

**LOTTE SHOPPING CO., LTD. AND
SUBSIDIARIES**

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

(With Independent Auditors' Report Thereon)

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Independent Auditors' Report

Based on a report originally issued in Korean

To the Shareholders and Board of Directors of

Lotte Shopping Co., Ltd.

Opinion

We have audited the consolidated financial statements of Lotte Shopping Co., Ltd. and its subsidiaries ("the Group"), which comprise the consolidated statements of financial position as of December 31, 2021 and 2020, the consolidated statements of comprehensive income(loss), changes in equity and cash flows for the years then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2021 and 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with Korean International Financial Reporting Standards ("K-IFRS").

Basis for Opinion

We conducted our audits in accordance with Korean Standards on Auditing (KSAs). Our responsibilities under those standards are further described in the *Auditors' 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 that are relevant to our audit of the consolidated financial statements in Republic of Korea, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 4 to the consolidated financial statements, which describes the assumptions and estimates used by the Group for impairment testing of the cash-generating unit containing goodwill are subject to change depending on the duration and severity of COVID-19, which cannot be predicted. The ultimate impact that may arise from the uncertainties from impact of COVID-19 may differ from management's estimates reflected in the accompanying consolidated financial statements of the Group. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements as of and for the year ended December 31, 2021. These matters were addressed in the context of our audit of the consolidated financial statements, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

(1) Assessment of cash generating units (CGUs) impairment regarding to department store, discount store and cinema segment.

As described in Note 13 to the consolidated financial statements, the Group recognized the impairment loss of ₩271,691 million, ₩65,140 million and ₩50,471 million for CGUs of department stores, discount stores and cinema segment, respectively.

The Group reviews at the end of each reporting period on whether there are any indicators of impairment regarding the CGUs and has performed impairment test on CGUs for which indicators of impairment were identified or including goodwill by comparing recoverable amount and the carrying amount of the respective



CGUs. When the recoverable amount is less than the carrying amount, the difference between those amounts has been recognized as impairment loss. In estimating the recoverable amount, management's judgment is involved in determining the key assumptions such as sales growth rate, discount rate, and terminal growth rate that have a significant impact on the estimated recoverable amount. Considering significant degree of judgment in estimating recoverable amount, we identified assessment of CGUs impairment regarding to department store, discount store and cinema segment as a key audit matter.

Our primary audit procedures to address this key audit matter included the followings.

- We have understood the Group's management review control as of impairment assessment process for each CGU;
- We assessed the basis of management's judgment to identify the indicators of impairment on each CGU and evaluated whether such basis is in compliance with the Group's accounting policy;
- We tested the mathematical accuracy of valuation model used by the Group;
- We assessed the competence, qualification and objectivity of external institution engaged by the Group to assess recoverable amount of CGUs; and
- We engaged our valuation specialists to assist us in evaluating assumptions and estimates including the future cash flows and discount rate used in the valuation of value-in-use.

(2) Assessment of goodwill impairment in the consumer electronics retail CGUs.

As described in Note 15 to the consolidated financial statements, as of December 31 2021, the carrying amount of goodwill of consumer electronics retail segment in the consolidated statement of financial is ₩761,408 million. Also, the impairment loss of ₩82,264 million is recognized during 2021.

The Group conducts impairment tests by estimating the recoverable amount of CGUs including goodwill once a year and whenever there are indications of impairment. If the recoverable amount of the CGUs is less than the carrying amount, the carrying amount of the CGUs is reduced to the recoverable amount and the decrease is recognized as an impairment loss. Management's judgment is involved in assumptions such as sales growth rate, discount rate, and terminal growth rate that have a significant impact on the estimation of recoverable amount. Considering significant degree of judgment in estimating recoverable amount, we identified assessment of goodwill impairment of consumer electronics retail CGUs as a key audit matter.

Our primary audit procedures to address this key audit matter included the followings.

- We have understood the Group's management review control as of goodwill impairment assessment process;
- We tested the mathematical accuracy of valuation model used by the Group;
- We assessed the competence, qualification and objectivity of external institution engaged by the Group to assess recoverable amount; and
- We engaged our valuation specialists to assist us in evaluating assumptions and estimates including the future cash flows and discount rate used in the valuation of value-in-use.

