

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

**Consolidated Financial Statements  
December 31, 2022 and 2021**

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
**Index**  
**December 31, 2022 and 2021**

---

	<b>Page(s)</b>
<b>Independent Auditor's Report</b> .....	1 ~ 5
<b>Consolidated Financial Statements</b>	
Consolidated Statements of Financial Position.....	6
Consolidated Statements of Comprehensive Income .....	7
Consolidated Statements of Changes in Equity.....	8
Consolidated Statements of Cash Flows .....	9
Notes to the Consolidated Financial Statements .....	10 ~ 116



## 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, 2022 and 2021, 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, 2022 and 2021, 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

#### *Uncertainty relating to the impact of Coronavirus disease 2019*

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.

#### *Merger with Lotte Foods Co., Ltd.*

As discussed in Note 41 to the consolidated financial statements, the Group merged with Lotte Foods Co., Ltd. on July 1, 2022.

## **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.

### **Accounting of the merger with Lotte Foods Co., Ltd.**

#### *Key Audit Matter*

As discussed in Note 41 to the consolidated financial statements, the Group merged with Lotte Foods Co., Ltd. on July 1, 2022. Due to the merger, total assets and total liabilities increased by ₩ 1,378,567 million and ₩ 601,608 million, respectively, and the difference between the consideration and the book amount of acquired net assets amounts to ₩ 466,401 million, which was recognized as other capital adjustments.

We determined this area as a key audit matter considering that the proportion of the amount of assets and liabilities acquired through the merger in the financial statements is material, and that there may be material differences in the impact on the consolidated financial statements depending on the accounting policy applied when accounting for business combinations under common control.

#### *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 business combination under common control.
- We reviewed the appropriateness of the accounting policy for business combination under common control.
- We reviewed the appropriateness of supporting data for accounting treatment.
- We reviewed the accuracy of the calculation of accounting for business combination under common control.

### **The Group's Cash Generating Units Impairment assessment including Goodwill of Lotte Confectionery RUS LLC**

#### *Key Audit Matter*

As described in Note 3, due to the influence of the dispute between Russia and Ukraine during 2022, there is a relatively high degree of uncertainty for estimation of cash flows arising from Lotte Confectionery RUS LLC which located in the country.

The assessment of the recoverable amount at impairment test involves the Group management's significant judgments and estimates about the discount rates, growth rate, future cash flow forecast and so on, and the impact of management's judgment and estimates on consolidated financial statements is significant. Therefore, we determined the accounting for impairment on cash generating units and goodwill of Lotte Confectionery RUS LLC 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 obtained an understanding on 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 a lookback analysis by comparing the estimation of prior year to actual results to determine whether any 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 external expert.
- We assessed the accuracy of the calculation of goodwill impairment losses.
- We assessed the results of a sensitivity analysis on the discount rate and perpetual growth rate performed by management to assess the impact of changes in key assumptions on the impairment test.

### **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 Young-Gyu Park, Certified Public Accountant.

Seoul, Korea

March 15, 2023

This report is effective as of March 15, 2023, 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, 2022 and 2021**

<i>(in millions of Korean won)</i>	Notes	2022	2021
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	4,5,7,8	₩ 318,392	₩ 295,004
Trade and other receivables	4,7,10	366,576	184,437
Other current financial assets	4,7,11	93,774	47,846
Current tax assets		6,988	8,298
Inventories	12	623,443	247,178
Other current assets	11	39,795	30,013
Assets of disposal group held for sale	15	-	15,158
		<u>1,448,968</u>	<u>827,934</u>
<b>Non-current assets</b>			
Investments in associates	14	10,362	1,155
Investments in joint ventures	14	35,465	-
Other non-current financial assets	4,7,11	91,519	20,200
Property, plant and equipment	16	1,853,358	1,293,691
Right-of-use assets	17	57,137	37,930
Intangible assets	18	312,471	316,904
Investment property	20	237,202	152,996
Deferred tax assets	24	16,831	15,406
Net defined benefit assets	23	41,654	-
Other non-current assets	11	292	432
		<u>2,656,291</u>	<u>1,838,714</u>
<b>Total assets</b>		<u>₩ 4,105,259</u>	<u>₩ 2,666,648</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	4,7,21	₩ 302,478	₩ 186,132
Borrowings	4,7,22	203,555	114,982
Debentures	4,7,22	209,965	249,957
Lease liabilities	17	15,159	9,425
Other current financial liabilities	4,7,11	105,805	69,094
Current tax liabilities		7,082	8,396
Deferred revenue		1,365	1,823
Provisions	25	19,596	20,814
Other current liabilities	11	56,100	22,625
Liabilities of disposal group held for sale	15	-	2,396
		<u>921,105</u>	<u>685,644</u>
<b>Non-current liabilities</b>			
Borrowings	4,7,22	197,916	136,625
Debentures	4,7,22	635,888	318,193
Lease liabilities	17	23,914	17,300
Other non-current financial liabilities	4,7,11	11,535	1,064
Net defined benefit liabilities	23	1,389	4,516
Provisions	25	509	134
Deferred tax liabilities	24	182,374	163,243
Deferred revenue		1,872	1,799
Other non-current liabilities	11	17,125	11,160
		<u>1,072,522</u>	<u>654,034</u>
<b>Total liabilities</b>		<u>1,993,627</u>	<u>1,339,678</u>
<b>Equity</b>			
Share capital	26	4,717	3,208
Capital surplus	26	1,130,430	1,178,514
Other components of equity	26	437,861	(6,039)
Accumulated other comprehensive income	27	(47,864)	(35,410)
Retained earnings	28	498,702	93,844
<b>Equity attributable to owners of the Parent Company</b>		<u>2,023,846</u>	<u>1,234,117</u>
<b>Non-controlling interest</b>		<u>87,785</u>	<u>92,855</u>
<b>Total equity</b>		<u>2,111,631</u>	<u>1,326,972</u>
<b>Total liabilities and equity</b>		<u>₩ 4,105,258</u>	<u>₩ 2,666,650</u>

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 Comprehensive Income**  
**Years Ended December 31, 2022 and 2021**

<i>(in millions of Korean won)</i>	Notes	2022		2021	
<b>Revenue</b>	6,38	₩	3,203,264	₩	2,145,407
<b>Cost of sales</b>	12,30		<u>2,291,070</u>		<u>1,412,325</u>
<b>Gross profit</b>			912,195		733,082
Selling and administrative expenses	29,30		799,810		624,611
Reversal of impairment loss of trade receivables	10		<u>(2,397)</u>		<u>(2,161)</u>
<b>Operating profit</b>			112,385		108,471
Other income	31,38		19,918		15,623
Other expenses	32,38		53,590		55,962
Impairment loss of trade receivables			-		18
Finance income	33		22,474		18,753
Interest income			8,737		5,972
Finance costs	34		48,125		32,606
Share of loss	14		<u>(1,554)</u>		<u>(162)</u>
Profit before income tax			51,508		54,117
Income tax expense	24		7,627		17,769
<b>Profit for the year</b>	35	₩	<u>43,881</u>	₩	<u>36,348</u>
<b>Attributable to:</b>					
Owners of the Parent Company		₩	47,035	₩	34,894
Non-controlling interests			(3,155)		1,454
<b>Other comprehensive income (loss)</b>					
<i>Items that will not be reclassified to profit or loss</i>					
Loss on valuation of financial assets at fair value through other comprehensive income	27		(262)		-
Remeasurements of net defined benefit liability	23		12,121		(544)
Share of other comprehensive income of associates	27		624		-
Income tax effect			(2,997)		129
<i>Items that may be subsequently reclassified to profit or loss</i>					
Share of other comprehensive income of associates	27		(79)		-
Cash flow hedges	27		3,683		2,629
Exchange differences on translating foreign operations	27		(15,124)		20,985
Income tax effect			<u>(525)</u>		<u>(1,490)</u>
<b>Other comprehensive income (loss) for the year, net of tax</b>			<u>(2,559)</u>		<u>21,709</u>
<b>Total comprehensive income for the year</b>		₩	<u>41,322</u>	₩	<u>58,057</u>
<b>Attributable to:</b>					
Owners of the Parent Company		₩	45,531	₩	56,993
Non-controlling interests			(4,211)		1,066
<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	₩	6,160	₩	5,442

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 Changes in Equity**  
**Years Ended December 31, 2022 and 2021**

(in millions of Korean won)

	Attributable to owners of the Parent Company								Non-controlling interest	Total equity
	Notes	Share capital	Capital surplus	Other components of equity	Accumulated other comprehensive income	Retained earnings	Total			
<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	27	-	-	-	1,925	-	1,925	23	1,948	
Exchange differences on translating foreign operations	27	-	-	-	20,591	-	20,591	(414)	20,177	
Total other comprehensive income		-	-	-	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	
<b>Balance at January 1, 2022</b>		₩ 3,208	₩ 1,178,514	₩ (6,039)	₩ (35,410)	₩ 93,844	₩ 1,234,117	₩ 92,855	₩ 1,326,972	
<b>Total comprehensive income</b>										
Profit for the year		-	-	-	-	47,035	47,035	(3,155)	43,880	
Remeasurements of net defined benefit liability		-	-	-	-	8,769	8,769	295	9,064	
Loss on valuation of financial instruments at fair value through other comprehensive income	27	-	-	-	(202)	-	(202)	-	(202)	
Cash flow hedges	27	-	-	-	2,825	-	2,825	-	2,825	
Exchange differences on translating foreign operations	27	-	-	-	(13,440)	-	(13,440)	(1,351)	(14,791)	
Share of other comprehensive income of associates	27	-	-	-	(79)	-	(79)	-	(79)	
Actuarial gain of associates		-	-	-	-	624	624	-	624	
Total other comprehensive income		-	-	-	(10,896)	56,428	45,532	(4,211)	41,321	
<b>Transactions with owners</b>										
Dividends	36	-	-	-	-	(10,259)	(10,259)	(956)	(11,215)	
Transactions with non-controlling interest		-	-	(97)	-	-	(97)	97	-	
Acquisition of treasury shares	26	-	-	(22,427)	-	-	(22,427)	-	(22,427)	
Transfer from capital surplus		-	(358,691)	-	-	358,691	-	-	-	
Changes due to merger		1,509	310,607	466,424	(1,558)	-	776,981	-	776,981	
<b>Total transactions with owners</b>		1,509	(48,084)	443,900	(1,558)	348,432	744,198	(859)	743,339	
<b>Balance at December 31, 2022</b>		₩ 4,717	₩ 1,130,430	₩ 437,861	₩ (47,864)	₩ 498,704	₩ 2,023,847	₩ 87,785	₩ 2,111,632	

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, 2022 and 2021**

<i>(in millions of Korean won)</i>	Notes	2022	2021
<b>Cash flows from operating activities</b>	39		
Profit for the year		₩ 43,880	₩ 36,349
Adjustments	39	228,464	197,762
Changes in operating assets and liabilities	39	(143,902)	7,670
Income taxes paid		(34,706)	(29,034)
<b>Net cash inflow from operating activities</b>		<u>93,736</u>	<u>212,747</u>
<b>Cash flows from investing activities</b>			
Decrease in other current financial assets		20,013	129,998
Decrease in other non-current financial assets		5,538	3,121
Proceeds from disposal of property, plant and equipment	16	2,356	10,083
Proceeds from disposal of intangible assets	18	-	15
Proceeds from disposal of investment property	20	4,800	125
Interest received		7,591	4,977
Cash inflow due to other investing activities		1,527	829
Disposal of disposal group held for sale		12,657	-
Changes due to business combination		68,049	-
Increase in other current financial assets		(53,620)	(129,985)
Increase in other non-current financial assets		(5,695)	(2,113)
Acquisition of property, plant and equipment	16	(127,065)	(142,942)
Acquisition of intangible assets	18	(1,393)	(400)
Cash outflow due to other investing activities	39	(5,947)	-
Acquisition of financial assets at fair value through other comprehensive income		(1,696)	-
Acquisition of investments in associates		(990)	-
Acquisition of financial assets at fair value through profit or loss		(30,882)	-
<b>Net cash outflow from investing activities</b>		<u>(104,757)</u>	<u>(126,292)</u>
<b>Cash flows from financing activities</b>			
Proceeds from short-term borrowings	22	104,647	8,009
Proceeds from long-term borrowings	22	143,165	54,094
Proceeds from issuance of debentures	22	199,531	109,829
Decrease in current derivative assets		-	2,775
Increase in deposits received		5,994	1,806
Capital increase of subsidiaries		7,012	-
Repayments of short-term borrowings	22	(2,222)	(5,214)
Repayments of current portion of long-term borrowings	22	(94,222)	(70,176)
Repayments of current portion of debentures	22	(250,000)	(163,200)
Lease payments paid	17	(15,820)	(12,599)
Interest paid		(25,956)	(19,784)
Dividends paid	36	(11,027)	(10,983)
Acquisition of treasury shares	26	(22,427)	-
Decrease in deposits received		(6,049)	(1,702)
<b>Net cash inflow (outflow) from financing activities</b>		<u>32,626</u>	<u>(107,145)</u>
<b>Net increase (decrease) in cash and cash equivalents</b>		21,605	(20,687)
Cash and cash equivalents at the beginning of the year		295,004	312,095
Effects of exchange rate changes on cash and cash equivalents		1,783	3,598
<b>Cash and cash equivalents at the end of the year</b>	8	<u>₩ 318,392</u>	<u>₩ 295,006</u>

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

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2022 and 2021**

---

**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 listed its shares on the Korean Exchange on October 30, 2017. 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 merged with Lotte Food Co., Ltd. on July 1, 2022 and accordingly, business of manufacturing and selling edible fats and oils, meat processing, HMR and others were added at Cheonan, Gimcheon factories and others.

As at December 31, 2022, the Parent Company’s share capital amounted to ₩ 4,717 million. The Shareholders of the Parent Company and their ownership are as follows:

	Number of shares	Percentage of ownership (%)
Lotte Corporation Co., Ltd.	4,478,208	47.47
Lotte Aluminum Co., Ltd.	643,381	6.82
The Lotte Scholarship Foundation	496,144	5.26
Lotte Holdings Co., Ltd.	416,338	4.41
Shin Young Ja	236,742	2.51
Shin Dong Bin	182,117	1.93
L2 Invest Co., Ltd.	137,722	1.46
Treasury shares	593,307	6.29
Others	2,250,615	23.85
	9,434,574	100.00

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2022 and 2021**

---

**1.2 Consolidated Subsidiaries**

The Parent Company's consolidated subsidiaries as at December 31, 2022 and 2021, are as follows:

Subsidiaries	Location	Percentage of ownership (%)		Closing month
		2022	2021	
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 RUS LLC	Russia	100.00	100.00	December
Lotte Kolson(Private)Limited	Pakistan	96.50	96.50	December
LOTTE Rakhat JSC <sup>1</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 Iberia, LDA <sup>2, 4</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>5</sup>	Myanmar	80.00	80.00	March
L&M Confectionery Pte.,Ltd.	Singapore	100.00	100.00	March
Lotte India Co., Ltd. <sup>6</sup>	India	98.90	98.57	March
Korea Investment Noble	South Korea	69.77	-	December

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2022 and 2021**

Subsidiaries	Location	Percentage of ownership (%)		Closing month
		2022	2021	
Food New Technology Business Investment Association No.1 <sup>7</sup>				
Foodwith Co., Ltd. <sup>8</sup>	South Korea	100.00	-	December
LOTTE FRESH DELICA 1 Co., Ltd. <sup>8</sup>	South Korea	100.00	-	December
LOTTE FRESH DELICA 2 Co., Ltd. <sup>8</sup>	South Korea	100.00	-	December
LOTTE FRESH DELICA 3 Co., Ltd. <sup>8</sup>	South Korea	100.00	-	December
LOTTE FRESH DELICA 4 Co., Ltd. <sup>8</sup>	South Korea	100.00	-	December
Korea Investment Green Tech New Technology Association <sup>9</sup>	South Korea	84.82	-	December

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

<sup>5</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>6</sup> The percentage of ownership increased due to capital increase of Lotte India Co., Ltd. for the year ended December 31, 2022.

<sup>7</sup> The Group acquired 69.77% shares of Korea Investment Noble Food New Technology Business Investment Association No.1 for ₩ 9,000 million for the year ended December 31, 2022.

<sup>8</sup> The subsidiary, owned by the merged entity, was added as the Parent Company merged with Lotte Foods Co., Ltd., for the year ended December 31, 2022.

<sup>9</sup> The Group acquired 84.82% shares of Korea Investment Green Tech New Technology Association for ₩ 17,388 million for the year ended December 31, 2022.

