099,708
India	163,313	115,146	267,637	254,178
Europe	98,256	88,847	96,204	111,933
Kazakhstan	169,834	173,184	157,243	156,427
Pakistan	84,567	85,821	58,278	62,517
Others	104,986	101,080	140,219	128,221
	<u>₩ 2,145,407</u>	<u>₩ 2,076,048</u>	<u>₩ 1,838,714</u>	<u>₩ 1,812,984</u>

The Group derives the following types of revenue:

<i>(in millions of Korean won)</i>	2021	2020
Sales of goods	₩ 2,103,726	₩ 2,039,142
Provision of services	25,368	20,584
Rental income	16,313	16,322
	<u>₩ 2,145,407</u>	<u>₩ 2,076,048</u>

The Group's assets and liabilities by each segment as at December 31, 2021 and 2020, are as follows:

<i>(In millions of Korean won)</i>	2021			
	Dry confectionery	Frozen confectionery	Internal transaction adjustments	Total
Assets	₩ 2,535,929	₩ 562,020	₩ (431,300)	₩ 2,666,649
Investment in associate assets	1,155	-	-	1,155
Non-current assets <sup>1</sup>	1,829,386	428,100	(419,927)	1,837,559
Liabilities	1,012,050	286,282	41,345	1,339,677

<sup>1</sup> Amount of investment in associates was excluded.

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(In millions of Korean won)

	2020			
	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 <sup>1</sup>	1,802,184	410,053	(400,569)	1,811,668
Liabilities	925,938	397,627	39,574	1,363,139

<sup>1</sup> Amount of investment in associates is excluded.

**6.1 Revenue from Contracts with Customers**

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

(in millions of Korean won)	2021	2020
Revenue from contracts with customers	₩ 2,129,094	₩ 2,059,726
Revenue from other sources: rental income	16,313	16,322
Total revenue	₩ 2,145,407	₩ 2,076,048

*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:

(in millions of Korean won)	2021	2020
Revenue from external customers	₩ 2,129,094	₩ 2,059,726
Timing of revenue recognition		
At a point in time	2,103,726	2,039,142
Over time	25,368	20,584

*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. The Group did not recognize any assets for sales return, as the assets to be returned were determined not to be recoverable due to the nature of the finished goods and merchandise. (Note 25)

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**7. Financial Instruments by Category**

Categorizations of financial assets and liabilities as at December 31, 2021 and 2020, are as follows:

(in millions of Korean won)

	2021							
	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	₩	295,004	₩	-	₩	-		₩
Trade and other receivables		184,437		-		-		184,437
Other current financial assets		34,346		13,500		-		47,846
Other non-current financial assets		10,081		-		10,119		20,200
	₩	523,868	₩	13,500	₩	10,119	₩	547,487

(in millions of Korean won)

	2021							
	Other financial liabilities measured at amortized cost		Derivative financial liabilities for hedging purpose		Total			
Trade and other payables	₩	186,132	₩	-	₩	-	₩	186,132
Borrowings		251,607		-		-		251,607
Debentures		568,149		-		-		568,149
Other current financial liabilities <sup>1</sup>		36,706		-		-		36,706
Other non-current financial liabilities		1,064		-		-		1,064
	₩	1,043,658	₩	-	₩	-	₩	1,043,658

<sup>1</sup> Other current financial liabilities exclude payables related to employee benefits that are not subject to categorization of financial liabilities.

(in millions of Korean won)

	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	₩	-	₩	-		₩
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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(in millions of Korean won)

	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

Net gains or net losses on each category of financial instruments for the years ended December 31, 2021 and 2020, are as follows:

(in millions of Korean won)

	2021		2020	
<b>Financial assets at amortized cost</b>				
Interest income	₩	5,972	₩	7,405
Gain on foreign currency translations		3,278		3,038
Loss on foreign currency translations		(1,897)		(3,528)
Gain on foreign currency transactions		2,464		1,401
Loss on foreign currency transactions		(2,312)		(3,537)
Impairment loss (reversal)		2,143		(4,110)
<b>Financial assets at fair value through other comprehensive income</b>				
Loss on valuation (other comprehensive income) (reclassification of profit or loss)		-		(1)
<b>Derivative instruments used for hedging purpose</b>				
Gain on valuation of derivatives		8,500		-
Loss on valuation of derivatives				(11,203)
Gain on derivatives transaction		1,470		-
Loss on derivatives transaction		(13)		-
Gain (loss) on valuation of derivatives (other comprehensive income)		2,629		(379)
<b>Financial liabilities measured at amortized cost</b>				
Interest expenses <sup>1</sup>		(18,627)		(23,381)
Gain on foreign currency translations		531		11,862
Loss on foreign currency translations		(9,785)		(10,294)
Gain on foreign currency transactions		1,646		1,702
Loss on foreign currency transactions		(2,139)		(1,547)

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<sup>1</sup> Interest expenses on lease liabilities amounting to ₩1,396 million is excluded.

**8. Cash and Cash Equivalents**

Cash and cash equivalents as at December 31, 2021 and 2020, are as follows:

*(in millions of Korean won)*

	<b>2021</b>		<b>2020</b>	
Cash on hand	₩	596	₩	1,731
Ordinary deposits and others		123,698		132,661
Time deposits		170,710		177,703
	₩	<u>295,004</u>	₩	<u>312,095</u>

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**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 floating interest payments for debentures in foreign currency are exchanged back with the principal and fixed interest rate payments in Korean won
	Interest rate swap	Pays fixed interest to receive floating interest for debentures and borrowings in foreign currency

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	3rd debentures in foreign currency	USD 550,000,000 (KRW 54,900,000,000)	₩ 1,098.00	3M USD Libor+0.05%	1.22%	2024.01.12
Currency and Interest rate swaps	4th debentures in foreign currency	USD 50,000,000 (KRW 55,150,000,000)	₩ 1,103.00	3M USD Libor+0.98%	1.28%	2024.01.29
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%	2024.12.29

Outstanding balances of derivative financial instruments as at December 31, 2021 and 2020, are as follows:

(in millions of Korean won)	2021	2020
Derivative financial assets	₩ 10,119	₩ 1,806
Derivative financial liabilities	-	526

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

(in millions of Korean won)

Purpose	Types	Gain on valuation	Remarks
Hedging	Currency swap	₩ 8,500	Profit or loss
	Interest rate swap	1,191	
Disposal		734	Other comprehensive income <sup>1</sup>

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<sup>1</sup> For the year ended December 31, 2021, gain on valuation of derivative financial instruments amounts to ₩ 2,597 million and recognized in other comprehensive income is ₩ 1,925 million, which is net of tax effect amounting to ₩ 672 million.

**10. Trade and Other Receivables**

Trade and other receivables as at December 31, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>	<b>2021</b>	<b>2020</b>
Trade receivables	₩ 187,779	₩ 217,715
Less: Provision for impairment	(6,905)	(11,669)
	<u>180,874</u>	<u>206,046</u>
Other receivables <sup>1</sup>	3,563	3,360
	<u>₩ 184,437</u>	<u>₩ 209,406</u>

<sup>1</sup> Other receivables consist of short-term loans and non-trade receivables. Movements on provisions for impairment of trade receivables for the years ended December 31, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>	<b>2021</b>	<b>2020</b>
Beginning balance	₩ 11,669	₩ 10,655
Impairment loss	(2,161)	3,501
Receivables written-off	(2,999)	(2,765)
Collection of receivables written-off	510	401
Exchange differences	(114)	(123)
Ending balance	<u>₩ 6,905</u>	<u>₩ 11,669</u>

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**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, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>			<b>2021</b>		<b>2020</b>
Current	Short-term financial instruments	₩	27,970	₩	26,921
	Financial assets at fair value through profit or loss		13,500		13,500
	Accrued income		1,618		462
	Current deposits provided		4,660		6,496
	Current derivative financial assets		-		1,806
	Other current financial assets		98		79
				<u>47,846</u>	
Non-current	Long-term financial instruments <sup>1</sup>		78		26
	Loans		-		2
	Deposits provided		9,995		9,774
	Derivative financial assets		10,119		-
	Financial asset at fair value through other comprehensive income		8		7
			<u>20,200</u>		<u>9,809</u>
		₩	<u>68,046</u>	₩	<u>59,073</u>

<sup>1</sup> As at December 31, 2021, ₩ 25 million of deposit for checking account of long-term financial instruments are restricted to use.