Other matter

The procedures and practices utilized 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 K-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, or has no realistic alternative but to do so.

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

Auditors' 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 auditors' 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 KSAs 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 KSAs, 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used in the preparation of the consolidated financial statements 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 auditors' 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 auditors' 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 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 auditors' 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 auditors' report is Su Kwang Kim.

KPMG Samjong Accounting Corp.

Seoul, Korea
March 15, 2022

This report is effective as of March 15, 2022, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying separate financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Financial Position
As of December 31, 2021 and 2020

(In Korean won)	Notes	2021	2020
Assets			
Current assets			
Cash and cash equivalents	6,7,35,41	₩ 2,398,788,978,689	1,913,235,610,358
Trade and other receivables	5,7,40,41	625,501,297,125	663,522,831,468
Other financial assets	6,7,23,41	2,074,555,177,483	2,134,188,116,702
Inventories	8	1,395,280,189,965	1,247,319,667,247
Income tax refund receivables	34	146,636,380,573	5,818,233,561
Other non-financial assets	9	106,683,605,060	83,011,926,911
Assets held for sale	10	252,739,862,019	243,595,656,292
		<u>7,000,185,490,914</u>	<u>6,290,692,042,539</u>
Non-current assets			
Trade and other receivables	5,7,40,41	95,664,385,002	196,292,934,271
Investments in associates and joint ventures	11,12	991,462,117,628	925,509,738,836
Other financial assets	6,7,23,41	2,381,304,885,731	1,633,088,148,306
Property, plant and equipment, net	13,40	14,578,526,259,318	14,372,875,785,604
Right-of-use assets	43	4,700,201,180,942	5,163,972,328,969
Investment property, net	14	1,766,203,032,622	2,302,037,863,529
Goodwill	15	1,185,880,115,730	1,288,440,122,436
Intangible assets, net	15	333,921,531,788	343,858,545,953
Defined benefit assets	21	121,737,667,756	91,272,680,757
Deferred tax assets	34	87,495,656,414	73,922,555,503
Other non-financial assets	9	183,951,495,157	147,441,449,702
		<u>26,426,348,328,088</u>	<u>26,538,712,153,866</u>
Total assets		₩ <u>33,426,533,819,002</u>	<u>32,829,404,196,405</u>

See accompanying notes to the consolidated financial statements.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Financial Position, continued
As of December 31, 2021 and 2020

(In Korean won)	Notes	2021	2020
Liabilities			
Current liabilities			
Borrowings and debentures, net of issuance costs	7,17,38,40,41	₩ 3,564,742,247,058	3,947,546,579,453
Trade and other payables	7,16,40,41	2,419,870,120,532	2,177,179,045,216
Other financial liabilities	7,23,41	453,558,227,545	475,922,005,518
Lease liabilities	7,40,43	628,014,113,358	607,479,014,103
Income tax payables	34	120,115,902,197	56,579,978,869
Unearned revenues	18	183,830,692,892	158,509,050,907
Provisions	19	30,735,990,418	39,430,273,614
Other non-financial liabilities	20	1,593,382,154,657	1,317,351,056,862
		<u>8,994,249,448,657</u>	<u>8,779,997,004,542</u>
Non-current liabilities			
Borrowings and debentures, net of issuance costs	7,17,38,40,41	6,388,234,343,658	6,234,702,914,892
Other financial liabilities	7,23,41	116,541,174,531	117,705,959,690
Lease liabilities	7,40,43	5,318,114,599,877	5,620,803,571,455
Defined benefit liabilities and other long-term employee benefits	21	34,788,697,045	44,159,835,251
Deferred tax liabilities	34	610,770,682,795	772,192,320,635
Unearned revenues	18	28,918,937,740	39,453,366,446
Provisions	19	137,909,257,763	131,626,656,188
		<u>12,635,277,693,409</u>	<u>12,960,644,624,557</u>
Total liabilities		<u>21,629,527,142,066</u>	<u>21,740,641,629,099</u>
Equity			
Share Capital	1,24	141,443,775,000	141,443,775,000
Capital Surplus	24	3,574,211,671,439	3,574,211,671,439
Hybrid securities	22	139,574,341,553	-
Capital adjustments	25	(3,032,430,491,251)	(3,012,812,991,058)
Retained earnings	26	8,996,636,841,881	9,176,601,093,411
Accumulated other comprehensive income (loss)	27	264,056,073,938	(77,855,655,752)
Stockholders' equity attributable to owners of the Company		<u>10,083,492,212,560</u>	<u>9,801,587,893,040</u>
Non-controlling interests		<u>1,713,514,464,376</u>	<u>1,287,174,674,266</u>
Total equity		<u>11,797,006,676,936</u>	<u>11,088,762,567,306</u>
Total liabilities and equity		<u>₩ 33,426,533,819,002</u>	<u>32,829,404,196,405</u>