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2022 and 2021**

**1.3 Summarized Financial Information**

Summarized financial information for consolidated subsidiaries as at December 31, 2022 and 2021 and for the years ended December 31, 2022 and 2021, are as follows:

(in millions of Korean won)

Subsidiary	2022 <sup>1</sup>					
	Assets	Liabilities	Equity	Sales	Profit (loss) for the year	Total comprehensive income (loss)
Lotte Qingdao Foods Co., Ltd.	₩ 17,306	₩ 6,048	₩ 11,258	₩ 16,144	₩ (4,528)	₩ (4,701)
Lotte Confectionery (S.E.A) Pte., Ltd.	5,810	2,124	3,686	11,337	360	594
HAVMOR ICECREAM LIMITED	73,581	28,116	45,465	154,353	13,218	11,037
Sweet With Co., Ltd.	809	711	98	1,384	38	26
Lotte Confectionery RUS LLC	103,187	58,533	44,654	80,570	(2,069)	5,857
Lotte Kolson(Private)Limited	62,617	32,219	30,398	83,715	(1,335)	(7,062)
LOTTE Rakhat JSC and its subsidiaries	186,492	25,801	160,691	233,807	23,414	25,386
Lotte Confectionery Holdings (Europe) B.V. and its subsidiaries	190,154	17,373	172,781	90,939	(2,681)	(1,637)
L&M Mayson Company Limited	37,971	2,254	35,717	31,484	2,580	(4,862)
L&M Confectionery Pte.,Ltd	14,105	112	13,993	-	(3)	976
Lotte India Co., Ltd.	138,061	38,797	99,264	92,864	(107)	(5,983)
Korea Investment Noble Food New Technology Business Investment Association No.1 <sup>2</sup>	12,696	3,838	8,858	-	(204)	(204)
Foodwith Co., Ltd. <sup>3</sup>	1,043	671	372	652	(27)	(27)
LOTTE FRESH DELICA 1 Co., Ltd. <sup>3</sup>	7,459	7,206	253	9,314	(325)	(370)
LOTTE FRESH DELICA 2 Co., Ltd. <sup>3</sup>	16,514	15,963	551	13,978	(118)	(148)
LOTTE FRESH DELICA 3 Co., Ltd. <sup>3</sup>	6,262	5,545	716	7,190	(362)	(395)
	3,864	3,238	626	4,240	(194)	(220)

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2022 and 2021**

(in millions of Korean won)

Subsidiary	2022 <sup>1</sup>					
	Assets	Liabilities	Equity	Sales	Profit (loss) for the year	Total comprehensive income (loss)
LOTTE FRESH DELICA 4 Co., Ltd. <sup>3</sup>						
Korea Investment Green Tech New Technology Association <sup>4</sup>	20,335	3,087	17,248	-	(165)	(165)

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

<sup>2</sup> The financial liabilities amounting to ₩ 3,838 million are recognized due to contractual obligation to deliver proportionately to equity investors other than the Parent Company at the time of liquidation of Korea Investment Noble Food New Technology Business Investment Association No.1.

<sup>3</sup> The entity is newly included in the Group as the Parent Company merged with Lotte Food Co., Ltd. for the year ended December 31, 2022. The financial information of sales, profit or loss for the year and total comprehensive income or loss is for the period after the acquisition date.

<sup>4</sup> The financial liabilities amounting to ₩ 3,087 million are recognized due to contractual obligation to deliver proportionately to equity investors other than the Parent Company at the time of liquidation of Korea Investment Green Tech New Technology Association.

(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	163,195	22,182	141,013	175,362	17,954	24,090

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2022 and 2021**

<i>(in millions of Korean won)</i>	2021 <sup>1</sup>						
	Subsidiary	Assets	Liabilities	Equity	Sales	Profit (loss) for the year	Total comprehensive income (loss)
its subsidiaries							
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 occurred from business combination and intercompany transactions.

## 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

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

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

### **December 31, 2022 and 2021**

---

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.

## **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, 2022.

#### *- 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 Korean IFRS 2121 *Levies*. The amendments also clarify that contingent assets should not be recognized at the acquisition date. The amendment does not 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 amendment does not have a significant impact 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 amendment does not 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

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

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

### **December 31, 2022 and 2021**

---

beginning on or after January 1, 2022, and earlier application is permitted. The amendment does not have a significant impact on the financial statements.

- Korean IFRS 1101 *First time Adoption of Korean International Financial Reporting Standards* – Subsidiaries that are first-time adopters
- Korean IFRS 1109 *Financial Instruments* – Fees related to the 10% test for derecognition of financial liabilities
- Korean IFRS 1041 *Agriculture* – Measuring fair value

#### *(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, 2022 reporting periods and have not been early adopted by the Group.

#### *- Korean IFRS 1001 Presentation of Financial Statements - Disclosure of Accounting Policies*

The amendments to Korean IFRS 1001 define and require entities to disclose their material accounting policies. The amendments should be applied for annual periods beginning on or after January 1, 2023, and earlier application is permitted. The Group is in review for the impact of these amendments on the financial statements.

#### *- Korean IFRS 1008 Accounting policies, changes in accounting estimates and errors - Definition of Accounting Estimates*

The amendments define accounting estimates and clarify how to distinguish them from changes in accounting policies. The amendments should be applied for annual periods beginning on or after January 1, 2023, and earlier application is permitted. The Group does not expect that these amendments have a significant impact on the financial statements.

#### *- Korean IFRS 1012 Income Taxes - Deferred Tax related to Assets and Liabilities arising from a Single Transaction*

The amendments include an additional condition to the exemption to initial recognition of an asset or liability that a transaction does not give rise to equal taxable and deductible temporary differences at the time of the transaction. The amendments should be applied for annual periods beginning on or after January 1, 2023, and earlier application is permitted. The Group does not expect that these amendments have a significant impact on the financial statements.

#### *- 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

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

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

### **December 31, 2022 and 2021**

---

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.

Further amendments made in December 2021 added a transition option that permits an entity to apply an optional classification overlay in the comparative period(s) presented on initial application of Korean IFRS 1117. The classification overlay applies to all financial assets, including those held in respect of activities not connected to contracts within the scope of Korean IFRS 1117. It allows those assets to be classified in the comparative period(s) in a way that aligns with how the entity expects those assets to be classified on initial application of Korean IFRS 1109. The classification can be applied on an instrument-by-instrument basis.

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.

*- Korean IFRS 1001 Presentation of Financial Statements - Disclosure of gain or loss on valuation of financial liabilities subject to adjustment of exercise price*

If the entire or a part of financial instrument, whose exercise price is subject to change due to the issuer's share price, is classified as a financial liability, the carrying amount of the financial liability and related gains and losses shall be disclosed. The amendments should be applied for annual periods beginning on or after January 1, 2023, and earlier application is permitted. 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

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

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

### **December 31, 2022 and 2021**

---

interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. All other non-controlling interests are measured at fair values, unless otherwise required by other standards. Acquisition-related costs are expensed as incurred.

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

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

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

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

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

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

### **December 31, 2022 and 2021**

---

are provided for, and a liability is recognized, only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. If there is an objective evidence of impairment for the investment in the associate, the Group recognizes the difference between the recoverable amount of the associate and its book amount as impairment loss. If an associate uses accounting policies other than those of the Group for like transactions and events in similar circumstances, if necessary, adjustments shall be made to make the associate's accounting policies conform to those of the Group when the associate's financial statements are used by the Group in applying the equity method.

#### *(c) Joint Arrangements*

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

## **2.4 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, frozen confectionary, edible fats and oils, and meat processing and others.

## **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

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

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

### **December 31, 2022 and 2021**

---

other comprehensive income if they relate to qualifying cash flow hedges and qualifying effective portion of net investment hedges, or are attributable to monetary part of the net investment in a foreign operation.

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

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

#### **2.6 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.

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

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

### **December 31, 2022 and 2021**

---

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

#### *A. Debt instruments*

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

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

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

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

### **December 31, 2022 and 2021**

---

impairment loss) on equity investments measured at fair value through other comprehensive income are not reported separately from other changes in fair value.

#### *(c) Impairment*

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

(Note 4.1.2 provides more detail of how the Group determines there has been a significant increase in credit risk.)

#### *(d) Recognition and Derecognition*

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

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

#### *(e) Offsetting of financial instruments*

Financial assets and liabilities are offset and the net amount reported in the statements of financial position where there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the assets and settle the liability simultaneously. The legally 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 immediately in profit or loss within 'other income (expenses)' or 'finance income (costs)' based on the nature of transactions.

The Group applies cash flow hedge accounting to hedge interest rate risk and foreign exchange risk in borrowings denominated in foreign currency. The effective portion of changes in fair value of

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

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

### **December 31, 2022 and 2021**

---

derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income, and the ineffective portion is recognized in 'finance income (costs)'.

#### **2.8 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, gross average method and others, 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	4 – 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.

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2022 and 2021**

---

**2.12 Borrowing Costs**

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

**2.13 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	5 – 20

**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 ~ 50 years.

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

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

### **December 31, 2022 and 2021**

---

#### **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 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.

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

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

### **December 31, 2022 and 2021**

---

#### **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**

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**

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

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

### **December 31, 2022 and 2021**

---

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 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.

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

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

### **December 31, 2022 and 2021**

---

#### **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 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 confectionery, ice cream, edible fats and oils, meat processing /HMR and others. In contracts with customers, the Group

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

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

### **December 31, 2022 and 2021**

---

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.

#### *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.

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

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

### **December 31, 2022 and 2021**

---

#### *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.

#### *(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

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

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

### **December 31, 2022 and 2021**

---

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.

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.

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

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

### **December 31, 2022 and 2021**

---

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.

#### *(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 Business Combination of Entities under a Common Control**

The Group applies the book amount method to account for business combinations of entities under a common control. Identifiable assets acquired and liabilities assumed in a business combination are measured at their book amounts on the consolidated financial statements of the Ultimate Parent

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

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

### **December 31, 2022 and 2021**

---

Company. However, if the consolidated financial statements are not available, the Group applies the carrying amount of assets and liabilities accounted on acquiree's financial statements. In addition, the difference between the sum of consolidated book amounts of the assets and liabilities transferred and accumulated other comprehensive income; and the consideration paid is recognized as other components of equity.

#### **2.26 Approval of Issuance of the Financial Statements**

The issuance of the December 31, 2022 consolidated financial statements of the Group was approved by the Board of Directors on March 6, 2023, which is subject to change with the approval of the shareholders at their annual shareholders' meeting.

### **3. Critical Accounting Estimates and Assumptions**

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

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

#### *(a) Estimated goodwill and cash-generating unit group impairment*

The Group tests whether goodwill and cash-generating unit (CGU) group has suffered any impairment on an annual basis. The recoverable amount of a CGU group 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.

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

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

### **December 31, 2022 and 2021**

---

#### *(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).

#### *(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.

Although the spread of Coronavirus disease 2019 ("COVID-19") seems to be slowing down, risk factors such as the further spread of COVID-19 remain, which continues to have a significant impact on the domestic and 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 impairment of investments in subsidiaries 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.

Russia's war on Ukraine is continuing and Russia is imposed to the international sanctions. Due to the limitations of Russian banks' access to the SWIFT (Society for Worldwide Interbank Financial Telecommunication) payment system, the lack of liquidity in the foreign exchange market as well as the decline in value of Russian companies' securities and an increase in interest rates are in progress. As a result, the Group may experience situations such as changes in value of financial assets or operating assets owned by the Group regarding the disputed country, an increase in receivable payment terms, limitation to transfer funds, a decrease in the profit.

Significant accounting estimates and assumptions applied in the preparation of the consolidated financial statements can be adjusted depending on matters in the uncertainty from above. Also, the ultimate effect of COVID-19 to the Group's business, financial position and financial performance

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

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

### **December 31, 2022 and 2021**

---

cannot presently be determined.

#### **4. Financial Risk Management**

##### **4.1 Financial Risk Factors**

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

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

##### *(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.

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2022 and 2021**

The Group's financial instruments denominated in major currencies as at December 31, 2022 and 2021, are as follows:

(in millions of Korean won)

	<b>2022</b>				<b>2021</b>			
	<b>Assets</b>		<b>Liabilities</b>		<b>Assets</b>		<b>Liabilities</b>	
USD <sup>1</sup>	₩	80,252	₩	92,483	₩	24,754	₩	80,207
JPY		801		8,616		1,002		59
EUR		1,736		5,330		37		5,682
Others		11,982		2,470		4,142		2,798

<sup>1</sup> Debentures denominated in USD amounting to USD 100,000 thousand (2021: USD 100,000 thousand) were excluded because they were hedged against foreign currency risk as derivatives as at December 31, 2022.

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, 2022 and 2021, are as follows:

(in millions of Korean won)

	<b>2022</b>				<b>2021</b>			
	<b>10% increase</b>		<b>10% decrease</b>		<b>10% increase</b>		<b>10% decrease</b>	
USD <sup>1</sup>	₩	(1,223)	₩	1,223	₩	(5,545)	₩	5,545
JPY		(782)		782		94		(94)
EUR		(359)		359		(565)		565
Others		951		(951)		134		(134)

<sup>1</sup> Debentures denominated in USD amounting to USD 100,000 thousand (2021: USD 100,000 thousand) were excluded because they were hedged against foreign currency risk as derivatives as at December 31, 2022.

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.

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2022 and 2021**

---

*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.

*iii) Price risk*

The Group is exposed to equity securities price risk arises from investments held by the Group that are classified either as at fair value through other comprehensive income in the consolidated statement of financial position. The Group is trying to manage its price risk arising from investments in equity securities.

The impact on Group's post-tax profit and equity due to increase or decrease of the price of the listed shares are as follows. The analysis is based on the assumption that price of the listed shares held by the Group has increased or decreased by 10% with all other variables held constant.

*(in millions of  
Korean won)*

	Impact on post-tax profit and equity			
	2022		2021	
	10% increase	10% decrease	10% increase	10% decrease
Listed shares	₩ 120	₩ (120)	₩ -	₩ -

*(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.

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2022 and 2021**

The maximum exposure to credit risk as at December 31, 2022 and 2021, are as follows:

<i>(in millions of Korean won)</i>	<b>2022</b>		<b>2021</b>	
Cash and cash equivalents <sup>1</sup>	₩	316,627	₩	294,408
Trade and other receivables		366,576		184,437
Financial assets at fair value through profit or loss		24,000		13,500
Other current financial assets		69,774		34,346
Other non-current financial assets <sup>2</sup>		45,578		20,200

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

<sup>2</sup> Among financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss, equity securities are excluded from the amount exposed to credit risk.

*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>2022</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	0.06%	3.37%	4.05%	15.62%	65.16%	
	Bad receivables	80.51%	86.39%	95.22%	98.41%	100.00%	
	Excluded receivables	-	-	-	-	-	
Trade receivables	Good receivables	₩ 345,174	₩ 8,557	₩ 1,032	₩ 975	₩ 805	₩ 356,543
	Bad receivables	52	170	181	39	2,395	2,837
	Excluded receivables	3,980	-	-	93	452	4,525
Loss allowance provision	Good receivables	₩ 198	₩ 288	₩ 42	₩ 152	₩ 525	₩ 1,205
	Bad receivables	41	147	173	38	2,395	2,794
	Excluded receivables	-	-	-	-	-	-

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2022 and 2021**

(in millions of Korean won)

		2021					
		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	0.26%	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	-	-	-	-	-	-

*(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 ₩ 316,627 million that are expected to readily generate cash inflows for managing liquidity risk.

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2022 and 2021**

Details of the Group's liquidity risk analysis as at December 31, 2022 and 2021, are as follows. Cash flows in the table above represent undiscounted amounts.

<i>(in millions of Korean won)</i>	<b>2022</b>			
	<b>Less than 1 year</b>	<b>Between 1 and 2 years</b>	<b>Between 2 and 5 years</b>	<b>Over 5 years</b>
Borrowings <sup>1</sup>	₩ 214,335	₩ 92,531	₩ 116,109	₩ -
Debentures <sup>1</sup>	226,715	233,108	409,411	-
Trade and other payables <sup>2</sup>	302,478	-	-	-
Other financial liabilities <sup>2</sup>	120,964	7,667	3,868	-
Lease liabilities <sup>2</sup>	15,921	11,423	8,994	4,138
	<u>₩ 880,413</u>	<u>₩ 344,729</u>	<u>₩ 538,382</u>	<u>₩ 4,138</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.

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2022 and 2021**

<i>(in millions of Korean won)</i>	<b>2021</b>			
	<b>Less than 1 year</b>	<b>Between 1 and 2 years</b>	<b>Between 2 and 5 years</b>	<b>Over 5 years</b>
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	-	-	-
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.