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

<i>(in millions of Korean won)</i>		<b>2021</b>		<b>2020</b>
Deposits for Win-win Growth Cooperative loans <sup>1</sup>	₩	13,500	₩	13,500

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

Details of other financial liabilities as at December 31, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>		<b>2021</b>		<b>2020</b>
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Current	Accrued expenses	₩	48,659	₩	40,235
	Current deposits received		20,435		9,115
			<u>69,094</u>		<u>49,350</u>
Non-current	Deposits received		1,064		9,812
	Derivative financial liabilities		-		526
			<u>1,064</u>		<u>10,338</u>
		₩	<u>70,158</u>	₩	<u>59,688</u>

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**11.2 Other Assets and Liabilities**

Details of other assets as at December 31, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>			<b>2021</b>		<b>2020</b>
Current	Advanced payment	₩	13,984	₩	11,470
	Prepaid expenses		11,282		7,750
	Value added tax refundable		4,671		1,090
	Other current assets		76		95
			<u>30,013</u>		<u>20,405</u>
Non-current	Long-term prepaid expenses		10		908
	Other non-current assets		422		-
			<u>432</u>		<u>908</u>
		₩	<u>30,445</u>	₩	<u>21,313</u>

Details of other liabilities as at December 31, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>			<b>2021</b>		<b>2020</b>
Current	Withholdings	₩	4,490	₩	4,172
	Advance received		5,839		3,540
	Other current liabilities		12,296		12,830
			<u>22,625</u>		<u>20,542</u>
Non-current	Other non-current liabilities		11,160		10,767
			11,160		10,767
		₩	<u>33,785</u>	₩	<u>31,309</u>

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**12. Inventories**

Inventories as at December 31, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>	<b>2021</b>		<b>2020</b>	
Merchandise	₩	20,692	₩	22,465
Finished goods		79,522		74,091
Work-in-process		13,108		11,227
Raw materials		108,462		103,619
Supplies		2,169		1,877
Raw materials in transit		25,298		18,271
		<u>249,251</u>		<u>231,550</u>
Provision for valuation of inventories		(2,073)		(520)
	₩	<u>247,178</u>	₩	<u>231,030</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 ₩ 1,399,748 million (2020: ₩ 1,345,044 million). Loss on valuation of inventories to net realizable value amounted to ₩ 1,553 million (2020: reversal of loss ₩ 235 million).

Details of cost of sales for the years ended December 31, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>	<b>2021</b>		<b>2020</b>	
Cost of merchandise sold	₩	190,409	₩	196,284
Cost of finished goods sold		1,209,339		1,148,760
Cost of rental		2,048		2,003
Cost of other goods sold		10,529		9,801
	₩	<u>1,412,325</u>	₩	<u>1,356,848</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 Associate**

Details of associates of the Group as at December 31, 2021 and 2020, are as follows:

Investee	Percentage of ownership (%)		Location	Closing date
	2021	2020		
Lotte Agri-food Tech Fund No.1 <sup>1</sup>	21.71	21.71	Korea	December 31, 2021

<sup>1</sup> 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 associate under the equity method for the years ended December 31, 2021 are as follows:

(in millions of Korean won)

	2021					
	Beginning balance	Acquisition	Valuation of equity method			Ending balance
			Share of profit or loss of associate	Shares of other comprehensive income of associate	Foreign currency translations	
Lotte Agri-food Tech Fund No.1	₩ 1,316	₩ -	₩ (161)	₩ -	₩ -	₩ 1,155

Summary of condensed financial information of major associate and dividends received from associates as at and for the year ended December 31, 2021, are as follows

(in millions of Korean won)

	2021								
	Condensed financial information of associate					Profit (loss) from continuing operations		Total comprehensive loss	Dividends from associates
	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Loss for the year			
Lotte Agri-food Tech Fund No.1	₩ 1,583	₩ 3,735	₩ -	₩ -	₩ 10	₩ (745)	₩ (745)	₩ (745)	₩ -

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**15. Assets and Liabilities Held for Sale**

On October 19, the Group decided to transfer HR development center business to Lotte Corporation, the Parent Company, with the Board of directors. The associated assets and liabilities related to the HR development center are presented as held for sale amounting to ₩ 14,161 million and ₩ 2,396 million, respectively. The transaction was completed in January 2022. In addition, the Group decided to sell externally ₩ 997 million of investment properties, and the transaction is expected to be completed by April 2022.

Details of assets and liabilities of disposal group classified as held for sale as at December 31, 2021, are as follows:

*(in thousands of Korean won)*

**2021**

Disposal group assets:

Trade and other receivables	₩	2,143
Other current assets		600
Other current financial assets		701
Other non-current assets		6
Property, plant and equipment		9,018
Right-of-use assets		1,693
Investment property		997
	₩	<u>15,158</u>

Liabilities within disposal group assets:

Trade and other payables	₩	1,501
Lease liabilities		1,372
Net defined benefit obligations		(632)
Other non-current liabilities		155
	₩	<u>2,396</u>

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**16. Property, Plant and Equipment**

Changes in property, plant and equipment for the years ended December 31, 2021 and 2020, are as follows:

(in millions of Korean won)

	2021											
	Land	Building	Structures	Machinery	Vehicles	Others	Construction-in-progress	Total				
Beginning net book amount	₩ 618,948	₩ 279,501	₩ 9,834	₩ 276,212	₩ 7,575	₩ 40,318	₩ 23,083	₩ 1,255,471				
Acquisition	16,845	61	474	57,375	9,066	18,617	49,809	152,247				
Transfer <sup>1</sup>	(12,316)	(142)	290	16,079	76	(3,816)	(22,531)	(22,360)				
Disposals	(4,010)	(1,065)	-	(47)	(197)	(2,318)	-	(7,637)				
Depreciation	-	(12,921)	(585)	(56,209)	(2,934)	(18,890)	-	(91,539)				
Government grants received	-	-	-	-	(829)	-	-	(829)				
Impairment loss	-	-	-	(2,943)	-	-	(453)	(3,396)				
Reversal of impairment loss	275	-	-	-	-	-	8	283				
Exchanges differences	784	4,957	489	3,994	(78)	662	643	11,451				
Ending net book amount	₩ 620,526	₩ 270,391	₩ 10,502	₩ 294,461	₩ 12,679	₩ 34,573	₩ 50,559	₩ 1,293,691				
Acquisition cost	₩ 627,662	₩ 526,759	₩ 26,066	₩ 1,258,627	₩ 24,117	₩ 243,685	₩ 51,035	₩ 2,757,951				
Accumulated depreciation	-	(227,781)	(11,469)	(950,441)	(10,708)	(209,108)	-	(1,409,507)				
Government grants <sup>2</sup>	-	(771)	-	-	(730)	-	-	(1,501)				
Accumulated impairment loss	(7,136)	(27,816)	(4,095)	(13,725)	-	(4)	(476)	(53,252)				

<sup>1</sup> The amounts of ₩ 9,018 million transferred to assets held to sale as at December 31, 2021, were included. (Note 15)

<sup>2</sup> 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, 2021 is ₩ 91,539 million (2020: ₩ 94,256 million). Among this total amount, ₩ 68,602 million (2020: ₩ 71,086 million) is included in cost of sales, and ₩ 22,937 million (2020: ₩ 23,170 million) is included in selling and administrative expenses.

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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 <sup>1</sup>	-	(821)	-	-	-	-	-	(821)			
Accumulated impairment loss	(7,117)	(25,845)	(3,777)	(9,921)	-	(4)	(25)	(46,689)			

*Contractual commitments for acquisition of assets*

The Group entered into contractual commitments for the acquisition related to land and facility investment (Note 37).

*Assets provided as collateral*

Building, structures, machinery, and land usage rights are provided as collateral with the maximum credit amount of ₩ 50,868 million (2020: ₩ 41,330 million) for borrowings (Note 37).

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**17. Leases**

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

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

*(a) Right-of-use assets*

*(in millions of  
Korean won)*

	2021					
	Land <sup>1</sup>	Building	Structures	Vehicles	Others	Total
Beginning net book amount	₩ -	₩ 13,038	₩ 5,303	₩ 13,051	₩ 18,582	₩ 49,974
Acquisition	-	5,255	-	1,930	414	7,599
Transfer	13,299	1,110	-	481	(14,970)	(80)
Disposals <sup>2</sup>	-	(4,036)	(30)	(2,924)	(226)	(7,216)
Depreciation	(276)	(6,378)	(877)	(3,619)	(1,195)	(12,345)
Exchanges differences	(944)	154	355	(3)	436	(2)
Ending net book amount	₩ 12,079	₩ 9,143	₩ 4,751	₩ 8,916	₩ 3,041	₩ 37,930
Acquisition cost	₩ 13,755	₩ 19,818	₩ 6,895	₩ 17,057	₩ 5,652	₩ 63,177
Accumulated depreciation	(1,676)	(10,675)	(2,144)	(8,141)	(2,611)	(25,247)

<sup>1</sup> The right-of-use assets of land were transferred from other property, plant and equipment.