See accompanying notes to the consolidated financial statements.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income (Loss)
For the years ended December 31, 2021 and 2020

(In Korean won)	Notes	2021	2020
Continuing operations			
Sales	29,37,40 ₩	15,573,550,042,665	16,184,381,959,951
Cost of sales	8,32,40	<u>(9,031,312,694,405)</u>	<u>(9,643,709,238,672)</u>
Gross profit		<u>6,542,237,348,260</u>	<u>6,540,672,721,279</u>
Selling, general and administrative expenses	30,32,40,43	(6,333,903,001,822)	(6,192,267,413,710)
Bad debt expense	30,32	<u>(731,653,172)</u>	<u>(2,320,835,748)</u>
Operating profit		<u>207,602,693,266</u>	<u>346,084,471,821</u>
Other income	31,40	217,931,714,720	219,025,974,228
Other expenses	31,40	(647,585,952,577)	(960,676,269,308)
Other bad debt expense	31,40	(6,138,914,057)	(7,277,913,548)
Finance income - Interest income calculated using the effective interest method	33	73,736,887,114	77,401,865,472
Finance income - Others	33	180,091,018,265	190,088,491,919
Finance costs	33,42	(760,311,035,446)	(649,110,203,946)
Equity method income on instruments in associates and joint ventures	11,12	<u>96,432,874,163</u>	<u>13,223,793,079</u>
Loss before income tax		<u>(638,240,714,552)</u>	<u>(771,239,790,283)</u>
Income tax benefit	34	<u>365,276,560,551</u>	<u>60,991,125,706</u>
Loss from continuing operations, net of tax		<u>(272,964,154,001)</u>	<u>(710,248,664,577)</u>
Profit from discontinued operations, net of tax	42	<u>-</u>	<u>23,679,056,399</u>
Loss for the year		<u>(272,964,154,001)</u>	<u>(686,569,608,178)</u>
Other comprehensive income (loss)			
Items that will never be reclassified to profit or loss			
Fair value gain (loss) through other comprehensive income on equity instruments		842,118,879,722	158,625,229,864
Remeasurements of net defined benefit liabilities	21	80,154,670,492	41,022,899,801
Net changes in equity of equity method investments		9,323,184,981	(686,121,251)
Income tax effect		<u>(196,530,087,046)</u>	<u>(23,912,199,957)</u>
Total items that will never be reclassified to profit or loss		<u>735,066,648,149</u>	<u>175,049,808,457</u>
Items that will be subsequently reclassified to profit or loss			
Fair value gain (loss) through other comprehensive income on debt instruments		(26,818,175)	45,295,061
Exchange rate differences on translating foreign operations		111,612,093,216	(15,459,794,023)
Gains and losses arising on revaluations of derivatives	23	14,113,702,571	(614,982,790)
Net changes in equity of equity method investments		28,001,423,905	(20,114,386,295)
Income tax effect		<u>(19,063,757,199)</u>	<u>7,930,414,927</u>
Total items that will be subsequently reclassified to profit or loss		<u>134,636,644,318</u>	<u>(28,213,453,120)</u>
Other comprehensive income for the year, net of tax	27	<u>869,703,292,467</u>	<u>146,836,355,337</u>
Total comprehensive income (loss) for the year	₩	<u>596,739,138,466</u>	<u>(539,733,252,841)</u>

See accompanying notes to the consolidated financial statements.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income (Loss), continued
For the years ended December 31, 2021 and 2020