#### **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, 2022 and 2021, are as follows:

<i>(in millions of Korean won)</i>	<b>2022</b>		<b>2021</b>	
Total liabilities (a)	₩	1,993,628	₩	1,339,677
Total equity(b)		2,111,632		1,326,972
Debt-to-equity ratio ((a/b))		94.4%		101.0%

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2022 and 2021**

**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 2022.

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

Carrying amount and fair value of financial instruments by category as at December 31, 2022 and 2021, are as follows:

(in millions of Korean won)

	2022		2021	
	Carrying amount	Fair value <sup>2</sup>	Carrying amount	Fair value <sup>2</sup>
<b>Financial assets</b>				
Cash and cash equivalents	₩ 318,392	₩ 318,392	₩ 295,004	₩ 295,004
Trade and other receivables	366,576	366,576	184,437	184,437
Other current financial assets	93,774	93,774	47,846	47,846
Other non-current financial assets	91,519	91,519	20,200	20,200
	<u>₩ 870,261</u>	<u>₩ 870,261</u>	<u>₩ 547,487</u>	<u>₩ 547,487</u>
<b>Financial liabilities</b>				
Trade and other payables	₩ 302,478	₩ 302,478	₩ 186,132	₩ 186,132
Borrowings <sup>1</sup>	401,471	395,873	251,607	251,524
Debentures <sup>2</sup>	845,853	838,220	568,149	569,689
Other current financial liabilities <sup>3</sup>	45,409	45,409	36,706	36,706
Other non-current financial liabilities	11,535	11,535	1,064	1,064
	<u>₩ 1,606,746</u>	<u>₩ 1,593,515</u>	<u>₩ 1,043,658</u>	<u>₩ 1,045,115</u>

<sup>1</sup> As at December 31, 2022, 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 financial 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 categorization of financial liabilities.

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2022 and 2021**

---

**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>2022</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3<sup>1</sup></b>	<b>Total</b>
Non-current derivative financial assets	₩ -	₩ 21,820	₩ -	₩ 21,820
Financial assets at fair value through profit or loss	-	24,000	43,232	67,232
Financial assets at fair value through other comprehensive income	1,200	1	1,508	2,709

<sup>1</sup> Financial assets measured at fair value through profit or loss classified as level 3 of ₩ 43,232 million are the sum of ₩ 11,625 million of convertible preferred shares acquired on February 8, 2022, ₩ 19,257 million of redeemable convertible preferred shares acquired on October 31, 2022 and ₩ 5,481 million of unlisted equity securities and ₩ 6,869 million of redeemable convertible preferred shares acquired through the merger with Lotte Food Co., Ltd. on July 1, 2022.

*(in millions of Korean won)*

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

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2022 and 2021**

---

**5.3 Transfers Between Fair Value Hierarchy Levels of Recurring Fair Value Measurement**

The Group's policy is to recognize transfers between levels of the fair value at the end of the reporting period. Details of transfers between levels of each fair value hierarchy of financial instruments are as follows:

There were no transfers between levels 1 and 2 for recurring fair value measurements during the year.

Changes in level 3 for recurring fair value measurements for the years ended December 31, 2022 and 2021, are as follows:

*(in thousands of Korean won)*

	2022		2021	
	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income
Beginning balance	₩ -	₩ 8	₩ -	₩ -
Increase due to business combination	13,205	-	-	-
Loss on valuation	(856)	(196)	-	-
Purchases	30,883	1,696	-	-
Sales	-	-	-	-
Ending balance	₩ 43,232	₩ 1,508	₩ -	₩ -

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2022 and 2021**

**5.4 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, 2022 and 2021, are as follows:

<b>2022</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>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

Valuation techniques and inputs used in the recurring, non-recurring fair value measurements and disclosed fair value categorized within Level 3 of the fair value hierarchy as at December 31, 2022, are as follows:

*(in millions of Korean won)*

<b>2022</b>						
	<b>Fair value</b>	<b>Level</b>	<b>Valuation techniques</b>	<b>Inputs</b>	<b>Range of inputs (weighted average)</b>	
Financial assets at fair value through profit or loss	₩ 5,481	3	Dividend discount model	Cost of equity capital	9.60%	
	6,164	3	Binomial model	Daily volatility	2.23%	
	705	3	Binomial model	Daily volatility	1.83%	

<sup>1</sup> Among financial assets classified as level 3, convertible preferred shares of ₩ 11,625 million and redeemable convertible preferred shares of ₩ 19,257 million acquired for the current year are excluded as the changes in valuation are not expected to be significant between the acquisition date and the end of the reporting period.

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2022 and 2021**

**5.5 Sensitivity Analysis for Fair Value Measurements Categorized as Level 3**

As at December 31, 2022, when other input variables are held constant for the fair value of financial instruments categorized within Level 3, the impact of a reasonable change on the reporting date in one of the significant but unobservable input variables is as follows. All amounts are in after-tax amount:

(a) Equity securities

(in millions of Korean won)

	Discount rate	
	1% decrease	1% increase
Financial assets at fair value through profit or loss	₩ 238	₩ (224)

(b) Redeemable convertible preferred shares

(in millions of Korean won)

	Discount rate		Volatility	
	1% decrease	1% increase	1% decrease	1% increase
Financial assets at fair value through profit or loss	₩ -	₩ -	₩ (230)	₩ 299

**6. Operating Segment Information**

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

Segment <sup>1</sup>	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
Edible fats and oils and others <sup>2</sup>	Edible oil, butter, margarine and others	Paris Croissant, Haitai Confectionary and Foods, Samsung Wellstory and others
Meat processing and others <sup>3</sup>	Ham, sausages, milk powder, milk and others	E-mart, GS Retail, Home plus and others

<sup>1</sup> Due to a merger for the year ended December 31, 2022, the segments were changed in consideration of the business operated by Lotte Foods Co., Ltd., the merged entity.

<sup>2</sup> The Group's fats and oils and others include the fat and oil product division and the food material division, and its main operation channel is B2B sales.

<sup>3</sup> The Group's meat processing and others include the meat processing division, the delicatessen division, and the dairy processing division, and its main operation channel is B2C sales.

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2022 and 2021**

The segment information on revenue and operating profit for the years ended December 31, 2022 and 2021, are as follows:

	2022						Total
	Dry confectionery	Frozen confectionery	Fats and oils and others	Meat processing and others	Adjustment		
Total segment revenue	₩ 1,818,654	₩ 640,334	₩ 446,160	₩ 409,420	₩ -	₩	3,314,568
Inter-segment revenue <sup>1</sup>	(74,837)	-	(35,979)	(488)	-		(111,304)
Revenue from external customers	1,743,817	640,334	410,181	408,932	-		3,203,264
Operating profit (loss) <sup>2</sup>	91,314	38,507	16,645	(23,031)	(11,050)		112,385
Depreciation and amortization	81,062	27,656	15,530	16,996	12,386		153,630
Interest income	5,605	2,213	476	451	(8)		8,737
Interest expenses	16,378	5,341	3,455	3,754	(629)		28,299
Shares of loss of associates	-	-	-	-	(1,554)		(1,554)

<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.

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2022 and 2021**

(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.

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

(in millions of Korean won)

	Revenue by location		Non-current assets	
	2022	2021	2022	2021
Korea	₩ 2,421,643	₩ 1,524,451	₩ 2,103,747	₩ 1,119,133
India	243,587	163,313	187,738	267,637
Europe	90,092	98,256	73,951	96,204
Kazakhstan	233,807	169,834	124,046	157,243
Pakistan	83,349	84,567	46,552	58,278
Others	130,786	104,986	120,256	140,219
	<u>₩ 3,203,264</u>	<u>₩ 2,145,407</u>	<u>₩ 2,656,290</u>	<u>₩ 1,838,714</u>

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2022 and 2021**

The Group derives the following types of revenue:

<i>(in millions of Korean won)</i>	<b>2022</b>		<b>2021</b>	
Sales of goods	₩	3,182,028	₩	2,103,726
Provision of services		1,386		25,368
Rental income		19,850		16,313
	₩	<u>3,203,264</u>	₩	<u>2,145,407</u>

The Group's assets and liabilities by each segment as at December 31, 2022 and 2021, are as follows:

<i>(in millions of Korean won)</i>	<b>2022</b>					
	<b>Dry confectionery</b>	<b>Frozen confectionery</b>	<b>Fats and oils and others</b>	<b>Meat processing and others</b>	<b>Adjustments</b>	<b>Total</b>
Assets	₩ 2,624,021	₩ 744,864	₩ 665,657	₩ 608,301	₩ (537,584)	₩ 4,105,259
Investments in associate and joint venture	4,414	-	19,428	23,159	(1,174)	45,827
Non-current assets <sup>1</sup>	1,874,438	567,627	297,230	387,799	(516,630)	2,610,464
Liabilities	917,097	434,132	333,964	296,114	(12,320)	1,968,987

<sup>1</sup> Amount of investments in associates and a joint venture was excluded.

<i>(In millions of Korean won)</i>	<b>2021</b>			
	<b>Dry confectionery</b>	<b>Frozen confectionery</b>	<b>Internal transaction adjustments</b>	<b>Total</b>
Assets	₩ 2,535,929	₩ 562,020	₩ (431,300)	₩ 2,666,649
Investments in associates	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 investments in associates was excluded.

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2022 and 2021**

---

**6.1 Revenue from Contracts with Customers**

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

<i>(in millions of Korean won)</i>	<b>2022</b>	<b>2021</b>
Revenue from contracts with customers	₩ 3,183,414	₩ 2,129,094
Revenue from other sources: rental income	19,850	16,313
Total revenue	<u>₩ 3,203,264</u>	<u>₩ 2,145,407</u>

*Disaggregation of Revenue from Contracts with Customers*

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

<i>(in millions of Korean won)</i>	<b>2022</b>	<b>2021</b>
Revenue from external customers	₩ 3,183,414	₩ 2,129,094
Timing of revenue recognition		
At a point in time	3,182,028	2,103,726
Over time	1,386	25,368

*Sales with a right of return*

The Group estimates the amount of expected sales returns based on the historical experience, collection turnover and expiration date and recognizes the provision for return (Note 25).

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2022 and 2021**

**7. Financial Instruments by Category**

Categorizations of financial assets and liabilities as at December 31, 2022 and 2021, are as follows:

(in millions of Korean won)

		<b>2022</b>					
		<b>Financial assets at amortized cost</b>	<b>Financial assets at fair value through profit or loss</b>	<b>Financial assets at fair value through other comprehensive income</b>	<b>Derivative financial assets for hedging purpose</b>	<b>Total</b>	
Cash and cash equivalents	₩	318,392	₩ -	₩ -	₩ -	₩	318,392
Trade and other receivables		366,576	-	-	-		366,576
Other current financial assets		69,774	24,000	-	-		93,774
Other non-current financial assets		23,758	43,232	2,709	21,820		91,519
	₩	<u>778,500</u>	<u>₩ 67,232</u>	<u>₩ 2,709</u>	<u>₩ 21,820</u>	<u>₩</u>	<u>870,261</u>

(in millions of Korean won)

		<b>2022</b>	
		<b>Other financial liabilities measured at amortized cost</b>	<b>Total</b>
Trade and other payables	₩	302,478	₩ 302,478
Borrowings		401,471	401,471
Debentures		845,853	845,853
Other current financial liabilities <sup>1</sup>		45,409	45,409
Other non-current financial liabilities		11,535	11,535
	₩	<u>1,606,746</u>	<u>₩ 1,606,746</u>

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

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2022 and 2021**

(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		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.

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2022 and 2021**

---

Net gains or net losses on each category of financial instruments for the years ended December 31, 2022 and 2021, are as follows:

<i>(in millions of Korean won)</i>	<b>2022</b>	<b>2021</b>
<b>Financial assets at amortized cost</b>		
Interest income	₩ 8,737	₩ 5,972
Gain on foreign currency translations	2,335	3,278
Loss on foreign currency translations	(8,709)	(1,897)
Gain on foreign currency transactions	3,750	2,464
Loss on foreign currency transactions	(2,796)	(2,312)
Reversal of impairment loss	2,397	2,143
<b>Financial assets at fair value through other comprehensive income</b>		
Loss on valuation (other comprehensive income) (in relation to possessed amount)	(262)	-
<b>Derivative instruments used for hedging purpose</b>		
Gain on valuation of derivatives	8,180	8,500
Gain on derivatives transaction	-	1,470
Loss on derivatives transaction	-	(13)
Gain on valuation of derivatives for hedging purpose (other comprehensive income)	3,683	2,629
<b>Financial liabilities measured at amortized cost</b>		
Interest expenses <sup>1</sup>	(26,495)	(18,627)
Gain on foreign currency translations	5,006	531
Loss on foreign currency translations	(9,915)	(9,785)
Gain on foreign currency transactions	1,917	1,646
Loss on foreign currency transactions	(4,600)	(2,139)

<sup>1</sup> Interest expenses on lease liabilities amounting to ₩1,804 million (2021: ₩1,396 million) is excluded.

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2022 and 2021**

---

**8. Cash and Cash Equivalents**

Cash and cash equivalents as at December 31, 2022 and 2021, are as follows:

<i>(in millions of Korean won)</i>	<b>2022</b>		<b>2021</b>	
Cash on hand	₩	1,764	₩	596
Ordinary deposits and others		188,358		123,698
Time deposits		128,270		170,710
	₩	<u>318,392</u>	₩	<u>295,004</u>

**9. Derivative Financial Instruments**

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

<b>Purpose</b>	<b>Types</b>	<b>Description</b>
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

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2022 and 2021**

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	Back-up Line CP	KRW 20,000,000,000	-	91 days CD+0.8	3.795%	2025.04.08
Interest rate swap	Borrowings	PKR 3,600,000,000 (KRW 20,124,000,000)	-	3M KIBOR+0.35	8.20%	2023.12.29
Interest rate swap	Borrowings	PKR 400,000,000 (KRW 2,236,000,000)	-	3M KIBOR+0.35	9.42%	2023.12.29
Interest rate swap	Borrowings	PKR 1,000,000,000 (KRW 5,590,000,000)	-	3M KIBOR+0.35	9.21%	2024.12.30

Outstanding balances of derivative financial instruments as at December 31, 2022 and 2021, are as follows:

(in millions of Korean won)	2022	2021
Derivative financial assets	₩ 21,820	₩ 10,119

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

Purpose	Types	Gain on valuation	Remarks
Hedging	Currency swap	₩ 8,180	Profit or loss
	Interest rate swap	2,825	Other comprehensive income <sup>1</sup>

<sup>1</sup> For the year ended December 31, 2022, gain on valuation of derivative financial instruments amounts to ₩ 3,683 million and recognized in other comprehensive income is ₩ 2,825 million, which is net of tax effect amounting to ₩ 858 million.

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2022 and 2021**

---

**10. Trade and Other Receivables**

Trade and other receivables as at December 31, 2022 and 2021, are as follows:

<i>(in millions of Korean won)</i>	<b>2022</b>		<b>2021</b>	
Trade receivables	₩	363,905	₩	187,779
Less: Provision for impairment		(3,999)		(6,905)
		<u>359,906</u>		<u>180,874</u>
Other receivables		6,670		3,563
	₩	<u>366,576</u>	₩	<u>184,437</u>

Movements on provisions for impairment of trade receivables for the years ended December 31, 2022 and 2021, are as follows:

<i>(in millions of Korean won)</i>	<b>2022</b>		<b>2021</b>	
Beginning balance	₩	6,905	₩	11,669
Increase due to business combination		1,945		-
Impairment loss (reversal)		(2,397)		(2,161)
Receivables written-off		(2,877)		(2,999)
Collection of receivables written-off		504		510
Exchange differences		(81)		(114)
Ending balance	₩	<u>3,999</u>	₩	<u>6,905</u>

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2022 and 2021**

---

**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, 2022 and 2021, are as follows:

<i>(in millions of Korean won)</i>		<b>2022</b>		<b>2021</b>	
Current	Short-term financial instruments	₩	58,582	₩	27,970
	Financial assets at fair value through profit or loss <sup>1</sup>		24,000		13,500
	Accrued income		2,336		1,618
	Current deposits provided		8,773		4,660
	Short-term loans		83		98
			<u>93,774</u>		<u>47,846</u>
Non-current	Long-term financial instruments <sup>1</sup>		990		78
	Financial assets at fair value through profit or loss		43,232		-
	Deposits provided		22,755		9,995
	Derivative financial assets		21,820		10,119
	Financial asset at fair value through other comprehensive income		2,709		8
	Long-term other receivables		13		-
			<u>91,519</u>		<u>20,200</u>
		₩	<u>185,293</u>	₩	<u>68,046</u>

<sup>1</sup> As at December 31, 2022, ₩ 45 million of deposit for checking account of current financial assets at fair value through profit or loss and long-term financial instruments are restricted to use.