<sup>2</sup> The amounts of ₩ 1,693 million transferred to assets held to sale as at December 31, 2021, were included. (Note 15)

Recognized expense related to the depreciation of right-of-use assets for the ended December 31, 2021 is ₩ 12,345 million (2020: ₩ 14,467 million). Among this total amount, ₩ 1,946 million (2020: ₩ 2,682 million) is included in cost of sales, and ₩ 10,399 million (2020: ₩ 11,785 million) is included in selling and administrative expenses.

*(in millions of  
Korean won)*

	2020				
	Building	Structures	Vehicles	Others	Total
Beginning net book amount	₩ 11,115	₩ 5,786	₩ 17,398	₩ 15,109	₩ 49,408
Acquisition	12,852	3,067	2,500	2,885	21,304
Transfer	(12)	-	(1)	3,091	3,078
Disposals	(3,736)	(2,253)	(2,452)	(609)	(9,050)

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Depreciation	(6,981)	(808)	(4,391)	(2,287)	(14,467)
Exchanges differences	(200)	(489)	(3)	393	(299)
Ending net book amount	₩ 13,038	₩ 5,303	₩ 13,051	₩ 18,582	₩ 49,974
Acquisition cost	₩ 20,013	₩ 6,461	₩ 19,605	₩ 23,296	₩ 69,375
Accumulated depreciation	(6,975)	(1,158)	(6,554)	(4,714)	(19,401)

*(b) Lease liabilities*

<i>(in millions of Korean won)</i>	<b>2021</b>		<b>2020</b>	
Lease liabilities				
Current	₩	9,425	₩	11,595
Non-current		17,300		25,967
	₩	26,725	₩	37,562

*(c) 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>	<b>2021</b>		<b>2020</b>	
Depreciation of right-of-use assets				
Land	₩	276	₩	-
Building		6,198		6,981
Machinery		877		808
Vehicles		3,618		4,391
Others		1,195		2,287
	₩	12,164	₩	14,467
Interest expense relating to lease liabilities (included in finance cost)	₩	1,396	₩	1,898
Expense relating to short-term leases (included in cost of sales and administrative expenses)		5,370		6,313
Expense relating to leases of low-value assets that are not short-term leases (included in administrative expenses)		1,030		1,085
Expense relating to variable lease payments not included in lease liabilities (included in administrative expenses)		105		363

The total cash outflow for leases in 2021 was ₩ 19,104 million (2020: ₩ 18,762 million).

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**18. Intangible Assets**

Changes in intangible assets for the years ended December 31, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>	2021				
	Industrial property rights	Memberships	Goodwill	Others <sup>1</sup>	Total
Beginning balance	₩ 10,202	₩ 4,428	₩ 164,999	₩ 167,070	₩ 346,699
Acquisition	143	-	-	256	399
Transfer	150	-	-	-	150
Disposal	(76)	-	-	-	(76)
Amortization	(877)	-	-	(11,816)	(12,693)
Impairment <sup>2</sup>	-	-	(27,506)	-	(27,506)
Foreign currency translations	(735)	-	5,935	4,731	9,931
Ending balance	₩ 8,807	₩ 4,428	₩ 143,428	₩ 160,241	₩ 316,904

Recognized expense related to the amortization for the ended December 31, 2021 is ₩ 12,693 million (2020: ₩ 12,919 million). Among this total amount, ₩ 464 million (2020: ₩ 56 million) is included in cost of sales, and ₩ 12,229 million (2020: ₩ 12,863 million) is included in selling and administrative expenses.

<sup>1</sup> Others consist of brand value, customer relationships value and others.

<sup>2</sup> See Note 19 for the impairment tests for goodwill.

<i>(in millions of Korean won)</i>	2020				
	Industrial property rights	Memberships	Goodwill	Others <sup>1</sup>	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)
Changes due to business combination	-	-	-	-	-
Impairment <sup>2</sup>	-	-	(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

<sup>1</sup> Others consist of brand value, customer relationships value and others.

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<sup>2</sup> See Note 19 for the impairment tests for goodwill.

Recognized expense related to research and development for the year ended December 31, 2021 is ₩ 2,221 million (2020: ₩ 2,094 million).

*(in millions of Korean won)*

		<b>2021</b>		<b>2020</b>
Cost of sales (manufacturing cost)	₩	2,220	₩	2,090
Selling and administration expenses		1		4

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**19. Impairment Tests for Goodwill and Cash Generating Unit**

Goodwill as at December 31, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>	<b>2021</b>	<b>2020</b>
Frozen confectionery	₩ 10,376	₩ 10,376
HAVMOR ICE CREAM LIMITED	76,003	70,898
Lotte Confectionery RUS LLC	3,889	3,587
Lotte Confectionery Holdings (Europe) B.V. <sup>1</sup>	17,352	26,029
LOTTE Rakhat JSC <sup>2</sup>	28,970	35,918
Lotte Kolson(Private)Limited	1,087	1,108
L&M Mayson Company Limited <sup>3</sup>	5,751	17,083
	₩ 143,428	₩ 164,999

<sup>1</sup> 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 ₩ 8,826 million, which exceeds the recoverable amount of cash generating unit.

<sup>2</sup> For the goodwill which was recognized as a result of acquisition of LOTTE Rakhat JSC in the past, the Group recognized impairment loss amounting to ₩ 8,661 million, which exceeds the recoverable amount of cash generating unit.

<sup>3</sup> The Group has a total of 80% of shares of L&M Mayson Company Limited, through both direct and indirect ownership, adding 34.5% of shares of L&M Mayson Company Limited hold by L&M Confectionery Pte., Ltd. to 45.5% of shares that are directly hold by the Group. L&M Confectionery Pte., Ltd. is a special purpose corporation (SPC), so at the time of acquisition, goodwill was distributed to L&M Mayson Company Limited. The Group recognized impairment loss for goodwill of L&M Mayson Company Limited amounting to ₩ 10,019 million which exceeds the recoverable amount of cash generating unit.

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

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key assumptions used in calculating value-in-use, recoverable amount and impairment amount are as follows:

<i>(in millions of Korean won)</i>	Recoverable amount		Impairment of goodwill <sup>1</sup>		Impairment of property, plant and equipment <sup>2</sup>	Discount rate (WACC)	Perpetual growth rate	
Frozen confectionery <sup>3</sup>	₩	277,506	₩	-	₩	-	8.3%	1.0%
HAVMOR ICE CREAM LIMITED <sup>3</sup>		182,363		-		-	9.5%	2.0%
Lotte Confectionery RUS LLC <sup>3</sup>		92,734		-		-	12.2%	1.0%
Lotte Confectionery Holdings (Europe) B.V. <sup>5</sup>		68,696		8,661		-	6.2%	1.0%
Rakhat JSC <sup>5</sup>		193,237		8,826		-	15.0%	1.0%
Lotte Kolson Limited <sup>3</sup>		56,695		-		-	14.7%	1.0%
L&M Mayson Company Limited <sup>5</sup>		37,591		10,019		-	14.1%	2.0%
Lotte Qingdao Foods Co., Ltd. <sup>4,5</sup>		12,194		-		2,943	8.6%	1.0%
Lotte Confectionery (S.E.A) Pte., Ltd. <sup>3</sup>		3,788		-		-	6.0%	1.0%
Lotte India Co., Ltd. <sup>3</sup>		72,977		-		-	9.5%	2.0%
	₩	997,781	₩	27,506	₩	2,943		

<sup>1</sup> 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.

<sup>2</sup> 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 comparable book amounts of the cash generating unit 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.

<sup>3</sup> 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.

<sup>4</sup> The Group recognized impairment loss amounting to ₩ 2,943 million for Lotte Qingdao Foods Co., Ltd., which exceeds the recoverable amount of cash generating unit.

<sup>5</sup> 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)*

		<b>1% increase</b>	<b>Recoverable amount</b>		<b>Changes in impairment</b>
Lotte Confectionery Holdings (Europe) B.V.	₩		56,990	₩	11,706
LOTTE Rakhat JSC			179,735		13,502
L&M Mayson Company Limited			34,609		2,982
Lotte Qingdao Foods Co., Ltd.			10,694		1,500

*Perpetual growth rate*

*(in millions of Korean won)*

		<b>1% decrease</b>	<b>Recoverable amount</b>		<b>Changes in impairment</b>
Lotte Confectionery Holdings (Europe) B.V.	₩		61,173	₩	7,523
LOTTE Rakhat JSC			187,321		5,916
L&M Mayson Company Limited			35,727		1,864
Lotte Qingdao Foods Co., Ltd.			11,055		1,139

As explained in Note 41, there is uncertainty related to the recoverability for Lotte Confectionery RUS LLC, and detailed information for changes in sensitivity of key assumptions is as follows:

<i>(in millions of Korean won)</i>		<b>1% increase in discount rate</b>		<b>1% decrease in perpetual growth rate</b>
Recoverable amount	₩	81,200	₩	88,158

The assumptions for the discount rate and permanent growth rate do not affect impairments, as changed within the sensitivity range in the external evaluation report.