(In Korean won)	<u>Notes</u>	<u>2021</u>	<u>2020</u>
Profit (loss) attributable to:			
Owners of the Company			
Loss from continuing operations	₩	(292,279,479,719)	(809,618,746,752)
Profit from discontinued operations		-	23,679,056,399
		<u>(292,279,479,719)</u>	<u>(785,939,690,353)</u>
Non-controlling interests			
Profit from continuing operations		<u>19,315,325,718</u>	<u>99,370,082,175</u>
Total comprehensive income (loss) attributable to:			
Owners of the Company		241,808,313,638	(704,346,824,779)
Non-controlling interests		<u>354,930,824,828</u>	<u>164,613,571,938</u>
	₩	<u>596,739,138,466</u>	<u>(539,733,252,841)</u>
Earnings (loss) per share	28		
Basic earnings (loss) per share (in Korean won)			
From continuing operations	₩	(10,363)	(28,638)
From discontinued operations		-	838
Diluted earnings (loss) per share (in Korean won)			
From continuing operations		(10,430)	(28,956)
From discontinued operations		-	838

See accompanying notes to the consolidated financial statements.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Changes in Equity
For the years ended December 31, 2021 and 2020

(In Korean won)	Share capital	Capital Surplus	Capital adjustments	Retained earnings	Accumulated other comprehensive income(loss)	Non-controlling interests	Total equity
₩	141,443,775,000	3,574,211,671,439	(3,012,559,256,199)	9,910,184,246,799	336,447,639	1,177,391,464,275	11,791,008,348,953
Balance at January 1, 2020							
Comprehensive income (loss) for the year:							
Profit(loss) for the year	-	-	-	(785,939,690,353)	-	99,370,082,175	(686,569,608,178)
Other comprehensive income (loss):							
Fair value gain (loss) through other comprehensive income on financial instruments	-	-	-	133,670,824,587	(52,812,947,627)	67,003,622,463	147,861,499,423
Exchange rate differences on translating foreign operations	-	-	-	-	(8,849,642,209)	(2,868,881,661)	(11,718,523,870)
Gains and losses arising on revaluations of derivatives	-	-	-	-	(1,017,449,462)	-	(1,017,449,462)
Remeasurements of defined benefit liabilities	-	-	-	26,613,941,564	-	1,108,748,961	27,722,690,525
Net changes in equity of equity method investments	-	-	-	(499,797,186)	(15,512,064,093)	-	(16,011,861,279)
Subtotal	-	-	-	159,784,968,965	(78,192,103,391)	65,243,489,763	146,836,355,337
Total comprehensive income(loss) for the year				(626,154,721,388)	(78,192,103,391)	164,613,571,938	(539,733,252,841)
Transactions with owners of the Company recognized directly in equity:							
Dividends	-	-	-	(107,428,432,000)	-	(53,023,084,187)	(160,451,516,187)
Change in ownership interest in subsidiaries	-	-	(253,734,859)	-	-	(1,807,277,760)	(2,061,012,619)
₩	141,443,775,000	3,574,211,671,439	(3,012,812,991,058)	9,176,601,093,411	(77,855,655,752)	1,287,174,674,266	11,088,762,567,306
Balance at December 31, 2020							

See accompanying notes to the consolidated financial statements.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Changes in Equity, continued
For the years ended December 31, 2021 and 2020