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2022 and 2021**

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

<i>(in millions of Korean won)</i>		<b>2022</b>		<b>2021</b>	
Current	Deposits for Win-win Growth Cooperative loans <sup>1</sup>	₩	24,000	₩	13,500
Non-current	Aspire Food Group Ltd.		11,625		-
Non-current	AeroFarms Inc. <sup>2</sup>		19,257		-
Non-current	LTKB Mullae No. 4 New Stay Consignment Management Real Estate Investment Company <sup>3</sup>		5,481		-
Non-current	Food Assemble Co., Ltd. <sup>2,3</sup>		6,164		-
Non-current	Fresh Code Co., Ltd. <sup>2,3</sup>		705		-
		₩	<u>67,232</u>	₩	<u>13,500</u>

<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.

<sup>2</sup> The Group has redeemable convertible preferred shares of AeroFarms Inc., Food Assemble Co., Ltd. and Fresh Code Co., Ltd. Although the entities should be classified as associates because the Group has significant influence over the investees through the authority to appoint directors, the entities are classified and measured as financial assets at fair value through profit or loss in accordance with Korean IFRS 1109 because it is judged that the Group is not practically accessible to the profits related to the ownership interests in the associates through the relevant investment shares.

<sup>3</sup> Acquired from Lotte Foods Co., Ltd., a merged company, due to a merger for the year ended December 31, 2022 (Note 41).

Details of financial assets at fair value through other comprehensive income as at December 31, 2022 and 2021, are as follows:

<i>(in millions of Korean won)</i>		<b>2022</b>		<b>2021</b>	
Equity instruments					
	Listed equity instruments	₩	1,202	₩	-
	Unlisted equity instruments		1,507		-
		₩	<u>2,709</u>	₩	<u>-</u>

Upon disposal of these equity instruments, any balance within the accumulated other comprehensive income for these equity instruments is not reclassified to profit or loss.

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2022 and 2021**

Details of other financial liabilities as at December 31, 2022 and 2021, are as follows:

<i>(in millions of Korean won)</i>		<b>2022</b>		<b>2021</b>	
Current	Accrued expenses	₩	84,964	₩	48,659
	Current deposits received		20,842		20,435
			<u>105,806</u>		<u>69,094</u>
Non-current	Deposits received		4,610		1,064
	Other non-current financial liabilities		6,925		-
			<u>11,535</u>		<u>1,064</u>
		₩	<u>117,341</u>	₩	<u>70,158</u>

**11.2 Other Assets and Liabilities**

Details of other assets as at December 31, 2022 and 2021, are as follows:

<i>(in millions of Korean won)</i>		<b>2022</b>		<b>2021</b>	
Current	Advanced payment	₩	22,640	₩	13,984
	Prepaid expenses		12,893		11,282
	Value added tax refundable		3,212		4,671
	Other current assets		1,050		76
			<u>39,795</u>		<u>30,013</u>
Non-current	Long-term advanced payment		284		-
	Long-term prepaid expenses		8		10
	Other non-current assets		-		422
			<u>292</u>		<u>432</u>
		₩	<u>40,087</u>	₩	<u>30,445</u>

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2022 and 2021**

Details of other liabilities as at December 31, 2022 and 2021, are as follows:

<i>(in millions of Korean won)</i>		<b>2022</b>		<b>2021</b>	
Current	Withholdings	₩	6,430	₩	4,490
	Advance received		18,431		5,839
	Other current liabilities		31,239		12,296
			<u>56,100</u>		<u>22,625</u>
Non-current	Other non-current liabilities <sup>1</sup>		17,125		11,160
			<u>17,125</u>		<u>11,160</u>
		₩	<u>73,225</u>	₩	<u>33,785</u>

<sup>1</sup> Other non-current financial liabilities consist of long-term employee benefits liability.

**12. Inventories**

Inventories as at December 31, 2022 and 2021, are as follows:

<i>(in millions of Korean won)</i>		<b>2022</b>		<b>2021</b>	
Merchandise		₩	64,935	₩	20,692
Finished goods			155,316		79,522
Work-in-process			1,487		1,202
Semi-finished goods			26,035		11,906
Raw materials			277,565		108,462
Supplies			2,430		2,169
Raw materials in transit			99,874		25,298
			<u>627,642</u>		<u>249,251</u>
Provision for valuation of inventories			<u>(4,199)</u>		<u>(2,073)</u>
		₩	<u>623,443</u>	₩	<u>247,178</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 ₩ 2,283,297 million (2021: ₩ 1,399,748 million). Loss on valuation of inventories to net realizable value amounted to ₩ 2,126 million (2021: ₩ 1,553 million).

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2022 and 2021**

Details of cost of sales for the years ended December 31, 2022 and 2021, are as follows:

<i>(in millions of Korean won)</i>	<b>2022</b>		<b>2021</b>	
Cost of merchandise sold	₩	284,675	₩	190,409
Cost of finished goods sold		1,998,622		1,209,339
Cost of rental		5,012		2,048
Cost of other goods sold		2,761		10,529
	₩	<u>2,291,070</u>	₩	<u>1,412,325</u>

**13. Seasonal Characteristics of Operations**

Among the main businesses of the Group, the frozen confectionery is highly affected by seasonal factors. 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. Other segments are not likely affected by seasonal factors.

**14. Investments in Associates and a Joint Venture**

Details of associates and a joint venture of the Group as at December 31, 2022 and 2021, are as follows:

	Investee	<b>Percentage of ownership (%)</b>		Location	Closing date
		<b>2022</b>	<b>2021</b>		
Associates	Lotte Agri-food Tech Fund No.1 <sup>1</sup>	43.42	21.71	Korea	December 31, 2022
	PT.LOTTE RND Center Indonesia <sup>2</sup>	33.33	-	Indonesia	December 31, 2022
	LOTTE F&G Vietnam Company Limited <sup>2</sup>	33.04	-	Vietnam	December 31, 2022
Joint venture	LOTTE Nestle Korea Co., Ltd. <sup>2</sup>	50.00	-	Korea	December 31, 2022

<sup>1</sup> The Group made an additional investment of ₩ 990 million to Lotte Agri-food Tech Fund No.1, and acquired shares of Lotte Foods Co., Ltd., a merged entity, from a merger for the year ended December 31, 2022.

<sup>2</sup> Acquired from merger with Lotte Foods Co., Ltd., for the year ended December 31, 2022.

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2022 and 2021**

Details of valuation of investments in associates and a joint venture under the equity method for the years ended December 31, 2022 and 2021, are as follows:

(in millions of Korean won)

		2022													
		Beginning balance		Acquisition		Increase due to business combination		Valuation of equity method			Ending balance				
								Share of profit or loss of associate	Shares of other comprehensive income of associate	Foreign currency translations					
Associates	Lotte Agri-food Tech Fund No.1	₩	1,155	₩	990	₩	2,104	₩	(319)	₩	-	₩	-	₩	3,930
	PT.LOTTE RND Center Indonesia		-		-		271		(31)		-		(16)		224
	LOTTE F&G Vietnam Company Limited		-		-		6,918		(546)		-		(164)		6,208
Joint venture	LOTTE-Nestle Korea Co., Ltd.		-		-		35,399		(658)		724		-		35,465
		₩	1,155	₩	990	₩	44,692	₩	(1,554)	₩	724	₩	(180)	₩	45,827

(in millions of Korean won)

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

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2022 and 2021**

Summary of condensed financial information of major associates and a joint venture and dividends received from associates as at and for the years ended December 31, 2022 and 2021, are as follows:

(in millions of Korean won)

		2022										
		Condensed financial information of associate										
		Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Loss from continuing operations	Loss for the year	Total comprehensive income (loss)	Dividends from associates		
Associates	Lotte Agri-food Tech Fund No.1	W 843	W 8,305	W 98	W -	W 17	W (827)	W (827)	W (827)	W -		
	PT.LOTTE RND Center Indonesia <sup>1</sup>	272	400	-	-	221	(94)	(94)	(140)	-		
	LOTTE F&G Vietnam Company Limited <sup>1</sup>	6,154	25,445	3,000	9,808	6,030	(1,652)	(1,652)	(2,150)	-		
Joint venture	LOTTE-Nestle Korea Co., Ltd. <sup>1</sup>	99,174	86,658	104,794	1,799	140,375	(239)	(1,297)	152	-		
		<u>W 106,443</u>	<u>W 120,808</u>	<u>W 107,892</u>	<u>W 11,607</u>	<u>W 146,643</u>	<u>W (2,812)</u>	<u>W (3,870)</u>	<u>W (2,965)</u>	<u>W -</u>		

<sup>1</sup> These entities are newly acquired associates and a joint venture as the Parent Company merged with Lotte Food Co., Ltd. for the year ended December 31, 2022. Their revenue, income (loss) from continuing operations, profit (loss) for the year, and total comprehensive income (loss) consist of gains and losses incurred after the date of acquisition.

(in millions of Korean won)

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

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2022 and 2021**

The tables below provide a reconciliation of the summarized financial information presented to the carrying amount of its interest in the joint venture or associate.

(in millions of Korean won)

		2022						
		Net assets at the end of the year (a)	Group's share in % (b)	Group's share in KRW(a*b)	Others	Impairment	Book amount	
Associates	Lotte Agri-food Tech Fund No.1	₩ 9,051	43.42%	₩ 3,930	₩ -	₩ -	₩ 3,930	
	PT.LOTTE RND Center Indonesia	673	33.33%	224	-	-	224	
	LOTTE F&G Vietnam Company Limited	18,791	33.04%	6,209	-	-	6,209	
Joint venture	LOTTE-Nestle Korea Co., Ltd.	79,239	50.00%	39,620	202	-	39,822	

(in millions of Korean won)

		2021						
		Net assets at the end of the year (a)	Group's share in % (b)	Group's share in KRW(a*b)	Others	Impairment	Book amount	
Associate	Lotte Agri-food Tech Fund No.1	₩ 6,063	21.71%	₩ 1,316	₩ -	₩ -	₩ 1,316	

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

On October 19, 2021, 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, as at December 31, 2021. The transaction was completed in January 2022. In addition, the Group decided to sell externally ₩ 947 million of investment properties, and the transaction was completed in September 2022.

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2022 and 2021**

**16. Property, Plant and Equipment**

Changes in property, plant and equipment for the years ended December 31, 2022 and 2021, are as follows:

(in millions of  
Korean won)

	2022							
	Land	Building	Structures	Machinery	Vehicles	Others	Construction-in-progress	Total
Beginning net book amount	₩ 620,526	₩ 270,391	₩ 10,502	₩ 294,461	₩ 12,679	₩ 34,573	₩ 50,559	₩ 1,293,691
Acquisition	24	6,316	472	40,804	12,820	25,479	55,611	141,526
Transfer	(12,698)	16,213	1,070	37,538	166	3,268	(62,347)	(16,790)
Disposals	(283)	(125)	(241)	(4,404)	(632)	(1,248)	(7,503)	(14,436)
Depreciation	-	(17,258)	(1,690)	(72,697)	(5,305)	(22,512)	-	(119,462)
Government grants received	-	-	-	-	(2,215)	-	-	(2,215)
Impairment loss	-	-	-	(3,748)	-	-	(366)	(4,114)
Exchanges differences and others <sup>1</sup>	(1,025)	(7,613)	179	(5,934)	(263)	(595)	1,955	(13,296)
Increase due to business combination	156,139	218,989	29,905	141,150	83	26,090	16,098	588,454
Ending net book amount	₩ 762,683	₩ 486,913	₩ 40,197	₩ 427,170	₩ 17,333	₩ 65,055	₩ 54,007	₩ 1,853,358
Acquisition cost	₩ 769,577	₩ 850,089	₩ 85,267	₩ 1,778,068	₩ 36,769	₩ 394,128	₩ 54,843	₩ 3,968,741
Accumulated depreciation	-	(333,988)	(40,347)	(1,329,595)	(17,033)	(329,044)	-	(2,050,007)
Government grants	-	(721)	(357)	(406)	(2,403)	-	-	(3,887)
Accumulated impairment loss	(6,894)	(28,467)	(4,366)	(20,897)	-	(29)	(836)	(61,489)

<sup>1</sup> Exchange differences and others include the effects of exchange rate changes, transfers between accounts and others.

Recognized expense related to the depreciation for the ended December 31, 2022 is ₩ 119,462 million (2021: ₩ 91,539 million). Among this total amount, ₩ 89,674 million (2021: ₩ 68,602 million) is included in cost of sales, and ₩ 29,788 million (2021: ₩ 22,937 million) is included in selling and administrative expenses.

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2022 and 2021**

(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	(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	-	(771)	-	-	(730)	-	-	(1,501)			
Accumulated impairment loss	(7,136)	(27,816)	(4,095)	(13,725)	-	(4)	(476)	(53,252)			

*Contractual commitments for acquisition of assets*

The Group entered into contractual commitments for the acquisition related to 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 ₩ 42,509 million (2021: ₩ 50,868 million) for borrowings (Note 37).

During the year, the Group has capitalized borrowing costs amounting to ₩ 25 million (2021: ₩ 418 million) on property, plant and equipment that are qualifying assets. The capitalization rate of borrowings used to determine the amount of borrowing costs to be capitalized is 2.35% (2021: 2.1%).

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2022 and 2021**

**17. Leases**

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

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

*(a) Right-of-use assets*

*(in millions of  
Korean won)*

	<b>2022</b>					
	<b>Land</b>	<b>Building</b>	<b>Structures</b>	<b>Vehicles</b>	<b>Others</b>	<b>Total</b>
Beginning net book amount	₩ 12,079	₩ 9,143	₩ 4,751	₩ 8,916	₩ 3,041	₩ 37,930
Acquisition	5,947	12,595	361	2,256	569	21,728
Transfer	-	(4)	-	398	59	453
Disposals	-	(2,862)	-	(1,598)	(35)	(4,495)
Depreciation	(281)	(9,861)	(1,047)	(4,500)	(1,177)	(16,866)
Exchanges differences and others <sup>1</sup>	(1,912)	2,131	(133)	33	(77)	42
Increase due to business combination	-	9,147	-	9,116	82	18,345
Ending net book amount	₩ 15,833	₩ 20,289	₩ 3,932	₩ 14,621	₩ 2,462	₩ 57,137
Acquisition cost	₩ 17,637	₩ 41,415	₩ 7,278	₩ 31,980	₩ 6,026	₩ 104,336
Accumulated depreciation	(1,804)	(21,847)	(3,346)	(17,359)	(3,564)	(47,920)
Accumulated impairment loss	-	721	-	-	-	721

<sup>1</sup> Exchange differences and others include the effects of exchange rate changes, transfers between accounts and others.

Recognized expense related to the depreciation of right-of-use assets for the ended December 31, 2022 is ₩ 16,866 million (2021: ₩ 12,345 million). Among this total amount, ₩ 4,911 million (2021: ₩ 1,946 million) is included in cost of sales, and ₩ 11,955 million (2021: ₩ 10,399 million) is included in selling and administrative expenses.

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2022 and 2021**

(in millions of  
Korean won)

	<b>2021</b>					
	<b>Land</b>	<b>Building</b>	<b>Structures</b>	<b>Vehicles</b>	<b>Others</b>	<b>Total</b>
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	-	(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)

(b) *Lease liabilities*

(in millions of Korean won)

	<b>2022</b>	<b>2021</b>
Lease liabilities		
Current	₩ 15,159	₩ 9,425
Non-current	23,914	17,300
	<u>₩ 39,073</u>	<u>₩ 26,725</u>

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2022 and 2021**

---

(c) Amounts recognized in the consolidated statements of profit or loss

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

<i>(in millions of Korean won)</i>	<b>2022</b>		<b>2021</b>	
Depreciation of right-of-use assets				
Land	₩	281	₩	276
Building		9,861		6,198
Machinery		1,047		877
Vehicles		4,500		3,618
Others		1,177		1,195
	₩	16,866	₩	12,164
Interest expense relating to lease liabilities (included in finance cost)	₩	1,804	₩	1,396
Expense relating to short-term leases (included in cost of sales and administrative expenses)		6,241		5,370
Expense relating to leases of low-value assets that are not short-term leases (included in administrative expenses)		1,705		1,030
Expense relating to variable lease payments not included in lease liabilities (included in administrative expenses)		2,485		105

The total cash outflow for leases in 2022 was ₩ 26,251 million (2021: ₩ 19,104 million).