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**20. Investment Property**

Changes in investment property for the years ended December 31, 2021 and 2020, are as follows:

*(in millions of Korean won)*

	<b>2021</b>		
	<b>Land</b>	<b>Buildings</b>	<b>Total</b>
Beginning balance	₩ 93,512	₩ 47,389	₩ 140,901
Transfer	12,079	191	12,270
Disposal	-	(2)	(2)
Depreciation	-	(1,911)	(1,911)
Reversal of impairment loss	70	-	70
Foreign currency translations	1,455	213	1,668
Ending balance	<u>₩ 107,116</u>	<u>₩ 45,880</u>	<u>₩ 152,996</u>
Acquisition cost	₩ 107,116	₩ 84,985	₩ 192,101
Accumulated depreciation	-	(39,105)	(39,105)

Fair value of investment property as at December 31, 2021, is ₩ 203,369 million (2020: ₩ 186,309 million).

Rental income from investment property during the year ended December 31, 2021, is ₩ 15,401 million (2020: ₩ 15,472 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, 2021 is ₩ 1,911 million (2020: ₩ 1,873 million). Among this total amount, ₩ 1,827 million (2020: ₩ 1,780 million) is included in cost of sales, and ₩ 84 million (2020: ₩ 92 million) is included in selling and administrative expenses. Repairs and maintenance expenses amount to ₩ 221 million (2020: ₩ 217 million).

*(in millions of Korean won)*

	<b>2020</b>		
	<b>Land</b>	<b>Buildings</b>	<b>Total</b>
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	<u>₩ 93,512</u>	<u>₩ 47,389</u>	<u>₩ 140,901</u>
Acquisition cost	₩ 93,580	₩ 84,435	₩ 178,015
Accumulated depreciation	-	(37,046)	(37,046)
Accumulated impairment loss	(68)	-	(68)

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**21. Trade and Other Payables**

Trade and other payables as at December 31, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>	<b>2021</b>		<b>2020</b>	
Trade payables	₩	111,779	₩	96,195
Non-trade payables		74,353		56,790
	₩	<u>186,132</u>	₩	<u>152,985</u>

**22. Borrowings**

Details of carrying amount of borrowings as at December 31, 2021 and 2020, are as follows:

**Current Borrowings**

*(in millions of Korean won)*

	<b>Bank</b>	<b>Maturity date</b>	<b>Annual interest rate (%) as at December 31, 2021</b>	<b>2021</b>		<b>2020</b>	
Short-term borrowings	Shinhan Bank	2022-01-17	2.06	₩	21	₩	84
	HDFC Bank and others	-	-		-		1,727
	Faysal bank Limited	2022-12-31	11.04~11.29		4,414		-
Current-portion of borrowings	Mizuho Bank, Ltd.	-	-		-		20,000
	Mizuho Bank, Ltd.	2022-01-25	2.10		80,000		-
	Woori Bank, London Branch	2022-12-31	2.54~8.55		4,866		9,336
	Woori Bank, Bahrain Branch and others	2022-12-31	1.55~9.42		25,681		38,826
				₩	<u>114,982</u>	₩	<u>69,973</u>

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**Non-current Borrowings**

*(in millions of Korean won)*

	<b>Bank</b>	<b>Maturity date</b>	<b>Annual interest rate (%) as at December 31, 2021</b>	<b>2021</b>	<b>2020</b>
		-	-	₩ -	₩ 80,000
		2023-07-31	1.57	23,000	23,000
	Mizuho Bank, Ltd.	2023-09-27	1.59	7,000	7,000
		2023-10-30	1.58	20,000	20,000
		2024-10-29	2.19	20,000	-
Long-term borrowings	Habib Bank Limited and others	2024-12-29	8.20~9.42	13,300	20,905
	Woori Bank, London Branch	2025-01-22	2.54	14,182	15,198
	KEB Hana Bank, Amsterdam Branch and others	2023-04-22	1.50~1.83	34,149	15,121
	VTB Bank and others	2025-12-08	4.90~5.50	4,994	6,567
				<u>₩ 136,625</u>	<u>₩ 187,791</u>

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**Debentures**

(in millions of Korean won)

	Bank	Maturity date	Annual interest	2021	2021	2020
			rate (%) as at December 31, 2021			
61 <sup>st</sup> -2 Debenture in KRW	MIRAE ASSET DAEWOO CO.,LTD. and others	2025-07-03	2.89	₩	50,000	₩ 50,000
63 <sup>rd</sup> -2 Debenture in KRW	Korea Investment & Securities Co., Ltd. and others	2022-02-22	2.22		170,000	170,000
64 <sup>th</sup> -1 Debenture in KRW	NH INVESTMENT & SECURITIES CO.,LTD. and others	2022-06-13	1.68		80,000	80,000
64 <sup>th</sup> -2 Debenture in KRW	Korea Investment & Securities Co., Ltd. and others	2023-02-17	1.55		110,000	110,000
2 <sup>nd</sup> Debenture in foreign currency	MUFG	-	-		-	163,200
3 <sup>rd</sup> Debenture in foreign currency	MUFG	2024-01-12	Three-month LIBOR+0.05		59,275	-
4 <sup>th</sup> Debenture in foreign currency	DBS	2024-01-29	Three-month LIBOR+0.98		59,275	-
					568,550	613,200
Less: discount on debentures					(401)	(509)
Total book amount of debentures					568,149	612,691
Current portions:					249,956	163,200
Current debentures					250,000	163,200
Current discounts on debentures					(44)	-
Total book amount of non-current debentures				₩	318,193	₩ 449,491

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, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>	<b>2021</b>		<b>2020</b>	
	<b>Carrying amount</b>	<b>Fair value<sup>1</sup></b>	<b>Carrying amount</b>	<b>Fair value<sup>1</sup></b>
Debentures	₩ 568,149	₩ 569,689	₩ 612,691	₩ 621,503

<sup>1</sup> 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, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>	<b>2021</b>		<b>2020</b>	
	<b>Borrowings</b>	<b>Debentures</b>	<b>Borrowings</b>	<b>Debentures</b>
Beginning balance	₩ 257,764	₩ 612,691	₩ 221,616	₩ 673,146
Amortization	-	330	-	283
Repayments	(75,390)	(163,200)	(54,238)	(160,000)
Increase	62,104	109,828	99,392	109,732
Others	410	-	-	-
Exchange differences	6,719	8,500	(9,006)	(10,470)
Ending balance	₩ 251,607	₩ 568,149	₩ 257,764	₩ 612,691

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**23. Post-employment Benefits**

**23.1 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.

Details of net defined benefit obligations recognized on the consolidated statements of financial position as at December 31, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>	<b>2021</b>	<b>2020</b>
Present value of defined benefit obligations	₩ 130,963	₩ 131,068
Fair value of plan assets <sup>1</sup>	<u>(126,447)</u>	<u>(122,249)</u>
Liabilities in the consolidated statement of financial position	<u>₩ 4,516</u>	<u>₩ 8,819</u>

<sup>1</sup> Fair value of plan assets includes ₩ 48 million (2020: ₩ 48 million) of contributions to the National Pension Fund.

Changes in the present value of defined benefit obligations for the years ended December 31, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>	<b>2021</b>	<b>2020</b>
Beginning balance	₩ 131,068	₩ 129,174
Current service cost	15,800	17,490
Interest expenses	2,733	2,541
Remeasurements of actuarial gains and losses:		
- Actuarial gains and losses arising from changes in demographic assumptions	43	(1,274)
- Actuarial gains and losses arising from changes in financial assumptions	(4,082)	(2,460)
- Actuarial gains and losses arising from experience adjustments	3,983	2,227
Payments from plans:		
- Benefit payments	(12,363)	(15,762)
- Benefit payments due to participation in defined contribution pension	(6,168)	(5,077)
Liabilities transferred from affiliated company	1,586	4,382
Transfer to liabilities of disposal groups held for sale	(1,706)	-

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Exchange differences		69		(173)
Ending balance	₩	130,963	₩	131,068

Changes in the fair value of plan assets for the years ended December 31, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>		<b>2021</b>		<b>2020</b>
Beginning balance	₩	122,249	₩	121,264
Return on plan assets		2,462		2,835
Contributions of employers		21,494		15,125
Payments from plans:				
- Benefit payments		(12,285)		(16,004)
- Benefit payments due to participation in defined contribution pension		(6,168)		(5,017)
Remeasurements of actuarial gains and losses		(600)		(278)
Transfer amount from affiliated company		1,586		4,382
Exchange differences		47		(58)
Transfer to liabilities of disposal groups held for sale		(2,338)		-
Ending balance	₩	126,447	₩	122,249