(In Korean won)	Share capital	Capital Surplus	Hybrid securities	Capital adjustments	Retained earnings	Accumulated other comprehensive income(loss)	Non-controlling interests	Total equity
₩	141,443,775,000	3,574,211,671,439	-	(3,012,812,991,058)	9,176,601,093,411	(77,855,655,752)	1,287,174,674,266	11,088,762,567,306
Balance at January 1, 2021								
Comprehensive income (loss) for the year:								
Profit(loss) for the year	-	-	-	-	(292,279,479,719)	-	19,315,325,718	(272,964,154,001)
Other comprehensive income (loss):								
Fair value gain through other comprehensive income on financial instruments	-	-	-	-	127,057,627,667	203,825,735,046	334,080,094,162	664,963,456,875
Exchange rate differences on translating foreign operations	-	-	-	-	-	105,719,820,232	(3,449,755,365)	102,270,064,867
Gains and losses arising on revaluations of derivatives	-	-	-	-	-	10,698,186,549	-	10,698,186,549
Remeasurements of defined benefit liabilities	-	-	-	-	60,140,316,173	-	596,952,225	60,737,268,398
Net changes in equity of equity method investments	-	-	-	-	4,978,119,827	21,667,987,863	4,388,208,088	31,034,315,778
Subtotal	-	-	-	-	192,176,063,667	341,911,729,690	335,615,499,110	869,703,292,467
Total comprehensive income(loss) for the year					(100,103,416,052)	341,911,729,690	354,930,824,828	596,739,138,466
Transactions with owners of the company recognized directly in equity:								
Issuance of hybrid securities	-	-	139,574,341,533	-	-	-	-	139,574,341,533
Interest paid of hybrid securities	-	-	-	-	(703,043,478)	-	-	(703,043,478)
Dividends	-	-	-	-	(79,157,792,000)	-	(59,528,959,511)	(138,686,751,511)
Acquisition of treasury stock by subsidiaries	-	-	-	(3,709,760,122)	-	-	(14,951,000,678)	(18,660,760,800)
Subsidiary's paid-in capital increase etc,	-	-	-	(15,907,740,071)	-	-	145,888,925,471	129,981,185,400
₩	141,443,775,000	3,574,211,671,439	139,574,341,533	(3,032,430,491,251)	8,996,636,841,881	264,056,073,938	1,713,514,464,376	11,797,006,676,936
Balance at December 31, 2021								

See accompanying notes to the consolidated financial statements.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the years ended December 31, 2021 and 2020

(In Korean won)	<u>Notes</u>	<u>2021</u>	<u>2020</u>
Cash flows from operating activities			
Loss for the year	₩	(272,964,154,001)	(686,569,608,178)
Adjustments	35	1,844,732,722,778	2,434,149,849,003
Changes in operating assets and liabilities	35	470,524,943,362	(138,349,425,414)
Income taxes paid		<u>(214,195,200,505)</u>	<u>(119,291,369,889)</u>
Net cash provided by operating activities		<u>1,828,098,311,634</u>	<u>1,489,939,445,522</u>
Cash flows from investing activities			
Decrease of short-term financial instruments		2,278,930,265,743	1,690,345,456,806
Decrease of short-term loans		10,581,335,995	8,368,706,470
Decrease of long-term loans		-	269,499,440
Proceeds from sale of debt instruments at fair value through other comprehensive income		10,316,924,923	120,500,000
Proceeds from sale of equity instruments at fair value through other comprehensive income		308,171,996,628	-
Proceeds from sale of debt instruments at fair value through profit or loss		3,172,663,798	1,441,604,659
Decrease of leasehold deposits provided		115,220,853,442	-
Proceeds from sale of investments in associates and joint ventures		13,278,951,777	11,054,427,372
Proceeds from disposal of assets held for sale		63,538,504,116	219,553,746,801
Proceeds from disposal of property, plant and equipment		860,355,342,238	321,652,645,875
Proceeds from disposal of intangible assets		2,256,533,052	1,558,316,304
Collection of lease receivable		26,591,227,058	19,984,228,471
Cash inflows from settlement of derivatives		13,068,249,000	24,400,771,634
Cash inflows from transfer of business		82,407,519,483	-
Cash inflows from purchase/disposal of subsidiaries		27,796,914,824	15,298,200,297
Cash inflows from other investing activities		-	184,000,000,000
Increase of short-term financial instruments		(2,307,110,719,161)	(2,011,549,100,534)
Increase of long-term financial instruments		(1,962,200,000)	(13,053,006,000)
Increase in short-term loans		(1,117,715,100)	(1,955,409,660)
Increase in long-term loans		(2,461,300,000)	(2,144,998,313)
Purchase of debt instrument at fair value through profit or loss		(25,046,854,674)	(3,540,232,731)
Purchase of equity instruments at fair value through other comprehensive income		(63,302,179,000)	-
Purchase of debt instruments at fair value through other comprehensive income		-	(4,229,310,000)
Increase of leasehold deposits provided		(64,692,396,886)	-
Cash outflows from acquisition of subsidiary		(38,471,168,794)	-
Purchase of investments in associates and joint ventures		(63,095,092,140)	(1,800,000,000)
Acquisition of property, plant, and equipment		(869,381,852,445)	(811,110,177,905)
Acquisition of right-of-use assets		(507,534,008)	(4,616,254,375)
Acquisition of intangible assets		(46,820,665,320)	(23,537,195,659)
Acquisition of investment property		(175,889,579,094)	(204,868,638,914)
Cash outflows from settlement of derivatives		(6,384,550,000)	(4,887,998,980)
Increase in long-term prepaid expenses		(83,597,294,134)	(88,257,272,442)
Interest received		43,548,107,561	53,533,990,606
Dividends received		91,619,581,984	25,832,948,030
Net cash provided by (used in) investing activities	₩	<u>201,013,870,866</u>	<u>(598,134,552,748)</u>