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2022 and 2021**

**18. Intangible Assets**

Changes in intangible assets for the years ended December 31, 2022 and 2021, are as follows:

<i>(in millions of Korean won)</i>	2022				
	Industrial property rights	Memberships	Goodwill	Others <sup>1</sup>	Total
Beginning balance	₩ 8,807	₩ 4,428	₩ 143,428	₩ 160,241	₩ 316,904
Increase due to business combination	234	2,947	-	16,420	19,601
Acquisition	410	-	-	1,145	1,555
Transfer	152	-	-	-	152
Disposal	(48)	-	-	-	(48)
Amortization	(920)	-	-	(13,838)	(14,758)
Impairment	-	-	(2,336)	-	(2,336)
Foreign currency translations and others <sup>2</sup>	(986)	-	(3,043)	(4,570)	(8,599)
Ending balance	₩ 7,649	₩ 7,375	₩ 138,049	₩ 159,398	₩ 312,471

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

<sup>2</sup> Exchange differences and others include the effects of exchange rate changes, transfers between accounts and others.

Recognized expense related to the amortization for the ended December 31, 2022 is ₩ 14,758 million (2021: ₩ 12,693 million). Among this total amount, ₩ 567 million (2021: ₩ 464 million) is included in cost of sales, and ₩ 14,191 million (2021: ₩ 12,229 million) is included in selling and administrative expenses.

<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

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2022 and 2021**

<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.

Recognized expense related to research and development for the year ended December 31, 2022 is ₩ 3,161 million (2021: ₩ 2,221 million).

<i>(in millions of Korean won)</i>	<b>2022</b>	<b>2021</b>
Cost of sales (manufacturing cost)	₩ 3,014	₩ 2,220
Selling and administration expenses	147	1

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

Goodwill as at December 31, 2022 and 2021, are as follows:

<i>(in millions of Korean won)</i>	<b>2022</b>	<b>2021</b>
Frozen confectionery	₩ 10,376	₩ 10,376
HAVMOR ICE CREAM LIMITED	73,045	76,003
Lotte Confectionery RUS LLC	3,541	3,889
Lotte Confectionery Holdings (Europe) B.V.	17,466	17,352
LOTTE Rakhat JSC	29,398	28,970
Lotte Kolson(Private)Limited	914	1,087
L&M Mayson Company Limited <sup>1</sup>	3,309	5,751
	<u>₩ 138,049</u>	<u>₩ 143,428</u>

<sup>1</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 ₩ 1,644 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

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2022 and 2021**

from COVID-19. Accordingly, the discount rate was calculated by considering the characteristics of the industry and country which each entity is operating in.

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

<i>(in millions of Korean won)</i>	Recoverable amount		Impairment of goodwill <sup>1</sup>		Impairment of property, plant and equipment <sup>1</sup>		Discount rate (WACC)	Perpetual growth rate
Frozen confectionery <sup>2</sup>	₩	453,217	₩	-	₩	-	7.6%	1.0%
HAVMOR ICE CREAM LIMITED <sup>2</sup>		180,918		-		-	10.5%	2.0%
Lotte Confectionery RUS LLC		85,140		692		-	14.9%	1.0%
Lotte Confectionery Holdings (Europe) B.V.		65,566		-		-	8.5%	1.0%
Lotte Rakhat JSC		239,712		-		-	14.8%	1.0%
Lotte Kolson Limited		40,256		-		-	17.5%	1.0%
L&M Mayson Company Limited		35,878		1,644		-	15.6%	2.0%
Lotte Qingdao Foods Co., Ltd. <sup>3</sup>		6,846		-		4,737	-	-
Lotte India Co., Ltd. <sup>2</sup>		61,699		-		-	10.6%	2.0%
	₩	<u>1,169,232</u>	₩	<u>2,336</u>	₩	<u>4,737</u>		

<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 or 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>2</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>3</sup> The Group calculated the recoverable amount based on the fair value of net assets for Lotte Qingdao Foods Co., Ltd. The Group plans to sell the individual assets or shares of Lotte Qingdao Foods Co., Ltd. based on its fair value of net assets after the end of the reporting period. It is expected that it will take more than one year to complete the disposal process, and therefore, a transfer to non-current assets held for sale will be carried out at the time of confirming the agreement for the disposal plan.

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2022 and 2021**

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:

<i>(in millions of Korean won)</i>	<b>1% increase in discount rate<sup>1</sup></b>		<b>1% decrease in perpetual growth rate</b>	
	<b>Recoverable amount</b>	<b>Changes in impairment</b>	<b>Recoverable amount</b>	<b>Changes in impairment</b>
Lotte Confectionery RUS LLC	₩ 79,616	₩ 6,318	₩ 82,168	₩ 3,400
Lotte Kolson(Private)Limited	37,917	1,649	39,001	421
LOTTE Rakhat JSC	221,625	6,226	231,550	-
L&M Mayson Company Limited	33,292	3,016	34,238	1,940
Lotte Confectionery Holdings (Europe) B.V.	112,375	11,366	118,831	4,880

<sup>1</sup> When the discount rate is increased, nominal cash flow may be also increased depending on inflation, but the amount is calculated under the assumption that nominal cash flow remains the same. The recoverable amount may be increased as future notional cash flow is increased.

**20. Investment Property**

Changes in investment property for the years ended December 31, 2022 and 2021, are as follows:

<i>(in millions of Korean won)</i>	<b>2022</b>			
	<b>Land</b>	<b>Buildings</b>	<b>Others</b>	<b>Total</b>
Beginning balance	₩ 107,116	₩ 45,880	₩ -	₩ 152,996
Increase due to business combination	72,860	11,071	8	83,939
Acquisition	-	-	89	89
Transfer	12,697	(5,144)	(108)	7,445
Disposal	(4,740)	(1,739)	(501)	(6,980)
Depreciation	-	(2,748)	(217)	(2,965)
Foreign currency translations and others <sup>1</sup>	(988)	2,929	737	2,678
Ending balance	₩ 186,945	₩ 50,249	₩ 8	₩ 237,202
Acquisition cost	₩ 186,945	₩ 90,121	₩ 11	₩ 277,077
Accumulated depreciation	-	(39,872)	(3)	(39,875)

<sup>1</sup> Exchange differences and others include the effects of exchange rate changes, transfers between accounts and others.

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2022 and 2021**

Fair value of investment property as at December 31, 2022, is ₩ 313,632 million (2021: ₩ 203,369 million).

Rental income from investment property during the year ended December 31, 2022, is ₩ 20,694 million (2021: ₩ 15,401 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, 2022 is ₩ 2,965 million (2021: ₩ 1,911 million). Among this total amount, ₩ 2,893 million (2021: ₩ 1,827 million) is included in cost of sales, and ₩ 72 million (2021: ₩ 84 million) is included in selling and administrative expenses. Repairs and maintenance expenses amount to ₩ 2,408 million (2021: ₩ 221 million).

*(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)

**21. Trade and Other Payables**

Trade and other payables as at December 31, 2022 and 2021, are as follows:

*(in millions of Korean won)*

	<b>2022</b>	<b>2021</b>
Trade payables	₩ 186,431	₩ 111,779
Non-trade payables	116,047	74,353
	<u>₩ 302,478</u>	<u>₩ 186,132</u>

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2022 and 2021**

**22. Borrowings**

Details of carrying amounts of borrowings as at December 31, 2022 and 2021, are as follows:

**Current Borrowings**

(in millions of Korean won)

	Bank	Maturity date	Annual interest rate (%) as at December 31, 2022	2022	2021
Short-term borrowings	Shinhan Bank	-	-	₩ -	21
	Busan Bank, Cheongdo Branch	2023-06-16	4.50	2,722	-
	Faysal bank Limited and others	2023-12-29	15.82 ~ 16.07	5,099	4,414
Back-up line CP <sup>1,2</sup>	Shinhan Bank	2025-04-08	91 days CD + 0.8	20,000	-
Back-up line CP <sup>1</sup>	Shinhan Bank	2024-10-14	91 days CD + 1.15	40,000	-
CP	Kiwoom Securities	2023-05-08	5.52	10,000	-
	Kiwoom Securities	2023-06-01	5.95	28,000	-
Current portion of borrowings	Mizuho Bank, Ltd.	-	-	-	80,000
	Mizuho Bank, Ltd.	2023-07-31	1.57	23,000	-
	Mizuho Bank, Ltd.	2023-09-27	1.59	7,000	-
	Mizuho Bank, Ltd.	2023-10-30	1.58	20,000	-
	Woori Bank, London Branch	2023-03-31	3 SOFR + 0.84	5,193	4,866
	Woori Bank, Bahrain Branch and others	2023-12-29	1.5 ~ 9.42	42,541	25,681
				₩ 203,555	114,982

<sup>1</sup> The Group issues CP every three months in relation to back-up line CP borrowings and has entered into an agreement with Shinhan Bank to underwrite corporate notes until the longest maturity date. As the Group does not have the right to defer settlement of the liabilities over 12 month after the reporting period as at December 31, 2022, it is classified as current portion of borrowings.

<sup>2</sup> The Group uses interest rate swap transactions to hedge the risk of cash flow fluctuations due to interest rate fluctuations in relation to the above borrowings.

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2022 and 2021**

---

**Non-current Borrowings**

*(in millions of Korean won)*

	<b>Bank</b>	<b>Maturity date</b>	<b>Annual interest rate (%) as at December 31, 2022</b>	<b>2022</b>	<b>2021</b>
Long-term borrowings	Mizuho Bank, Ltd.	-	-	₩ -	₩ 23,000
		-	-	-	7,000
		-	-	-	20,000
		2024-10-29	2.19	20,000	20,000
		2025-01-24	2.50	80,000	-
		2024-10-11	5.33	40,000	-
	Nonghyup Bank	2025-04-20	4.18	20,000	-
	Habib Bank Limited and others	2027-08-18	8.20 ~ 17.21	8,385	13,300
	Woori Bank, London Branch	2025-01-22	3 SOFR + 0.84	9,943	14,182
	Woori Bank, Bahrain Branch and others	2024-10-10	1.5 ~ 5.82	16,642	34,149
VTB Bank and others	2025-12-08	4.9 ~ 5.5	2,946	4,994	
			₩ 197,916	₩ 136,625	

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2022 and 2021**

**Debentures**

(in millions of Korean won)

	Bank	Maturity date	Annual interest				
			rate (%) as at December 31, 2022	2022	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	-	-		-		170,000
64 <sup>th</sup> -1 Debenture in KRW	NH INVESTMENT & SECURITIES	-	-		-		80,000
64 <sup>th</sup> -2 Debenture in KRW	CO.,LTD. and others	2024-06-13	1.75		40,000		40,000
65 <sup>th</sup> Debenture in KRW	Korea Investment & Securities Co., Ltd. and others	2023-02-17	1.55		110,000		110,000
66 <sup>th</sup> -1 Debenture in KRW	NH INVESTMENT & SECURITIES	2025-02-17	2.95		100,000		-
66 <sup>th</sup> -2 Debenture in KRW	CO.,LTD. and others	2027-02-17	3.04		100,000		-
67 <sup>th</sup> Debenture in KRW	NH INVESTMENT & SECURITIES CO.,LTD. and others	2023-04-13	1.98		100,000		-
68 <sup>th</sup> Debenture in KRW	KB Securities and others	2024-02-29	1.36		70,000		-
69 <sup>th</sup> Debenture in KRW	Kiwoom Securities and others	2025-02-28	3.19		150,000		-
3 <sup>rd</sup> Debenture in foreign currency <sup>1</sup>	MUFG	2024-01-12	Three-month LIBOR+0.05		63,365		59,275
4 <sup>th</sup> Debenture in foreign currency <sup>1</sup>	DBS	2024-01-29	Three-month LIBOR+0.98		63,365		59,275
					<u>846,730</u>		<u>568,550</u>
Less: discount on debentures					(877)		(401)
Total book amount of debentures					<u>845,853</u>		<u>568,149</u>
Current portions:					<u>209,965</u>		<u>249,956</u>
Current debentures					210,000		250,000
Current discounts on debentures					(35)		(44)
Total book amount of non-current debentures					<u>₩</u> 635,888	<u>₩</u>	<u>318,193</u>

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

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2022 and 2021**

<sup>1</sup> The Group uses interest rate swap transactions to hedge the risk of cash flow fluctuations due to interest rate fluctuations in relation to the above borrowings.

Details of carrying amount and fair value of debentures as at December 31, 2022 and 2021, are as follows:

<i>(in millions of Korean won)</i>	<b>2022</b>		<b>2021</b>	
	<b>Carrying amount</b>	<b>Fair value<sup>1</sup></b>	<b>Carrying amount</b>	<b>Fair value<sup>1</sup></b>
Debentures	₩ 845,853	₩ 838,220	₩ 568,149	₩ 569,689

<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, 2022 and 2021, are as follows:

<i>(in millions of Korean won)</i>	<b>2022</b>		<b>2021</b>	
	<b>Borrowings</b>	<b>Debentures</b>	<b>Borrowings</b>	<b>Debentures</b>
Beginning balance	₩ 251,607	₩ 568,149	₩ 257,764	₩ 612,691
Increase due to business combination	-	319,512	-	-
Amortization	-	479	-	330
Repayments	(96,360)	(250,000)	(75,390)	(163,200)
Increase	247,729	199,532	62,104	109,828
Exchange differences	(1,869)	8,181	6,719	8,500
Others	364	-	410	-
Ending balance	₩ 401,471	₩ 845,853	₩ 251,607	₩ 568,149

## **23. Post-employment Benefits**

### **23.1 Defined Benefit Plan**

The Group operates defined benefit pension plans in various countries. 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.

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2022 and 2021**

Details of net defined benefit liabilities (assets) recognized on the consolidated statements of financial position as at December 31, 2022 and 2021, are as follows:

<i>(in millions of Korean won)</i>	<b>2022</b>	<b>2021</b>
Present value of defined benefit obligations	₩ 179,384	₩ 130,963
Fair value of plan assets <sup>1</sup>	(219,649)	(126,447)
Liabilities (assets) in the consolidated statement of financial position	<u>₩ (40,265)</u>	<u>₩ 4,516</u>

<sup>1</sup> Fair value of plan assets includes ₩ 48 million (2021: ₩ 48 million) of contributions to the National Pension Fund.

Changes in the present value of defined benefit obligations for the years ended December 31, 2022 and 2021, are as follows:

<i>(in millions of Korean won)</i>	<b>2022</b>	<b>2021</b>
Beginning balance	₩ 130,963	₩ 131,068
Increase due to business combination	57,619	-
Current service cost	18,729	15,800
Interest expenses	4,318	2,733
Remeasurements of actuarial gains and losses:		
- Actuarial gains and losses arising from changes in demographic assumptions	(434)	43
- Actuarial gains and losses arising from changes in financial assumptions	(15,537)	(4,082)
- Actuarial gains and losses arising from experience adjustments	2,473	3,983
Payments from plans:		
- Benefit payments	(10,854)	(12,363)
- Benefit payments due to participation in defined contribution pension	(9,309)	(6,168)
Liabilities transferred from affiliated company	1,608	1,586
Transfer to liabilities of disposal groups held for sale	-	(1,706)
Exchange differences	(192)	69
Ending balance	<u>₩ 179,384</u>	<u>₩ 130,963</u>

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2022 and 2021**

Changes in the fair value of plan assets for the years ended December 31, 2022 and 2021, are as follows:

<i>(in millions of Korean won)</i>	<b>2022</b>		<b>2021</b>	
Beginning balance	₩	126,447	₩	122,249
Increase due to business combination		57,190		-
Return on plan assets		4,194		2,462
Contributions of employers		51,290		21,494
Payments from plans:				
- Benefit payments		(11,597)		(12,285)
- Benefit payments due to participation in defined contribution pension		(9,309)		(6,168)
Management fees		(162)		-
Remeasurements of actuarial gains and losses		(1,096)		(600)
Transfer amount from affiliated company		2,813		1,586
Exchange differences		(53)		47
Transfer to liabilities of disposal groups held for sale		(68)		(2,338)
Ending balance	₩	<u>219,649</u>	₩	<u>126,447</u>

Plan assets as at December 31, 2022 and 2021, are as follows:

<i>(in millions of Korean won)</i>	<b>2022</b>				<b>2021</b>			
	<u>Amount</u>		<u>Proportion (%)</u>		<u>Amount</u>		<u>Proportion (%)</u>	
Insurance instrument	₩	176,688	₩	99.97	₩	126,399	₩	99.96
National pension fund		48		0.03		48		0.04
	₩	<u>176,736</u>	₩	<u>100.00</u>	₩	<u>126,447</u>	₩	<u>100.00</u>

The principal actuarial assumptions as at December 31, 2022 and 2021, are as follows:

<i>(in percentage, %)</i>	<b>2022</b>	<b>2021</b>
Discount rate	5.55 ~ 13.50	2.88 ~ 10.75
Salary growth rate	2.97 ~ 13.78	2.26 ~ 8.50
Future salary increase rate	2.10 ~ 8.50	1.95 ~ 8.50

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2022 and 2021**

The sensitivity of the defined benefit obligations as at December 31, 2022, to changes in the weight principal assumptions is:

	<b>2022</b>		
	<b>Changes in principal assumptions</b>	<b>Increase in principal assumptions</b>	<b>Decrease in principal assumption</b>
Discount rate	1.00%	4.56% decrease	4.93% increase
Salary growth rate	1.00%	4.94% increase	4.63% decrease
Future salary increase rate	1.00%	4.85% increase	4.46% decrease

The impact on the defined benefit obligation was analyzed by considering the weight of the balance of the defined benefit obligation at the end of the reporting period.