Plan assets as at December 31, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>	<b>2021</b>		<b>2020</b>	
	<b>Amount</b>	<b>Proportion (%)</b>	<b>Amount</b>	<b>Proportion (%)</b>
Insurance instrument	₩ 126,399	99.96	₩ 122,201	99.96
National pension fund	48	0.04	48	0.04
	₩ 126,447	100.00	₩ 122,249	100.00

The principal actuarial assumptions as at December 31, 2021 and 2020, are as follows:

<i>(in percentage, %)</i>	<b>2021</b>	<b>2020</b>
Discount rate	2.88 ~ 10.75	2.22 ~ 10.25
Salary growth rate	2.26 ~ 8.50	1.96 ~ 10.25
Future salary increase rate	1.95 ~ 8.50	2.38 ~ 7.00

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The sensitivity of the defined benefit obligations as at December 31, 2021, to changes in the weight principal assumptions is:

	<b>2021</b>		
	<b>Changes in principal assumptions</b>	<b>Increase in principal assumptions</b>	<b>Decrease in principal assumption</b>
Discount rate	1.00%	4.01% decrease	4.38% increase
Salary growth rate	1.00%	4.38% increase	4.08% decrease
Future salary increase rate	1.00%	4.34% increase	3.68% 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, 2022, are ₩ 15,374 million.

The expected maturity analysis of undiscounted pension benefits as at December 31, 2021, is as follows:

<i>(in millions of Korean won)</i>		<b>Less than 1 year</b>		<b>Between 1-2 years</b>		<b>Between 2-5 years</b>		<b>Over 5 years</b>		<b>Total</b>
Pension benefits	₩	26,199	₩	22,026	₩	45,601	₩	59,221	₩	153,047

The weighted average duration of the defined benefit obligations is 4.29 years.

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**23.2 Defined Contribution Plan**

Recognized expense related to the defined contribution plan for the year ended December 31, 2021, is ₩ 5,283 million (2020: ₩ 4,700 million). Among this total amount, ₩ 2,325 million (2020: ₩ 1,952 million) is included in cost of sales, and ₩ 2,958 million (2020: ₩ 2,748 million) is included in selling and administrative expenses.

**23.3 Other Long-term and Short-term Employee Benefits**

The short-term employee benefits are expected to be settled within 12 months after the end of the reporting period in which the employees render the related services, and includes wages, annual/monthly paid leaves, four major insurances, prize money and others. Other long-term employee benefits include amounts recognized in relation to souvenirs given for long-term services.

*(in millions of Korean won)*

	<b>2021</b>		<b>2020</b>	
Short-term employee benefits	₩	32,388	₩	31,005
Other long-term employee benefits		11,160		11,128
	₩	<u>43,548</u>	₩	<u>42,133</u>

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**24. Income Tax Expenses and Deferred Income Tax**

Income tax expense for the years ended December 31, 2021 and 2020, consist of:

<i>(in millions of Korean won)</i>	<b>2021</b>		<b>2020</b>	
Current tax:				
Current tax on profits for the year	₩	25,637	₩	23,770
Adjustments in respect of prior periods		(338)		(280)
Total current tax		<u>25,299</u>		<u>23,490</u>
Deferred tax:				
Origination and reversal of temporary differences		(6,912)		(10,426)
Others		(618)		1,157
Total deferred tax		<u>(7,530)</u>		<u>(9,269)</u>
Income tax expense	₩	<u>17,769</u>	₩	<u>14,221</u>

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>	<b>2021</b>		<b>2020</b>	
Profit before tax	₩	54,117	₩	55,946
Tax calculated at domestic tax rates applicable to profits in the respective countries		15,449		13,442
Tax effects of:				
Income not subject to tax		(400)		(429)
Expenses not deductible for tax purposes		2,687		983
Tax credit		(4,343)		(1,953)
Changes in temporary differences not recognized		7,685		5,260
Changes in realizability of temporary differences		(4,630)		(2,505)
Income tax refunds		(512)		(280)
Tax effects on profit or loss of subsidiaries for the year		1,350		2,232
Others		483		(2,529)
Income tax expense	₩	<u>17,769</u>	₩	<u>14,221</u>

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The income tax credited (charged) directly to equity for the years ended December 31, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>	2021			2020		
	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)
Cash flow hedge	2,629	(681)	1,948	(379)	196	(183)
Remeasurements of net defined benefit obligations	(544)	129	(415)	1,229	(304)	925
Exchange differences on translating foreign operations	20,985	(808)	20,177	-	-	-
	<u>₩ 23,070</u>	<u>₩ (1,360)</u>	<u>₩ 21,710</u>	<u>₩ 849</u>	<u>₩ (108)</u>	<u>₩ 741</u>

The analysis of deferred tax assets and liabilities as at December 31, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>	2021	2020
<b>Deferred tax assets</b>		
Deferred tax asset to be recovered after more than 12 months	₩ 46,057	₩ 42,793
Deferred tax asset to be recovered within 12 months	19,502	20,442
<b>Deferred tax liabilities</b>		
Deferred tax liability to be recovered after more than 12 months	(213,358)	(211,358)
Deferred tax liability to be recovered within 12 months	(39)	(3,606)
Deferred tax liabilities, net	<u>₩ (147,838)</u>	<u>₩ (151,729)</u>

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

<i>(in millions of Korean won)</i>	2021						
	January 1, 2021	Statement of profit or loss	Other comprehensive income	Retained earnings	Others	Currency translation differences	December 31, 2021
<b>Deferred tax liabilities</b>							
Revaluation of land	₩ (82,707)	₩ 438	₩ -	₩ -	₩ -	₩ -	₩ (82,269)
Advanced	(17,381)	158	-	-	-	-	(17,223)

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depreciation provision										
Depreciation	(21,046)	3,518	-	-	-	(450)	(17,978)			
Retirement deposits	(24,487)	103	-	(43)	-	(1)	(24,428)			
Business combination assessment	(48,031)	6,079	-	-	-	(2,341)	(44,293)			
Others	(21,312)	460	(1,218)	-	235	84	(21,751)			
	<u>₩ (214,964)</u>	<u>₩ 10,756</u>	<u>₩ (1,218)</u>	<u>₩ (43)</u>	<u>₩ 235</u>	<u>₩ (2,708)</u>	<u>₩ (207,942)</u>			

**Deferred tax assets**

Accrual for retirement and severance benefits	₩	19,421	₩	(135)	₩	-	₩	25	₩	-	₩	19	₩	19,330
Provisions for sales return		4,072		(731)		-		-		-		-		3,341
Bad debt expense at the end of prior period		5,116		207		-		-		-		17		5,340
Remeasurements of net defined benefit liabilities		5,230		-		-		147		-		-		5,377
Accrued expenses		4,686		268		-		-		-		48		5,002
Non-deductible bad debt reserves		1,812		(854)		-		-		-		-		958
Others		22,898		(2,599)		(272)		-		(235)		964		20,756
		<u>63,235</u>		<u>(3,844)</u>		<u>(272)</u>		<u>172</u>		<u>(235)</u>		<u>1,048</u>		<u>60,104</u>
	<u>₩</u>	<u>(151,729)</u>	<u>₩</u>	<u>6,912</u>	<u>₩</u>	<u>(1,490)</u>	<u>₩</u>	<u>129</u>	<u>₩</u>	<u>-</u>	<u>₩</u>	<u>(1,660)</u>	<u>₩</u>	<u>(147,838)</u>

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(in millions of  
Korean won)

	2020											
	January 1, 2020		Statement of profit or loss		Other comprehen- sive income		Retained earnings		Currency translation differences		December 31, 2020	
<b>Deferred tax liabilities</b>												
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
	₩	(222,367)	₩	(311)	₩	632	₩	(10)	₩	1,693	₩	5,399
	₩		₩		₩		₩		₩		₩	
<b>Deferred tax assets</b>												
Accrual for retirement and severance benefits	₩	19,774	₩	(321)	₩	-	₩	(6)	₩	-	₩	(26)
Provisions for sales return		4,768		(696)		-		-		-		-
Bad debt expense at the end of prior period		4,917		215		-		-		-		(16)
Remeasurements of net defined benefit liabilities		5,518		-		-		(288)		-		-
Accrued expenses		4,535		275		-		-		-		(124)
Non-deductible bad debt reserves		1,572		240		-		-		-		-
Others		14,423		11,329		(435)		-		-		(2,419)
		55,507		11,042		(435)		(294)		-		(2,585)
	₩	(166,860)	₩	10,731	₩	197	₩	(304)	₩	1,693	₩	2,814
	₩		₩		₩		₩		₩		₩	

As at December 31, 2021, the Group did not recognize deductible temporary differences ₩ 166,901 million on investments in subsidiaries and associates as deferred tax assets because it was not determined to be realizable in the foreseeable future.