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, 2023, are ₩ 19,352 million.

The expected maturity analysis of undiscounted pension benefits as at December 31, 2022, 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	₩ 30,666	₩ 28,962	₩ 85,402	₩ 351,611	₩ 496,641

The weighted average duration of the defined benefit obligations is 5.91 years.

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2022 and 2021**

---

**23.2 Defined Contribution Plan**

Recognized expense related to the defined contribution plan for the year ended December 31, 2022, is ₩ 8,218 million (2021: ₩ 5,283 million). Among this total amount, ₩ 3,250 million (2021: ₩ 2,325 million) is included in cost of sales, and ₩ 4,968 million (2021: ₩ 2,958 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.

<i>(in millions of Korean won)</i>	<b>2022</b>	<b>2021</b>
Short-term employee benefits	₩ 48,144	₩ 32,388
Other long-term employee benefits <sup>1</sup>	20,345	11,160
	<u>₩ 68,489</u>	<u>₩ 43,548</u>

<sup>1</sup> The amounts expected to be paid within one year are classified as other current liabilities.

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2022 and 2021**

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

Income tax expense for the years ended December 31, 2022 and 2021, consist of:

<i>(in millions of Korean won)</i>	<b>2022</b>		<b>2021</b>	
Current tax:				
Current tax on profits for the year	₩	26,406	₩	25,637
Adjustments in respect of prior periods		(550)		(338)
Total current tax		<u>25,856</u>		<u>25,299</u>
Deferred tax:				
Origination and reversal of temporary differences		(18,241)		(6,912)
Others		12		(618)
Total deferred tax		<u>(18,229)</u>		<u>(7,530)</u>
Income tax expense	₩	<u>7,627</u>	₩	<u>17,769</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>2022</b>		<b>2021</b>	
Profit before tax	₩	51,507	₩	54,117
Tax calculated at domestic tax rates applicable to profits in the respective countries		8,113		15,449
Tax effects of:				
Income not subject to tax		(291)		(400)
Expenses not deductible for tax purposes		1,150		2,687
Tax credit		(2,017)		(4,343)
Changes in temporary differences not recognized		5,865		7,685
Changes in realizability of temporary differences		-		(4,630)
Income tax refunds		(507)		(512)
Tax effects on profit or loss of subsidiaries for the year		484		1,350
Others		(5,170)		483
Income tax expense	₩	<u>7,627</u>	₩	<u>17,769</u>

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2022 and 2021**

The income tax credited (charged) directly to equity for the years ended December 31, 2022 and 2021, are as follows:

<i>(in millions of Korean won)</i>	2022			2021		
	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	₩ (262)	₩ 61	₩ (201)	₩ -	₩ -	₩ -
Cash flow hedge	3,683	(858)	2,825	2,629	(681)	1,948
Remeasurements of net defined benefit obligations	12,121	(3,058)	9,063	(544)	129	(415)
Gain or loss on overseas operations translation	(15,124)	333	(14,791)	20,985	(808)	20,177
	<u>₩ 418</u>	<u>₩ (3,522)</u>	<u>₩ (3,104)</u>	<u>₩ 23,070</u>	<u>₩ (1,360)</u>	<u>₩ 21,710</u>

The analysis of deferred tax assets and liabilities as at December 31, 2022 and 2021, are as follows:

<i>(in millions of Korean won)</i>	2022	2021
Deferred tax assets		
Deferred tax asset to be recovered after more than 12 months	₩ 74,076	₩ 46,057
Deferred tax asset to be recovered within 12 months	17,492	19,502
Deferred tax liabilities		
Deferred tax liability to be recovered after more than 12 months	(252,663)	(213,358)
Deferred tax liability to be recovered within 12 months	(4,448)	(39)
Deferred tax liabilities, net	<u>₩ (165,543)</u>	<u>₩ (147,838)</u>

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2022 and 2021**

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

(in millions of Korean won)

	2022															
	January 1, 2022	Changes due to business combination	Statement of profit or loss	Other comprehensive income	Retained earnings	Others	Currency translation differences	December 31, 2022								
<b>Deferred tax liabilities</b>																
Gain (loss) on valuation of financial assets at fair value through other comprehensive income	₩	-	₩	(232)	₩	-	₩	47	₩	-	₩	-	₩	14	₩	(171)
Revaluation of land		(82,269)		(22,275)		5,623		-		-	-	-	-			(98,921)
Advanced depreciation provision		(17,223)		(3,218)		949		-		-	-	-	-			(19,492)
Depreciation		(17,978)		(5,349)		154		-		-	-	-	226			(22,947)
Retirement deposits		(24,428)		(13,841)		6,378		-		48	-	-	(1)			(31,844)
Business combination assessment		(44,292)		(13,338)		16,532		-		-	-	-	1,095			(40,003)
Others		(21,751)		(9,290)		(12,835)		(584)		-	-	-	728			(43,732)
	₩	(207,942)	₩	(67,543)	₩	16,801	₩	(537)	₩	48	₩	-	₩	2,062	₩	(257,111)
<b>Deferred tax assets</b>																
Accrual for retirement and severance benefits	₩	19,330	₩	12,950	₩	(4,478)	₩	-	₩	(26)	₩	-	₩	119	₩	27,895
Gain (loss) on valuation of financial assets at fair value through other comprehensive income		2,072		813		-		14		-	-	-	212			3,111
Depreciation		-		2,922		37		-		-	-	-	-			2,959
Provisions for sales return		3,341		289		(850)		-		-	-	-	-			2,780
Bad debt expense at the end of prior period		5,340		946		(469)		-		-	-	-	(11)			5,806
Remeasurements of net defined benefit liabilities		5,377		1,995		-		-		(3,080)	-	-	-			4,292
Accrued expenses		5,002		4,712		(1,422)		-		-	-	-	(7)			8,285
Non-deductible bad debt reserves		958		-		(958)		-		-	-	-	-			-
Others		18,684		10,257		9,568		59		-	-	-	(2,128)			36,440
		60,104		34,884		1,428		73		(3,106)		-	(1,815)			91,568
	₩	(147,838)	₩	(32,659)	₩	18,229	₩	(464)	₩	(3,058)	₩	-	₩	246	₩	(165,543)

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2022 and 2021**

(in millions of Korean won)

	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 depreciation provision		(17,381)		158		-		-		-		-		(17,223)
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)
	₩	(214,964)	₩	10,756	₩	(1,218)	₩	(43)	₩	235	₩	(2,708)	₩	(207,942)
<b>Deferred tax assets</b>														
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
		63,235		(3,844)		(272)		172		(235)		1,048		60,104
	₩	(151,729)	₩	6,912	₩	(1,490)	₩	129	₩	-	₩	(1,660)	₩	(147,838)

As at December 31, 2022, the Group did not recognize deductible temporary differences ₩ 235,125 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, 2022, the Group did not recognize temporary differences ₩ 176,940 million as deferred tax liabilities arising on investments in subsidiaries and associates as timing of reversal of the temporary differences are controllable and is not subject to extinction with dividend paid and it is probable that the temporary difference will not be reversed in the foreseeable future.

The deferred tax assets include carried-forward tax losses of Lotte Confectionery RUS LLC, 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 2023 onwards.

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2022 and 2021**

**25. Provisions**

Changes in provisions for the years ended December 31, 2022 and 2021, are as follows:

<i>(in millions of Korean won)</i>	<b>2022</b>		<b>2021</b>	
Beginning balance	₩	20,948	₩	27,107
Increase due to business combination		4,715		-
Used during the year <sup>1</sup>		(9,331)		(20,434)
Transfer		(3,032)		-
Additional provisions		6,986		17,504
Others		(181)		(3,229)
Ending balance <sup>2</sup>	₩	20,105	₩	20,948
Less: current		(19,596)		(20,814)
Non-current	₩	509	₩	134

<sup>1</sup> The amounts include the returned amounts incurred and payments incurred due to other tax obligations during the year ended December 31, 2022.

<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.

**26. Share Capital, Capital Surplus and Other Components of Equity**

*(a) Share capital*

<i>(in Korean won and in shares)</i>	<b>2022</b>		<b>2021</b>		<b>Increase (Decrease)</b>
Number of authorized shares		30,000,000 shares		30,000,000 shares	-
Par value per share	₩	500	₩	500	-
Shares issued		9,434,574 shares		6,416,717 shares	3,017,857 shares
Share capital	₩	4,717,287,000	₩	3,208,358,500	₩ 1,508,928,500

The Group issued additional new shares as a result of the merger with Lotte Foods Co., Ltd. The newly issued shares are 3,017,857 ordinary shares.

As at December 31, 2022, the number of non-voting shares under the Commercial Law is 593,307 treasury shares of ordinary shares (2021: 4,578 shares).

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2022 and 2021**

*(b) Capital surplus*

<i>(in millions of Korean won)</i>	<b>2022</b>		<b>2021</b>	
Share premium <sup>1,2</sup>	₩	1,130,430	₩	1,178,514

<sup>1</sup> The Group transferred ₩ 358.7 billion from its capital reserve into retained earnings through the resolution of extraordinary shareholders' meeting on May 27, 2022, in order to implement and strengthen shareholder-friendly policies and secure sufficient resources for dividends.

<sup>2</sup> As a result of the merger with Lotte Foods Co., Ltd. on July 1, 2022, the Group increased ₩ 310.6 billion of share premium.

*(c) Other components of equity*

<i>(in millions of Korean won)</i>	<b>2022</b>		<b>2021</b>	
Treasury shares	₩	(23,297)	₩	(870)
Others <sup>1</sup>		461,158		(5,169)
	₩	<u>437,861</u>	₩	<u>(6,039)</u>

<sup>1</sup> The Group recognized assets and liabilities acquired in a business combination under common control with Lotte Foods Co., Ltd., by applying the book amount method in the consolidated financial statements. In addition, the difference between the consideration and the book amount of net assets was recognized as other capital adjustments (Note 41).

*(d) Changes in treasury shares*

<i>(in millions of Korean won and in shares)</i>	<b>Number of shares</b>	<b>Carrying amounts</b>	
Beginning balance	4,578 shares	₩	870
Put options exercised	190,533 shares		22,037
Acquisition of new shares issued in the treasury shares of the merged corporation	395,035 shares		-
Acquisition of fractional shares related to merged new shares	3,161 shares		367
Ending balance	<u>593,307 shares</u>	₩	<u>23,274</u>

The Group acquired 4,578 treasury shares for ₩870 million through acquisition of fractional shares which occurred from spin-off on October 1, 2017. In addition, the Group acquired 588,729 treasury shares for ₩22,427 million through exercising shareholders' put-option right and payment of fractional shares in order to merge with Lotte Foods Co., Ltd. Meanwhile, the Group issued new shares for the treasury shares held by the merged company, and the acquisition price was measured as zero because there is no consideration to be paid for the acquisition of the treasury shares.

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2022 and 2021**

**27. Accumulated Other Comprehensive Income**

Accumulated other comprehensive income as at December 31, 2022 and 2021, consists of:

<i>(in millions of Korean won)</i>	<b>2022</b>	<b>2021</b>
Financial asset at fair value through other comprehensive income	₩ (1,760)	₩ -
Cash flow hedge	1,592	(1,233)
Cumulative effect of foreign currency translations	(47,617)	(34,177)
Share of other comprehensive income of associates	(79)	-
	<u>₩ (47,864)</u>	<u>₩ (35,410)</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, 2022 and 2021, are as follows:

<i>(in millions of Korean won)</i>	<b>2022</b>				
	<b>Beginning balance</b>	<b>Increase (Decrease)</b>	<b>Reclassification to profit or loss</b>	<b>Changes due to business combination</b>	<b>Ending balance</b>
Financial asset at fair value through other comprehensive income	₩ -	₩ (202)	₩ -	₩ (1,558)	₩ (1,760)
Cash flow hedge	(1,233)	2,825	-	-	1,592
Cumulative effect of foreign currency translations	(34,177)	(13,440)	-	-	(47,617)
Share of other comprehensive income of associates	-	(79)	-	-	(79)
	<u>₩ (35,410)</u>	<u>₩ (10,896)</u>	<u>₩ -</u>	<u>₩ (1,558)</u>	<u>₩ (47,864)</u>

<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	(54,769)	20,592	-	(34,177)
	<u>₩ (57,927)</u>	<u>₩ 22,517</u>	<u>₩ -</u>	<u>₩ (35,410)</u>

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2022 and 2021**

---

**28. Retained Earnings**

Details of retained earnings as at December 31, 2022 and 2021, are as follows:

<i>(in millions of Korean won)</i>	<b>2022</b>		<b>2021</b>	
Legal reserves <sup>1</sup>	₩	1,604	₩	1,604
Discretionary reserves <sup>2</sup>		200		200
Retained earnings before appropriation <sup>3</sup>		496,898		92,040
	₩	<u>498,702</u>	₩	<u>93,844</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.

<sup>3</sup> The Group transferred ₩ 358.7 billion from its capital reserve into retained earnings through the resolution of extraordinary shareholders' meeting on May 27, 2022, in order to implement and strengthen shareholder-friendly policies and secure sufficient resources for dividends.

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2022 and 2021**

---

**29. Selling and Administrative Expenses**

Selling and administrative expenses for the years ended December 31, 2022 and 2021, are as follows:

*(in millions of Korean won)*

	<b>2022</b>	<b>2021</b>
Salaries	₩ 201,733	₩ 160,478
Severance benefits	16,144	13,013
Employee fringe benefits	38,740	30,205
Travel expenses	4,482	2,777
Vehicles maintenance expenses	14,265	7,184
Insurance	3,217	2,672
Taxes and dues	11,986	6,455
Entertainment	1,968	1,054
Supplies expenses	7,682	5,177
Communications	3,094	2,355
Repairs and maintenance	6,706	5,643
Rental expenses	7,759	4,951
Depreciation	41,871	33,420
Amortization	14,191	12,229
Commission expenses	208,680	166,494
Advertising expenses	72,120	60,144
Sale commissions	59,239	46,325
Sales promotional expenses	24,480	20,449
Impairment loss (reversal)	(2,397)	(2,161)
Transportation and storage expenses	48,314	35,738
Miscellaneous expenses	15,536	10,009
	<u>₩ 799,810</u>	<u>₩ 624,611</u>

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2022 and 2021**

---

**30. Expenses by Nature**

Cost of sales and selling and administrative expenses that are recorded by nature for the years ended December 31, 2022 and 2021, consist of:

<i>(in millions of Korean won)</i>	<b>2022</b>	<b>2021</b>
Changes in finished goods, merchandise and work-in-process	₩ (106,029)	₩ (43,178)
Raw materials and supplies used	1,461,137	760,563
Purchasing merchandise	303,528	243,416
Employee benefit expense	429,729	314,477
Advertising expense	72,120	60,144
Rental expense	10,431	6,505
Commission expenses	334,712	255,283
Depreciation	138,872	105,567
Amortization	14,758	12,693
Sales commissions	59,239	46,325
Sales promotional expense	24,480	20,449
Miscellaneous expenses	347,903	254,692
	<u>₩ 3,090,880</u>	<u>₩ 2,036,936</u>

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2022 and 2021**

**31. Other Income**

Other income for the years ended December 31, 2022 and 2021, consist of:

<i>(in millions of Korean won)</i>	<b>2022</b>		<b>2021</b>	
Gain on foreign currency transaction	₩	5,667	₩	4,110
Gain on foreign currency translation		1,784		998
Gain on disposal of right-of-use assets		55		32
Gain on disposal of property, plant and equipment		2,083		3,883
Gain on disposal of intangible assets		-		14
Gain on disposal of investment property		60		121
Reversal of loss on impairment of property, plant and equipment		7		284
Reversal of loss on investment property		-		70
Gain on disposal of assets held for sale		886		-
Miscellaneous gains		9,376		6,111
	₩	19,918	₩	15,623

**32. Other Expenses**

Other non-operating expenses for the years ended December 31, 2022 and 2021, consist of:

<i>(in millions of Korean won)</i>	<b>2022</b>		<b>2021</b>	
Loss on foreign currency transaction	₩	5,372	₩	2,411
Loss on foreign currency translation		1,678		1,152
Loss on disposal of investment property		1,739		-
Loss on impairment of property, plant and equipment		8,851		3,396
Loss on disposal of property, plant and equipment <sup>1</sup>		11,802		2,287
Loss on disposal of intangible assets		48		76
Loss on impairment of intangible assets		2,336		27,506
Loss on disposal of right-of-use assets		59		-
Loss on disposal of assets and liabilities held for sale		58		-
Donations		8,337		7,075
Other Impairment loss of other receivables		-		18
Miscellaneous losses		13,310		12,041
	₩	53,590	₩	55,962

<sup>1</sup> As the disposal decision was made for the year ended December 31, 2022, the Group recognized ₩ 8,729 million of loss on disposal because future economic benefits are not expected from the future use or disposal.