As at December 31, 2021, the Group did not recognize temporary differences ₩ 150,247 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.

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The deferred tax assets include carried-forward tax losses of Lotte Confectionery RUS LLC, Lotte Kolson (Private) Limited, and Lotte India Co., Ltd., 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 2022 onwards.

**25. Provisions**

Changes in provisions for the years ended December 31, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>	<b>2021</b>		<b>2020</b>	
Beginning balance	₩	27,107	₩	30,466
Used during the year <sup>1</sup>		(20,434)		(20,175)
Additional provisions		17,504		16,883
Others		(3,229)		(67)
Ending balance <sup>2</sup>	₩	<u>20,948</u>	₩	<u>27,107</u>
Less: current		<u>(20,814)</u>		<u>(26,920)</u>
Non-current	₩	<u>134</u>	₩	<u>187</u>

<sup>1</sup> The amounts include the returned amounts incurred and payments incurred due to other tax obligations during the year ended December 31, 2021.

<sup>2</sup> Provisions on sales return have been accrued for the estimated sales returns determined based on historical experience, and liabilities related to other tax obligations were recognized.

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**26. 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)*

	<b>2021</b>		<b>2020</b>
Share premium	₩ 1,178,514	₩	1,178,514

*(c) Other components of equity*

*(in millions of Korean won)*

	<b>2021</b>		<b>2020</b>
Treasury shares	₩ (870)	₩	(870)
Others	(5,169)		(5,169)
	<u>₩ (6,039)</u>	₩	<u>(6,039)</u>

As at December 31, 2021, the Group has 4,578 non-voting shares (2020: 4,578 shares) under the Commercial Law.

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**27. Accumulated Other Comprehensive Income**

Accumulated other comprehensive income as at December 31, 2021 and 2020, consists of:

<i>(in millions of Korean won)</i>	<b>2021</b>		<b>2020</b>	
Cash flow hedge	₩	(1,233)	₩	(3,158)
Cumulative effect of foreign currency translations		<u>(34,177)</u>		<u>(54,769)</u>
	<u>₩</u>	<u>(35,410)</u>	<u>₩</u>	<u>(57,927)</u>

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

Changes in accumulated other comprehensive income for the years ended December 31, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>	<b>2021</b>			
	<b>Beginning balance</b>	<b>Increase (Decrease)</b>	<b>Reclassification to profit or loss</b>	<b>Ending balance</b>
Cash flow hedge	₩ (3,158)	₩ 1,925	₩ -	₩ (1,233)
Cumulative effect of foreign currency translations	<u>(54,769)</u>	<u>20,592</u>	<u>-</u>	<u>(34,177)</u>
	<u>₩ (57,927)</u>	<u>₩ 22,517</u>	<u>₩ -</u>	<u>₩ (35,410)</u>

<i>(in millions of Korean won)</i>	<b>2020</b>			
	<b>Beginning balance</b>	<b>Increase (Decrease)</b>	<b>Reclassification to profit or loss</b>	<b>Ending balance</b>
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	<u>796</u>	<u>(55,565)</u>	<u>-</u>	<u>(54,769)</u>
	<u>₩ (2,178)</u>	<u>₩ (55,748)</u>	<u>₩ (1)</u>	<u>₩ (57,927)</u>

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

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**28. Retained Earnings**

Details of retained earnings as at December 31, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>	<b>2021</b>		<b>2020</b>	
Legal reserves <sup>1</sup>	₩	1,604	₩	1,604
Discretionary reserves <sup>2</sup>		200		200
Retained earnings before appropriation		92,040		67,822
	₩	<u>93,844</u>	₩	<u>69,626</u>

<sup>1</sup> 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.

<sup>2</sup> 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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**29. Selling and Administrative Expenses**

Selling and administrative expenses for the years ended December 31, 2021 and 2020, are as follows:

*(in millions of Korean won)*

	<b>2021</b>		<b>2020</b>	
Salaries	₩	160,478	₩	158,835
Severance benefits		13,013		13,385
Employee fringe benefits		30,205		29,194
Travel expenses		2,777		2,672
Vehicles maintenance expenses		7,184		6,571
Insurance		2,672		2,351
Taxes and dues		6,455		6,234
Entertainment		1,054		928
Supplies expenses		5,177		4,617
Communications		2,355		2,209
Repairs and maintenance		5,643		5,698
Rental expenses		4,951		5,399
Depreciation		33,420		35,047
Amortization		12,229		12,863
Commission expenses		166,494		161,108
Advertising expenses		60,144		51,258
Sale commissions		46,325		44,983
Sales promotional expenses		20,449		20,903
Impairment loss		(2,161)		3,501
Transportation and storage expenses		35,738		27,974
Miscellaneous expenses		10,009		10,920
	₩	<u>624,611</u>	₩	<u>606,650</u>

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**30. Expenses by Nature**

Cost of sales and selling and administrative expenses that are recorded by nature for the years ended December 31, 2021 and 2020, consist of:

<i>(in millions of Korean won)</i>	<b>2021</b>		<b>2020</b>	
Changes in finished goods, merchandise and work-in-process	₩	(43,178)	₩	(39,013)
Raw materials and supplies used		760,563		712,983
Purchasing merchandise		243,416		236,987
Employee benefit expense		314,477		312,136
Advertising expense		60,144		51,258
Rental expense		6,505		7,762
Commission expenses		255,283		246,469
Depreciation		105,567		110,596
Amortization		12,693		12,919
Sales commissions		46,325		44,983
Sales promotional expense		20,449		20,903
Miscellaneous expenses		254,692		245,515
	₩	<u>2,036,936</u>	₩	<u>1,963,498</u>

**31. Other Income**

Other income for the years ended December 31, 2021 and 2020, consist of:

<i>(in millions of Korean won)</i>	<b>2021</b>		<b>2020</b>	
Gain on foreign currency transaction	₩	4,110	₩	2,235
Gain on foreign currency translation		998		1,869
Gain on disposal of right-of-use assets		32		-
Gain on disposal of property, plant and equipment		3,883		5,445
Gain on disposal of intangible assets		14		-
Gain on disposal of investment property		121		130
Reversal of loss on impairment of property, plant and equipment		284		233
Reversal of loss on investment property		70		-
Miscellaneous gains		6,111		4,499
	₩	<u>15,623</u>	₩	<u>14,411</u>

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**32. Other Expenses**

Other non-operating expenses for the years ended December 31, 2021 and 2020, consist of:

<i>(in millions of Korean won)</i>	<b>2021</b>		<b>2020</b>	
Loss on foreign currency transaction	₩	2,411	₩	3,214
Loss on foreign currency translation		1,152		3,831
Loss on impairment of property, plant and equipment		3,396		-
Loss on disposal of property, plant and equipment		2,287		1,861
Loss on disposal of intangible assets		76		78
Loss on impairment of intangible assets		27,506		20,717
Donations		7,075		6,189
Other Impairment loss of other receivables		18		609
Miscellaneous losses		12,041		7,472
	₩	<u>55,962</u>	₩	<u>43,971</u>

**33. Finance Income**

Finance income for the years ended December 31, 2021 and 2020, consist of:

<i>(in millions of Korean won)</i>	<b>2021</b>		<b>2020</b>	
Interest income	₩	5,972	₩	7,405
Gain on foreign currency transaction		-		867
Gain on foreign currency translation		2,811		13,032
Gain on valuation of derivatives for hedging purpose		8,500		-
Gain on transactions of derivatives for hedging purpose		1,470		-
	₩	<u>18,753</u>	₩	<u>21,304</u>

**34. Finance Costs**

Finance costs for the years ended December 31, 2021 and 2020, consist of:

<i>(in millions of Korean won)</i>	<b>2021</b>		<b>2020</b>	
Interest expenses	₩	20,023	₩	25,279
Loss on foreign currency transaction		2,040		1,871
Loss on foreign currency translation		10,530		9,991
Loss on valuation of derivatives for hedging purpose		-		11,203
Loss on transactions of derivatives for hedging purpose		13		-
	₩	<u>32,606</u>	₩	<u>48,344</u>

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**35. Earnings per Share**

*(a) Basic earnings per share*

Basic earnings per ordinary share for the years ended December 31, 2021 and 2020, are as follows:

	2021	2020
Profit attributable to ordinary shares (in Korean won)	₩ 34,894,318,170	₩ 40,985,719,946
Weighted average number of ordinary shares outstanding (unit: shares) <sup>1</sup>	<u>6,412,139</u>	<u>6,412,139</u>
Basic earnings per ordinary share (in Korean won)	<u>₩ 5,442</u>	<u>₩ 6,392</u>

<sup>1</sup> Weighted average numbers of shares outstanding are calculated as follows:

*(unit: shares)*

	2021		
	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:  $2,340,430,735 \div 365 \text{ days} = 6,412,139 \text{ shares}$

*(unit: shares)*

	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:  $2,346,842,874 \div 366 \text{ days} = 6,412,139 \text{ shares}$

*(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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**36. Dividends**

A dividend in respect of the year ended December 31, 2020, amounts to ₩ 10,983 million (2020: ₩ 9,667 million). ₩ 10,983 million of the dividend was paid in 2021, and there are no dividend payables as at December 31, 2021.