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2022 and 2021**

**33. Finance Income**

Finance income for the years ended December 31, 2022 and 2021, consist of:

<i>(in millions of Korean won)</i>	<b>2022</b>		<b>2021</b>	
Interest income	₩	8,737	₩	5,972
Gain on foreign currency translation		5,557		2,811
Gain on valuation of derivatives for hedging purpose		8,180		8,500
Gain on transactions of derivatives for hedging purpose		-		1,470
	₩	<u>22,474</u>	₩	<u>18,753</u>

**34. Finance Costs**

Finance costs for the years ended December 31, 2022 and 2021, consist of:

<i>(in millions of Korean won)</i>	<b>2022</b>		<b>2021</b>	
Interest expenses	₩	28,299	₩	20,023
Loss on foreign currency transaction		2,024		2,040
Loss on foreign currency translation		16,946		10,530
Loss on valuation of financial assets at fair value through profit or loss		856		-
Loss on transactions of derivatives for hedging purpose		-		13
	₩	<u>48,125</u>	₩	<u>32,606</u>

**35. Earnings per Share**

*(a) Basic earnings per share*

Basic earnings per share is calculated by dividing the profit attributable to owners of the Group by the weighted average number of ordinary shares outstanding during the financial year excluding treasury shares (Note 23).

Basic earnings per ordinary share for the years ended December 31, 2022 and 2021, are as follows:

	<b>2022</b>		<b>2021</b>	
Profit attributable to ordinary shares <i>(in Korean won)</i>	₩	47,034,591,805	₩	34,894,318,170
Weighted average number of ordinary shares outstanding <i>(unit: shares)</i> <sup>1</sup>		<u>7,635,862</u>		<u>6,412,139</u>
Basic earnings per ordinary share <i>(in Korean won)</i>	₩	<u>6,160</u>	₩	<u>5,442</u>

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2022 and 2021**

---

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

<i>(unit: shares)</i>	<b>2022</b>		
	<b>Number of Shares</b>	<b>Number of days</b>	<b>Accumulated amount</b>
Ordinary shares issued	6,416,717	365	2,342,101,705
	3,017,857	184	555,285,688
Ordinary treasury shares	(4,578)	365	(1,670,970)
	(190,328)	186	(35,401,008)
	(395,035)	184	(72,686,440)
	(2)	171	(342)
	(3,161)	165	(521,565)
	(203)	86	(17,458)
	<u>8,841,267</u>		<u>2,787,089,610</u>

Weighted average numbers of shares outstanding:  $2,787,089,610 \div 365 \text{ days} = 7,635,862 \text{ shares}$

<i>(unit: shares)</i>	<b>2021</b>		
	<b>Number of Shares</b>	<b>Number of days</b>	<b>Accumulated amount</b>
Ordinary shares issued	6,416,717	365	2,342,101,705
Ordinary treasury shares	<u>(4,578)</u>	365	<u>(1,670,970)</u>
	<u>6,412,139</u>		<u>2,340,430,735</u>

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

*(b) Diluted earnings per share*

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

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2022 and 2021**

---

**36. Dividends**

A dividend in respect of the year ended December 31, 2021, amounts to ₩ 11,215 million (2020: ₩ 10,983 million) of the dividend was paid in 2022, and there are no dividend payables as at December 31, 2022.

Details of dividends are as follows:

<i>(in millions of Korean won)</i>	<b>2022</b>		<b>2021</b>	
Lotte Confectionery Co., Ltd.	₩	10,259	₩	10,259
Rakhat JSC		249		696
Confectionery Holdings B.V.		346		28
L&M Mayson Company Limited		361		-
	₩	11,215	₩	10,983

A dividend in respect of the year ended December 31, 2022, of ₩ 2,300 per share, amounting to a total dividend of ₩ 20,335 million, is to be proposed to shareholders at the annual general meeting on March 23, 2023. These consolidated financial statements do not reflect this dividend payable.

**37. Contingencies and Commitments**

As at December 31, 2022, the Group is a plaintiff in 41 lawsuits amounting to ₩ 3,717 million (2021: 51 lawsuits and ₩ 3,179 million) and a defendant in 24 lawsuits amounting to ₩ 84,926 million (2021: 21 lawsuits and ₩ 99,565 million). As at December 31, 2022, the Group is involved in cancellation of the penalty related to Fair Trade Commission investigation by Lotte Foods Co., Ltd., a merged company(Note 41), and the plaintiff's lawsuits value stated above does not include this lawsuit amount. 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 consolidated financial statements.

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2022 and 2021**

Details of agreements with financial institutions as at December 31, 2022 and 2021, are as follows:

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

	Financial institutions		2022		2021
Overdrafts	Shinhan Bank and others	₩	59,121	₩	48,414
Commercial paper	Shinhan Bank and others	₩	128,000	₩	-
General borrowings	Woori Bank and others	₩	50,200	₩	16,000
Facility loan	Woori Bank London branch	₩	3,445	₩	3,584
Secured loan of credit sales and others <sup>1</sup>	IBK Bank and others	₩	85,000	₩	40,000
L/C	Hana Bank and others	USD	55,577	USD	17,233
Derivative currency forwards	Shinhan Bank	USD	4,000	USD	-
Local L/C	Hana Bank	₩	1,000	₩	-
Performance guarantees	Seoul Guarantee Insurance Company and others	₩	6,417	₩	3,417

<sup>1</sup> The Group's trade payables are presented with the amount of loan limit according to the agreement with which the customer can receive a discount on receivables with the credit of the Group.

As at December 31, 2022, the Group has entered into agreements for the production of certain products and has paid royalty fees. Details of the agreements are as follows:

Provided by	Related products	Royalty	Expiry date
PEPSICO	Snack (Cheetos) production technology	Max [3.00% of Net sales, 2.00% of Gross sales]	December, 2023
	Snack (Doritos) production technology	Max [3.00% of Net sales, 2.18% of Gross sales]	December, 2023
	Quaker production technology	Max [3.00% of Net sales, 2.00% of Gross sales]	December, 2023
STANDARD CANDY COMPANY, LLC	GooGoo trademark use	1.35% of sales	December, 2026

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 for five years. According to this agreement, each party can use the other party's patents and trademarks. The related costs amounting to ₩ 124 million was recognized for the year ended December 31, 2022 (2021: ₩ 126 million).

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2022 and 2021**

*Joint liability existed before the spin-off*

After the spin-off, the newly established, the Group (formerly, Lotte Foods Co., Ltd.<sup>1</sup>) 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.

<sup>1</sup> Due to the merger in July 2022, joint liabilities for the liabilities of Lotte Foods Co., Ltd., a merged company, which was owned prior to the spin-off with Lotte Corporation Co., Ltd, transferred to the Group.

*Payment guarantees and collateral provided by 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:

*(in thousands of US dollar)*

		<b>Creditor</b>	<b>Guaranteed amount</b>	<b>Guarantee period</b>	<b>Remark</b>
		Woori Bank, Bahrain Branch <sup>1</sup>	USD 16,800	2022.10.13 – 2024.10.10	Borrowings
		Hana bank Amsterdam branch	USD 14,000	2021.04.30 - 2023.04.22	Borrowings
Subsidiaries	Lotte Confectionery RUS LLC	CITI Bank, Moscow Branch	USD 5,000	2021.04.19 - 2023.04.19	Borrowings
		Hana bank Bahrain branch	USD 5,000	2021.04.22 - 2023.04.22	Borrowings
	Lotte India Co., Ltd	Woori Bank, London Branch	USD 24,600	2020.02.26 - 2025.01.22	Borrowings

<sup>1</sup> It has been extended from the previous guarantee period (from October 15, 2020 to October 13, 2022).

The Group entered into a trademark license agreement with related parties and others as follows:

	<b>Related product</b>	<b>Provide to</b>	<b>Offer period</b>	<b>Fee</b>
Provision of technology	Choco pie	Lotte India Co., Ltd.	2017.10.1 – 2024.12.31	1.5% of Net sales
Provision of technology	SPOUT	Lotte India Co., Ltd.	2017.10.1 – 2024.12.31	1.5% of Net sales
Provision of license	SPOUT	Lotte India Co., Ltd.	2017.10.1 – 2024.12.31	1.5% of Net sales
Provision of technology	Choco pie and others	Lotte Confectionery RUS LLC	2017.10.1 – 2027.12.31	2.5% of Net sales

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2022 and 2021**

---

The Group entered into a trademark license usage agreement with related parties and others as follows:

	<b>Related products</b>	<b>Fee</b>	<b>Expiry date</b>
Lotte Chilsung Beverage	Cantata trademark use	3.0% of sales	2023.10.31, automatically extend
LOTTE GRS	Angel-in-us trademark use	2.5% of sales	2023.10.31, automatically extend
Lotte corporation	Lotte brand use	0.2% of sales amount after deducting advertising expenses (overseas entities 0.15%)	2024.12.31, automatically extend
	Management advisory commission	The amount after adding the amount obtained by multiplying 5% by the allocation base amount	2023.12.31, automatically extend
	Subsidiary consignment commission	The amount after adding the amount obtained by multiplying 5% by the allocation base amount	2023.12.31, automatically extend

*Shareholders' agreement*

The Group acquired L&M Mayson Company Limited, a subsidiary of which the Group directly or indirectly 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. 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.

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2022 and 2021**

---

*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>2022</b>		<b>2021</b>
Property, plant and equipment	₩	55,975	₩	6,390

*Assets provided as collateral*

Assets provided as collateral as at December 31, 2022, are as follows:

*(in millions of Korean won)*

<b>Secured assets</b>	<b>Secured party</b>		<b>Carrying amount</b>		<b>Secured amount</b>
Land		₩	2,500	₩	27,950
Buildings	Habib Bank Limited		10,830		
Machinery			21,529		
Land, buildings	HDFC Bank		7,481		4,593
Machinery			13,390		
Land	Hana Bank, Amsterdam Branch		1,654		6,337
Buildings			9,040		
Structures			2,028		
Buildings	Korea Development Bank, Qingdao Branch		5,790		3,629
Land usage rights			826		
			<u>₩ 75,068</u>		<u>₩ 42,509</u>

In addition, three notes and checks were provided as collateral from Lotte Engineering & Construction Co., Ltd., in relation to contract performance guarantees for the extension work of the Gimcheon plant.

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2022 and 2021**

---

*Greenhouse gas emission permits*

*Emission permits*

The Group 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 reporting period during the third plan period are as follows:

<i>(in tCO<sub>2</sub>-eq)</i>	<b>The third plan period</b>					<b>Remarks</b>	
	<b>Plan period</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>		<b>2025</b>
Certified emission amount		117,813	221,456	221,456	219,382	219,382	<sup>1</sup>

<sup>1</sup> As at December 31, 2022, the amounts of emission rights held by Lotte Confectionery Co., Ltd., a surviving company, and Lotte Foods Co., Ltd., a merged company, are 117,813tCO<sub>2</sub>-eq and 103,643tCO<sub>2</sub>-eq, respectively. Accordingly, after transferring rights and obligations of Lotte Foods Co., Ltd., the amount of emission rights held by the Company is 221,456tCO<sub>2</sub>-eq, and no emission rights have been provided as collateral.

The allowances that are received free of charge from the government are measured at zero. Emissions expected in 2022 are 215,258tCO<sub>2</sub>-eq, and emissions may change as a result of verification by a third-party verification agency and review by the competent authority. The emission rights are sufficient to fulfill the obligations under the emission liabilities incurred during the year ended December 31, 2022, and therefore, the emission liability was measured as zero.

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2022 and 2021**

---

**38. Related Party Transactions**

The Parent Company and its respective percentage of ownership as at December 31, 2022 and 2021, are as follows:

	Percentage of ownership (%)		Remark
	2022	2021	
Lotte Corporation Co., Ltd	47.47	48.42	-

Details of associate of the Group as at December 31, 2022 and 2021, are as follows:

	Percentage of ownership (%)		Remark
	2022	2021	
Lotte Agri-food Tech Fund No.1	43.42	21.71	1,2
PT.LOTTE RND Center Indonesia	33.33	-	2
LOTTE F&G Vietnam Company Limited	33.04	-	2
FOOD ASSEMBLE CO.,LTD.	19.60	-	2,3
Fresh Code Inc.	1.82	-	2,3
AeroFarms Inc.	2.19	-	3

<sup>1</sup> The Group made an additional investment of ₩ 990 million due to an agreement with Lotte Agri-food Tech Fund No.1 for which LOTTE VENTURES CORPORATION that belong to the Large Enterprise Group to which the Group belongs in accordance with the Monopoly Regulation and Fair Trade Act, and which acts as general partner (GP) of the fund. As at December 31, 2022, the amount of remaining additional investment agreement is ₩ 1,980 million.

<sup>2</sup> Acquired from merger with Lotte Foods Co., Ltd., during the year ended December 31, 2022.

<sup>3</sup> The Group has redeemable convertible preferred shares of FOOD ASSEMBLE CO.,LTD., Fresh Code Inc., AeroFarms Inc. Although the entities should be classified as associates because the Group has significant influence over the investees through the authority to appoint directors, the entities are classified and measured as financial assets at fair value through profit or loss in accordance with Korean IFRS 1109 because it is judged that the Group is not practically accessible to the profits related to the ownership interests in the associates through the relevant investment shares.

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2022 and 2021**

Details of joint ventures of the Group as at December 31, 2022 and 2021, are as follows:

	<b>Percentage of ownership (%)</b>		<b>Remark</b>
	<b>2022</b>	<b>2021</b>	
Lotte-Nestle Korea Co., Ltd	50.00	-	1

<sup>1</sup> Acquired from merger with Lotte Foods Co., Ltd., during the year ended December 31, 2022.

Details of other related parties that have sales and other transactions with the Group or have outstanding balances as at December 31, 2022 and 2021, are as follows:

	<b>2022</b>	<b>2021</b>	<b>Remark</b>
	Lotte GRS Co., Ltd.	Lotte GRS Co., Ltd.	
	-	Lotte Foods Co., Ltd.	
	Korea Seven Co., Ltd.	Korea Seven Co., Ltd.	
	Daehong Communications Inc.	Daehong Communications Inc.	
Other related parties	Lotte Global Logistics Co., Ltd.	Lotte Global Logistics Co., Ltd.	1
	Lotte Chilsung Beverage Co.,Ltd.	Lotte Chilsung Beverage Co.,Ltd. <sup>3</sup>	
	LOTTE INTERNATIONAL CO.,LTD.	LOTTE INTERNATIONAL CO.,LTD. <sup>3</sup>	
	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.	
Others	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. Lotte Foods Co., Ltd. is excluded from related parties due to merger.

<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.

<sup>3</sup> Included in 'Lotte Data Communication Company and others', in the notes to the consolidated financial statements of 2021.