Details of dividends are as follows:

<i>(in millions of Korean won)</i>	<b>2021</b>		<b>2020</b>	
Lotte Confectionery Co., Ltd.	₩	10,259	₩	8,336
LOTTE Rakhat JSC		696		314
Confectionery Holdings B.V.		28		1,017
	<u>₩</u>	<u>10,983</u>	<u>₩</u>	<u>9,667</u>

A dividend in respect of the year ended December 31, 2021, 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, 2022. These financial statements do not reflect this dividend payable.

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**37. Contingencies and Commitments**

As at December 31, 2021, the Group is a plaintiff in 51 lawsuits amounting to ₩ 3,179 million (2020: 63 lawsuits and ₩ 3,503 million) and a defendant in 21 lawsuits amounting to ₩ 99,565 million (2020: 24 lawsuits and ₩ 79,844 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. In addition, the Group is under investigation by the Fair Trade Commission as at December 31, 2021, and the results of the investigation was finalized after the reporting period. The investigation does not have an impact on the financial statements.

Details of agreements with financial institutions as at December 31, 2021 and 2020, are as follows:

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

	<b>Financial institution</b>		<b>2021</b>		<b>2020</b>
Overdrafts	Shinhan Bank and others	₩	48,414	₩	40,261
General borrowings	Woori Bank and others	₩	16,000	₩	16,000
Facility loan	Woori Bank	₩	3,584	₩	-
Secured loan of credit sales and others	IBK Bank and others	₩	40,000	₩	40,000
L/C	Woori Bank and others	USD	17,233	USD	17,956
Performance guarantees and others	Seoul Guarantee Insurance Company and others	₩	3,417	₩	6,729

As at December 31, 2021, 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:

<b>Provided by</b>	<b>Related products</b>	<b>Royalty</b>	<b>Expiry date</b>
PEPSICO	Snack (Cheetos) production technology	Max [3.00% of Net sales, 2.00% of Gross sales]	December, 2022
	Snack (Doritos) production technology	Max [3.00% of Net sales, 2.18% of Gross sales]	December, 2022
	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 ₩ 126 million was recognized for the year ended December 31, 2021 (2020: ₩ 190 million).

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*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.

*Assets provided as collateral*

Assets provided as collateral as at December 31, 2021, are as follows:

*(in millions of Korean won)*

Secured assets	Secured party	Carrying amount	Secured amount
Land		₩ 30	₩ 33,250
Buildings	Habib Bank Limited	13,234	
Machinery		27,462	
Land, buildings	HDFC Bank	2,108	7,965
Machinery		14,086	
Land	KEB Hana Bank, Amsterdam	1,552	5,928
Buildings	Branch	9,369	
Structures		1,939	
Buildings	Korea Development Bank,	6,435	3,725
Land usage rights	Qingdao Branch	893	
		₩ 77,108	₩ 50,868

*Brand usage contract, etc.*

As at December 31, 2021, 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, 2021, 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 hence the Group has entered into shareholders' agreement with MYANMAR MAYSON

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INDUSTRIES CO., LTD (hereafter MMI) which holds the remaining interests. Under this agreement, the Group and MMI 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 greater 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 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>		<b>2021</b>		<b>2020</b>	
Property, plant and equipment	₩	6,390	₩	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 tCO<sub>2</sub>-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 tCO<sub>2</sub>-eq)</i>	Plan period	The second plan period			Remarks
		2018	2019	2020	
Emission permits (Allocation with nil consideration)		125,718	120,062	120,061	1

<sup>1</sup> The emission permits carried over for the first plan period were 17,218tCO<sub>2</sub>-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 has been confirmed to be 122,725tCO<sub>2</sub> on May 31, 2021.

*(in tCO<sub>2</sub>-eq)*

Plan period	The second plan period			Remarks
	2018	2019	2020	
Certified emission amount	127,234	122,874	122,725	<sup>1</sup>

<sup>1</sup> 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 tCO<sub>2</sub>-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	<sup>1</sup>

<sup>1</sup> As at December 31, 2021, the amount of emission rights held by the Group is 121,059tCO<sub>2</sub>-eq, and no emission rights have been provided as collateral.

*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, 2021, and therefore, the emission liability was measured as zero.

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*Payment guarantees within the Group*

Details of payment guarantees provided by the Group for the financial supports to the related parties as at December 31, 2021, are as follows,

<i>(in thousands of USD)</i>		<b>Guaranteed by</b>	<b>Guaranteed amount</b>		<b>Guarantee period</b>	<b>Remark</b>
Subsidiaries	Lotte Confectionery RUS LLC	Woori Bank, Bahrain Branch	USD	16,800	October 15, 2020 ~ October 13, 2022	Borrowings
		KEB Hana Bank, Amsterdam Branch <sup>1</sup>		14,000	April 30, 2021 ~ April 22, 2023	Borrowings
		Citi Bank, Moscow Branch <sup>2</sup>		5,000	April 19, 2021 ~ April 19, 2023	Borrowings
		KEB Hana Bank, Bahrain Branch <sup>3</sup>		5,000	April 22, 2021 ~ April 22, 2023	Borrowings
	Lotte India Co., Ltd	Woori Bank, London Branch	USD	24,600	February 26, 2020 ~ January 22, 2025	Borrowings

<sup>1</sup> The guarantee period has been extended from the previous period (May 3, 2019 ~ April 30, 2021).

<sup>2</sup> The guarantee period has been extended from the previous period (April 29, 2019 ~ April 28, 2021).

<sup>3</sup> The guarantee period has been extended from the previous period (April 25, 2019 ~ April 22, 2021).

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**38. Related Party Transactions**

The Parent Company and its respective percentage of ownership as at December 31, 2021 and 2020, are as follows:

	Percentage of ownership (%)		Remark
	2021	2020	
Lotte Corporation Co., Ltd	48.42	48.42	-

Details of associate of the Group as at December 31, 2021 and 2020, are as follows:

	Percentage of ownership (%)		Remark
	2021	2020	
Lotte Agri-food Tech Fund No.1	21.71	21.71	1

<sup>1</sup> 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, for which Lotte Accelerator Corporation 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 other related parties that have sales and other transactions with the Group or have outstanding balances as at December 31, 2021 and 2020, are as follows:

	2021	2020	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	

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

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<sup>2</sup> 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, 2021 and 2020, are as follows:

Name of entity	2021					
	Sales	Purchase	Acquisition of right-of-use assets	Acquisition of property, plant and equipment	Other income	Other expenses <sup>1</sup>
<b>Parent Company</b>						
Lotte Corporation Co.,Ltd	₩ 2,257	₩ -	₩ 1,386	₩ -	₩ 1,259	₩ 5,179
<b>Other related parties</b>						
Lotte GRS Co., Ltd	9,378	-	-	-	1,956	18
Lotte Foods Co., Ltd.	4,768	52,020	-	-	6,858	3,315
Korea Seven Co., Ltd.	71,023	-	-	-	11	13,934
Daehong Communications Inc.	376	-	-	-	149	6,007
Lotte Global Logistics Co., Ltd.	14,801	46	-	10	2	87,143
Lotte Shopping Co., Ltd	60,199	-	-	-	1,642	2,380
Lotte Data Communication Company and others	17,798	685	-	5,324	6,087	15,930
<b>Others</b>						
Lotte Aluminum Co., Ltd.	365	40,287	-	2,222	37	472
Lotte Capital Co., Ltd.	293	-	418	234	-	2,065
Lotte Auto Lease Co.,Ltd. and others	10,340	-	1,646	5	992	10,352
	<u>₩ 191,598</u>	<u>₩ 93,038</u>	<u>₩ 3,450</u>	<u>₩ 7,795</u>	<u>₩ 18,993</u>	<u>₩ 146,795</u>

<sup>1</sup> 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, 2021, is included in other expenses.

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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 <sup>1</sup>	
<b>Parent Company</b>								
Lotte Corporation Co.,Ltd	₩ 2,344	₩ 5	₩ 1,730	₩ -	₩ -	₩ 1,215	₩ 4,726	
<b>Other related parties</b>								
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	
<b>Others</b>								
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	

<sup>1</sup> 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 included in other expenses.