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2022 and 2021**

Sales and purchases with related parties for the years ended December 31, 2022 and 2021, are as follows:

(in millions of Korean won)

Name of entity	2022													
	Sales		Purchase		Acquisition of right-of-use assets		Acquisition of property, plant and equipment		Disposal of property, plant and equipment		Other income <sup>1</sup>		Other expenses <sup>2</sup>	
<b>Parent Company</b>														
Lotte Corporation Co.,Ltd	₩	2,018	₩	54	₩	1,896	₩	47	₩	8	₩	12,980	₩	10,489
<b>Other related parties</b>														
Lotte GRS Co., Ltd		78,110		-		-		-		-		2,124		13
Lotte Foods Co., Ltd. <sup>3</sup>		1,382		30,827		-		-		-		3,751		1,833
Korea Seven Co., Ltd.		177,325		68		-		-		-		11		23,515
Daehong Communications Inc.		8		-		-		1,285		-		-		9,948
Lotte Global Logistics Co., Ltd.		17,215		811		4,755		-		-		-		136,959
Lotte Chilsung Beverage Co.,Ltd.		12,725		4,573		270		-		-		6,870		144
LOTTE INTERNATIONAL CO.,LTD.		3		168,908		-		-		-		-		-
Lotte Shopping Co., Ltd		87,526		-		-		-		-		1,562		5,089
Lotte Data Communication Company and others		18,332		3,640		191		10,881		-		631		19,907
<b>Others</b>														
Lotte Aluminum Co., Ltd.		821		50,256		-		2,185		-		-		566
Lotte Capital Co., Ltd.		13		-		-		958		-		-		427
Lotte Auto Lease Co.,Ltd. and others		30,953		235		1,788		1,428		-		1,288		5,267
	₩	426,431	₩	259,372	₩	8,900	₩	16,784	₩	8	₩	29,217	₩	214,157

<sup>1</sup> Other income of Lotte Corporation Co., Ltd. includes the settlement amount of transfer of lotte HR development center.

<sup>2</sup> The Group has entered into lease contracts with the related parties, and the amount of interest expenses paid according to the amortization of lease liabilities is included in other expenses. Other expenses include ₩ 24,189 million for which the amount accounted for as a sales deduction (Korea Seven Co., Ltd.: ₩ 19,082 million, Lotte Shopping Co., Ltd: ₩ 1,790 million, LOTTE CVS 711 CO., LTD.: ₩ 3,219 million, and other related parties: ₩ 98 million).

<sup>3</sup> The Group includes transactions until June 2022 before the merger with Lotte Foods Co., Ltd.

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2022 and 2021**

(in millions of Korean won)

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 Chilsung Beverage Co.,Ltd.	1,590	269	-	-	5,481	7
LOTTE INTERNATIONAL CO.,LTD.	162	-	-	-	-	-
Lotte Shopping Co., Ltd	60,199	-	-	-	1,642	2,380
Lotte Data Communication Company and others	16,046	416	-	5,324	606	15,923
<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 paid according to the amortization of lease liabilities is included in other expenses. Other expenses include ₩ 8,581 million for which the amount accounted for as a sales deduction (Korea Seven Co., Ltd.: ₩ 8,483 million, Lotte Shopping Co., Ltd: ₩ 23 million, and other related parties: ₩ 75 million).

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2022 and 2021**

Fund transactions with related parties for the years ended December 31, 2022 and 2021, are as follows:

(in millions of Korean won)

Name of entity	2022		
	Dividend	Repayment of lease liabilities	Cash contributions <sup>1</sup>
<b>Parent Company</b>			
Lotte Corporation Co., Ltd	₩ 4,971	₩ 371	₩ -
<b>Associate</b>			
Lotte Agri-food Tech Fund No.1	-	-	990
<b>Other related parties</b>			
Lotte Global Logistics Co.,Ltd.	-	1,474	-
Lotte Chilsung Beverage Co.,Ltd.	-	100	-
Lotte Shopping Co., Ltd	-	161	-
Lotte Data Communication Company and others	-	149	-
<b>Others</b>			
Lotte Aluminum Co., Ltd.	1,029	-	-
Lotte Capital Co., Ltd.	-	364	-
Lotte Auto Lease Co.,Ltd. and others	2,228	4,071	-
	<u>₩ 8,228</u>	<u>₩ 6,690</u>	<u>₩ 990</u>

<sup>1</sup> During the year ended December 31, 2022, the Group made an additional investment of ₩ 990 million to Lotte Agri-food Tech Fund No.1.

(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>

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2022 and 2021**

Outstanding balances arising from sales/purchases of goods and services as at December 31, 2022 and 2021, are as follows:

(in millions of Korean won)

Name of entity	2022				
	Receivables		Payables		
	Trade receivables <sup>1</sup>	Other receivables <sup>1</sup>	Trade payables	Other payables	Lease liabilities
<b>Parent Company</b>					
Lotte Corporation Co.,Ltd	₩ 224	₩ 1,046	₩ -	₩ 1,295	₩ 761
<b>Other related parties</b>					
Lotte GRS Co., Ltd	41,749	355	-	-	-
Korea Seven Co., Ltd.	19,204	1	-	-	-
Daehong Communications Inc.	-	-	-	5,591	-
Lotte Global Logistics Co.,Ltd.	166	458	1,376	13,741	5,387
Lotte Chilsung Beverage Co.,Ltd.	1,761	2,424	250	5,168	954
LOTTE INTERNATIONAL CO.,LTD.	-	-	20,506	-	-
Lotte Shopping Co., Ltd	11,514	12,363	-	1,079	757
Lotte Data Communication Company and others	2,151	137	1,005	4,543	192
<b>Others</b>					
Lotte Aluminum Co., Ltd.	145	-	19,948	965	-
Lotte Capital Co., Ltd.	-	-	-	21	13
Lotte Auto Lease Co.,Ltd. and others	5,401	4,382	7	4,241	14,144
	<u>₩ 82,315</u>	<u>₩ 21,166</u>	<u>₩ 43,092</u>	<u>₩ 36,644</u>	<u>₩ 22,208</u>

<sup>1</sup> The amount of trade receivables and other payables to Korea Seven Co., Ltd. and Lotte Data Communication Company and others is the amount after offsetting consideration payable of ₩ 2,814 million and ₩ 322 million, respectively, to be paid to a customer.

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2022 and 2021**

(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 Chilsung Beverage Co.,Ltd.	93	551	-	2,168	
LOTTE INTERNATIONAL CO.,LTD.	16	1	-	-	
Lotte Shopping Co., Ltd	5,293	134	-	487	-
Lotte Data Communication Company and others	2,665	68	32	3,136	-
<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
	<u>₩ 15,673</u>	<u>₩ 7,283</u>	<u>₩ 28,351</u>	<u>₩ 26,448</u>	<u>₩ 12,014</u>

Contingencies and agreements with related parties are disclosed in Note 37.

The compensation paid or payable to key management for employee services for the years ended December 31, 2022 and 2021, consist of:

(in millions of Korean won)

	2022		2021	
Short-term employee benefits	₩	19,506	₩	15,323
Post-employment benefits		2,427		2,188
	<u>₩</u>	<u>21,933</u>	<u>₩</u>	<u>17,511</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**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2022 and 2021**

**39. Cash Flow Information**

For the year ended December 31, 2022, as the Group decided to disclose the adjustment for operating cash flow and the changes in assets and liabilities from operating activities in the notes, the Group restated the comparative statement of cash flows and related notes.

(a) Details of adjustments of operating cash flows and changes in assets and liabilities from operating activities for the years ended December 31, 2022 and 2021, are as follows:

1) *Adjustments*

(in millions of Korean won)

	2022		2021	
Income tax expense	₩	7,627	₩	17,769
Depreciation		138,872		105,567
Amortization		14,758		12,693
Severance benefits		18,299		15,423
Employee benefits		(588)		3,381
Interest expenses		28,299		20,023
Interest income		(8,737)		(5,972)
Share of loss of associates		1,554		162
Gain on valuation of hedging derivative		(8,180)		(8,500)
Gain on transaction of hedging derivative		-		(1,470)
Loss on transaction of hedging derivative		-		13
Loss on foreign currency transaction		-		1,470
Loss on valuation of financial instruments at fair value through profit or loss		856		-
Impairment loss (reversal)		(2,397)		(2,161)
Other impairment loss		-		18
Loss on disposal of a group of assets to be sold		58		-
Gain on disposal of property, plant and equipment		(2,083)		(3,883)
Loss on disposal of property, plant and equipment		11,802		2,287
Gain on disposal of intangible assets		-		(14)
Loss on disposal of intangible assets		48		76
Gain on disposal of investment property		(60)		(121)
Loss on disposal of investment property		1,739		-
Impairment loss on property, plant and equipment		8,851		3,396
Impairment loss on intangible assets		2,336		27,506
Reversal of impairment loss on property, plant and equipment		(7)		(283)
Reversal of impairment loss on investment property		-		(70)
Loss on foreign currency translation		11,284		7,873
Other revenue and expenses		4,132		2,580
	₩	228,463	₩	197,763

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2022 and 2021**

*2) Changes in assets and liabilities from operating activities*

<i>(in millions of Korean won)</i>	<b>2022</b>		<b>2021</b>	
Increase in inventories	₩	(99,821)	₩	(13,549)
Decrease in trade receivables		11,732		26,106
Decrease (increase) in other receivables		(727)		1,702
Increase in other current financial assets		(274)		(833)
Increase in other current assets		(3,416)		(8,714)
Decrease (increase) in other non-current assets		(138)		112
Increase (decrease) in trade payables		(9,462)		14,630
Increase (decrease) in other payables		(845)		9,615
Decrease in net defined benefit obligations		(50,468)		(21,639)
Increase in other current financial liabilities		6,173		11,272
Increase (decrease) in other current liabilities		16,512		(572)
Increase (decrease) in other non-current financial liabilities		(2,993)		104
Decrease in other non-current liabilities		(3,549)		(2,282)
Increase (decrease) in deferred revenue		(479)		289
Decrease in provisions		(6,146)		(8,569)
	₩	<u>(143,901)</u>	₩	<u>7,672</u>

*(b) Significant non-cash transactions*

<i>(in millions of Korean won)</i>	<b>2022</b>		<b>2021</b>	
Reclassification of construction-in-progress to property, plant and equipment	₩	62,347	₩	22,531
Changes in other payables to acquire property, plant and equipment		14,461		9,305
Changes in prepaid to acquire intangible assets		152		150
Changes in non-trade receivables to dispose property, plant and equipment		2,361		(850)
Acquisition of right-of-use assets <sup>1</sup>		15,781		7,599
Issuance of shares due to merger <sup>2</sup>		312,116		-

<sup>1</sup> The acquisition amount of right-of-use assets is deducted from the acquisition amount of ₩ 5,947 million through prepaid of rental. This cash flow is reflected in cash outflow due to other investment activities in the statement of cash flows.

<sup>2</sup> Assets and liabilities acquired through share issuance are disclosed in Note 41.

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2022 and 2021**

(c) Changes in liabilities arising from financing activities

(in millions of Korean won)

	2022					
	At January 1	Increase due to merger	Cash flow	Non-cash transactions		At December 31
				Reclassifica-tion	Others	
<b>Liabilities arising from financing activities</b>						
Short-term borrowings	₩ 114,982	₩ -	₩ 8,203	₩ 99,705	₩ (19,335)	₩ 203,555
Long-term borrowings	136,625	-	143,165	(99,705)	17,831	197,916
Current portion of debentures <sup>1</sup>	249,956	99,933	(250,000)	109,901	175	209,965
Debentures <sup>1</sup>	318,193	219,579	199,530	(109,901)	8,487	635,888
Lease liabilities	26,725	15,094	(15,820)	-	13,074	39,073
Deposits received	21,499	4,148	(55)	-	(140)	25,452
	<u>₩ 867,980</u>	<u>₩ 338,754</u>	<u>₩ 85,023</u>	<u>₩ -</u>	<u>₩ 20,092</u>	<u>₩ 1,311,849</u>

(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**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2022 and 2021**

---

**40. Non-controlling Interests**

Details of information of subsidiaries related to significant non-controlling interests of the Group as at December 31, 2022 and 2021, are as follows:

<i>(in millions of Korean won)</i>	<b>Lotte Confectionery Holdings (Europe) B.V.<sup>1,2</sup></b>	
	<b>2022</b>	<b>2021</b>
Ownership of non-controlling interests	49%	49%
Current assets	₩ 90,704	₩ 96,783
Non-current assets	99,450	100,849
Current liabilities	12,512	17,293
Non-current liabilities	4,862	5,209
Net assets	172,780	175,130
Amount of non-controlling interests	84,662	85,814
Dividends paid to non-controlling interests	348	27
Revenue	90,939	99,291
Profit for the year	(2,681)	4,243
Total comprehensive income	(1,637)	4,889
Profit for the year attributable to non-controlling interests	(1,314)	2,079
Comprehensive income attributable to non-controlling interests	(802)	2,396
Cash flows from operating activities	44	9,256
Cash flows from investing activities	(3,765)	(1,217)
Cash flows from financing activities	(901)	(573)
Effect of exchange rate changes on cash and cash equivalents	1,317	1,255
Net increase (decrease) in cash and cash equivalents	(3,305)	8,721

<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.

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2022 and 2021**

---

*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.

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:

<b>Name of the entity</b>	<b>Details of significant restrictions</b>
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, 2022 and 2021

---

#### 41. Business Combination

As of July 1, 2022, the Parent Company completed a merger with the Company as the surviving company and Lotte Foods Co., Ltd as a merged company, and details are as follows:

	<b>Details</b>	
Merged company	Lotte Foods Co., Ltd. (CEO: Lee, Jin Seong)	
Purpose of merge	To achieve sustainable growth by strengthening competitiveness and improving management efficiency by maximizing synergy effects from mergers	
Merger ratio	Lotte Confectionery Co., Ltd. common shares : Lotte Foods Co., Ltd. common shares = 1 : 2.8051744	
	Lotte Foods Co., Ltd. common shares (₩ 5,000 par value) per share	
	Lotte Confectionery Co., Ltd. common shares (₩ 500 par value) 2.8051744 shares are expected to be issue	
Types and number of newly merged shares	Common share	3,017,857 shares
	Date of merger agreement	March 23, 2022
	Date of merger	July 01, 2022
Merger schedule	Report on completion of merger Board resolution in lieu of shareholders' meeting	July 04, 2022
	Registration date of merger	July 04, 2022
	Listing date of new shares	July 20, 2022

For the above merger, the Group applies the book amount method to account for business combinations of entities under a common control. Identifiable assets acquired and liabilities assumed in a business combination are measured at their book amounts on the consolidated financial statements of the Ultimate Parent Company. The difference between the sum of consolidated book amounts of the assets and liabilities transferred and accumulated other comprehensive income; and the consideration paid is recognized as other capital adjustments.

**Lotte Confectionery Co., Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2022 and 2021**

Details of the merger-related consideration and assets and liabilities acquired on the acquisition date, are as follows:

<i>(in millions of Korean won)</i>	<b>Amount</b>	
Consideration transferred <sup>1</sup>	₩	312,116
Recognized amounts of identifiable assets acquired and liabilities assumed		
Cash and cash equivalents	₩	68,049
Trade and other receivables		218,227
Inventories		280,126
Investment in associates and joint ventures		44,691
Property, plant and equipment		588,454
Right-of-use assets		18,345
Intangible assets		19,549
Investment property		83,939
Other assets		57,187
	<u>₩</u>	<u>1,378,567</u>
Trade and other payables		(154,765)
Borrowings and debentures		(319,512)
Lease liabilities		(15,094)
Deferred tax liabilities		(33,204)
Other liabilities		(79,033)
	<u>₩</u>	<u>(601,608)</u>
Other comprehensive income		1,558
Carrying amount of net assets acquired		778,517
Difference (other capital adjustments) <sup>2</sup>	₩	466,401

<sup>1</sup> A total of 3,017,857 shares of ordinary shares were issued in consideration transferred, of which 395,035 shares were issued for treasury shares held by the merged company, which was recognized as treasury shares. Because there is no consideration for new shares issued for treasury shares, the acquisition price was measured as zero and ordinary shares other than treasury shares were measured at closing price of the day before the acquisition date.

<sup>2</sup> The above acquired liabilities include ₩ 23 million that exercising amount of unpaid stock appraisal rights. After the merger, acquired the treasury shares due to payment was completed. The acquisition cost was calculated based on the consideration for the acquisition of treasury shares, and the difference was recognized as other capital adjustments. The amount of other capital adjustments is not included in the above investment difference (other capital adjustments).

<sup>3</sup> From the acquisition date to the end of the reporting period, the Group recognized revenue of ₩ 932,712 million and loss for the year of ₩ 13,668 million through Lotte Food Co., Ltd. If the acquisition of Lotte Food Co., Ltd. was made on January 1, 2022, the commencement date of the annual reporting period, revenue and profit for the year of the Group would have amounted to ₩ 1,837,883 million and ₩ 788 million, respectively.