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
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Fund transactions with related parties for the years ended December 31, 2021 and 2020, are as follows:

(in millions of Korean won)

Name of entity	2021	
	Dividend	Repayment of lease liabilities
<b>Parent Company</b>		
Lotte Corporation Co., Ltd	₩ 4,971	₩ 363
<b>Other related parties</b>		
Lotte Global Logistics Co.,Ltd.	-	827
Lotte Data Communication Company and others	-	107
<b>Others</b>		
Lotte Aluminum Co., Ltd.	1,029	-
Lotte Capital Co., Ltd.	-	1,048
Lotte Auto Lease Co.,Ltd. and others	1,954	4,192
	<u>₩ 7,954</u>	<u>₩ 6,537</u>

(in millions of Korean won)

Name of entity	2020		
	Dividend	Repayment of lease liabilities	Cash contributions <sup>1</sup>
<b>Parent Company</b>			
Lotte Corporation Co., Ltd	₩ 4,039	₩ 361	₩ -
<b>Associate</b>			
Lotte Agri-food Tech Fund No.1	-	-	1,320
<b>Other related parties</b>			
Lotte Global Logistics Co.,Ltd.	-	1,549	-
Lotte Data Communication Company and others	-	107	-
<b>Others</b>			
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>

<sup>1</sup> 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, for which Lotte Accelerator Corporation is acting as general partner (GP) of the fund. The Group has entered into an agreement for additional investment of ₩ 1,980 million.

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
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Outstanding balances arising from sales/purchases of goods and services as at December 31, 2021 and 2020, are as follows:

(in millions of Korean won)

Name of entity	2021				
	Receivables		Payables		
	Trade receivables	Other receivables	Trade payables	Other payables	Lease liabilities
<b>Parent Company</b>					
Lotte Corporation Co.,Ltd	₩ 465	₩ 1,039	₩ -	₩ 615	₩ 1,098
<b>Other related parties</b>					
Lotte GRS Co., Ltd	1,628	195	-	50	-
Lotte Foods Co., Ltd.	175	627	14,107	6,923	-
Korea Seven Co., Ltd.	3,598	2	-	-	-
Daehong Communications Inc.	41	23	-	5,627	-
Lotte Global Logistics Co.,Ltd.	70	1	917	5,722	2,044
Lotte Shopping Co., Ltd	5,293	134	-	487	-
Lotte Data Communication Company and others	2,774	620	32	5,304	-
<b>Others</b>					
Lotte Aluminum Co., Ltd.	28	2	13,096	548	-
Lotte Capital Co., Ltd.	-	-	-	99	1,710
Lotte Auto Lease Co.,Ltd. and others	1,601	4,640	199	1,073	7,162
	₩ 15,673	₩ 7,283	₩ 28,351	₩ 26,448	₩ 12,014

(in millions of Korean won)

Name of entity	2020				
	Receivables		Payables		
	Trade receivables	Other receivables	Trade payables	Other payables	Lease liabilities
<b>Parent Company</b>					
Lotte Corporation Co.,Ltd	₩ 167	₩ 1,089	₩ -	₩ 1,088	₩ 1,452
<b>Other related parties</b>					
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

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
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**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>

As at December 31, 2021, 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, 2021, 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.

The compensation paid or payable to key management for employee services for the years ended December 31, 2021 and 2020, consist of:

*(in millions of Korean won)*

	<b>2021</b>		<b>2020</b>	
Short-term employee benefits	₩	15,323	₩	15,960
Post-employment benefits		2,188		1,783
	<u>₩</u>	<u>17,511</u>	<u>₩</u>	<u>17,743</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.

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
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**39. Cash Flow Information**

*(a) Significant non-cash transactions*

*(in millions of Korean won)*

	2021		2020	
Reclassification of construction-in-progress to property, plant and equipment	₩	22,531	₩	25,251
Changes in other payables to acquire property, plant and equipment		9,305		524
Changes in prepaid to acquire intangible assets		150		135
Changes in non-trade receivables to dispose property, plant and equipment		(850)		36
Acquisition of right-of-use assets		7,599		21,304

*(b) Changes in liabilities arising from financing activities*

*(in millions of Korean won)*

	2021				
	At January 1	Cash flow	Non-cash transactions		At December 31
Reclassifica- tion			Others		
<b>Liabilities arising from financing activities</b>					
Short-term borrowings	₩ 69,973	₩ (67,381)	₩ 107,606	₩ 4,784	₩ 114,982
Long-term borrowings	187,791	54,094	(107,606)	2,346	136,625
Current portion of debentures <sup>1</sup>	163,200	(163,200)	249,956	-	249,956
Debentures <sup>1</sup>	449,491	109,829	(249,956)	8,829	318,193
Lease liabilities	37,562	(12,599)	-	1,762	26,725
Deposits received	18,928	104	-	2,467	21,499
	<u>₩ 926,945</u>	<u>₩ (79,153)</u>	<u>₩ -</u>	<u>₩ 20,188</u>	<u>₩ 867,980</u>

<sup>1</sup> Financial cash inflows from derivatives for hedging foreign currency debentures according to the redemption of foreign currency debentures amounted to ₩ 2,775 million for the year ended December 31, 2021.

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
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(in millions of Korean won)

	2020				
	At January 1	Cash flow	Non-cash transactions		At December 31
			Reclassifica- tion	Others	
<b>Liabilities arising from financing activities</b>					
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>

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
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**40. Non-controlling Interests**

Details of information of subsidiaries related to significant non-controlling interests of the Group as at December 31, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>	<b>Lotte Confectionery Holdings (Europe) B.V.<sup>1</sup></b>	
	<b>2021</b>	<b>2020</b>
Ownership of non-controlling interests	49%	49%
Current assets	₩ 96,783	₩ 84,039
Non-current assets	100,849	104,507
Current liabilities	17,293	13,089
Non-current liabilities	5,209	5,161
Net assets	175,130	170,296
Amount of non-controlling interests	85,814	83,445
Dividends paid to non-controlling interests	27	1,017
Revenue	99,291	89,608
Profit for the year	4,243	1,304
Total comprehensive income	4,889	1,163
Profit for the year attributable to non-controlling interests	2,079	639
Comprehensive income attributable to non-controlling interests	2,396	570
Cash flows from operating activities	9,256	8,922
Cash flows from investing activities	(1,217)	(1,581)
Cash flows from financing activities	(573)	(2,193)
Effect of exchange rate changes on cash and cash equivalents	1,255	1,941
Net increase in cash and cash equivalents	8,721	7,089

<sup>1</sup> All amounts presented are the amounts on consolidated financial statements.

<sup>2</sup> The above financial information of the subsidiaries is unadjusted amount for investment differences occurred from business combination and intercompany transactions.

*Shareholders' agreement*

The Group acquired L&M Mayson Company Limited, a subsidiary of which the Group holds 80% of its ownership, and hence the Group has entered into shareholders' agreement with MYANMAR MAYSON INDUSTRIES CO., LTD (hereafter MMI) which holds the remaining interests. (Note 37)

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:

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
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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"> <li>- Transactions, contracts and processing and settling of lawsuits that entails more than 50% of total assets</li> <li>- Transfer, sale, disposal, and lease of assets whose total amount is more than 50% of total assets</li> <li>- Establishment or liquidation of subsidiaries or joint ventures that have no relation with the existing business, or merging with other entities</li> <li>- Borrowing, loans and pledged assets with no relation with the existing business</li> <li>- Liquidation or dissolution</li> </ul> <p>2. The following items require consent from all shareholders, including the non-controlling interest</p> <ul style="list-style-type: none"> <li>- Merging, acquisition, restructuring, liquidation and dissolution</li> <li>- Issuance of preferred shares, conversion between common and preferred shares</li> </ul>

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

## **Notes to the Consolidated Financial Statements**

### **December 31, 2021 and 2020**

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#### **41. Events After the Reporting Period**

On January 10, 2022, Management Committee decided to invest ₩ 9 billion (69.8%) in Korea Investment Noble Food New Technology Business Investment Association No.1. The investment was completed on February 10, 2022.

During February 2022, a war between Russia and Ukraine broke out. It may have a negative impact : such as decrease in productivity, decrease or delay in sales, collection of existing receivables and others for Lotte Confectionery RUS LLC which is engaged in manufacturing and selling foods in Russia. However, the ultimate effect of the negative impacts on the Group's financial position cannot presently be determined, therefore, it is not reflected in the consolidated financial statements.

The Ruble and Tenge values have declined since the reporting period due to the outbreak of war between Russia and Ukraine, which may result in loss on translation of the Group's net assets denominated in Ruble and Tenge. However, the ultimate effect of the negative impacts on the Group's financial position cannot presently be determined, therefore, it is not reflected in the consolidated financial statements.