See accompanying notes to the consolidated financial statements.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Cash Flows, continued
For the years ended December 31, 2021 and 2020

(In Korean won)	<u>Notes</u>	<u>2021</u>	<u>2020</u>
Cash flows from financing activities			
Proceeds from short-term borrowings	₩	1,335,711,794,512	1,480,144,708,219
Proceeds from long-term borrowings		1,394,210,825,000	955,750,079,037
Proceeds from issuance of debentures		1,030,245,838,934	1,145,255,795,179
Increase of leasehold deposits received		25,228,501,516	-
Capital contribution from subsidiaries		167,457,500,000	-
Issuance of hybrid securities		139,574,341,553	-
Cash inflows from other financing activities		32,046,625	159,188,071
Repayment of short-term borrowings		(1,527,796,229,227)	(796,609,380,320)
Repayment of long-term borrowings		(25,000,000,000)	(143,000,000,000)
Repayment of current portion of long-term borrowing		(1,568,996,030,695)	(680,403,627,569)
Redemption of debentures		(1,253,589,437,555)	(1,204,015,000,000)
Decrease of leasehold deposits received		(63,788,238,300)	-
Acquisition of additional ownership in subsidiaries		(33,769,700,000)	(87,166,764,607)
Payment of hybrid securities interest		(703,043,478)	-
Repayment of lease liabilities		(591,001,529,094)	(543,897,274,167)
Acquisition of subsidiary's treasury stock		(18,660,760,800)	-
Cash outflows from other financing activities		(2,927,011,991)	(253,956,055)
Interest paid		(438,046,640,800)	(508,205,326,986)
Dividends paid		(138,686,751,512)	(160,451,516,187)
Net cash used in financing activities		<u>(1,570,504,525,312)</u>	<u>(542,693,075,385)</u>
Net increase in cash and cash equivalents		458,607,657,188	349,111,817,389
Cash and cash equivalents as at the beginning of the year		1,913,235,610,358	1,586,592,082,626
Effect of exchange rate fluctuation on cash and cash equivalents		26,945,711,143	(22,468,289,657)
Cash and cash equivalents at the end of the year	₩	<u>2,398,788,978,689</u>	<u>1,913,235,610,358</u>

See accompanying notes to the consolidated financial statements.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
As of December 31, 2021 and 2020

1. General Information of Reporting Entity

(a) Organization and description of the Company

Lotte Shopping Co., Ltd. (the “Company” or the “Parent Company”) was established on July 2, 1970 in the Republic of Korea to engage in retail operations through department stores. The Company’s operations comprise 29 department stores, 22 outlet stores, 110 discount stores, 249 supermarkets, 49 H&B stores and 5 Shopping-mall as of December 31, 2021. The consolidated financial statements of the Company comprise the Company and its subsidiaries (together referred to as the “Group”) and the Group’s interest in associates and joint ventures.

The Company’s stock was listed on the Korea Exchange through an initial public offering on February 9, 2006. The shareholders of the Parent Company as of December 31, 2021, are as follows:

<i>(in millions of Korean won, except number of shares)</i>	<u>Number in shares</u>		<u>Amount</u>	<u>Percentage of ownership (%)</u>
Lotte Corporation	11,315,503	₩	56,577	40.00
Shin, Dong Bin	2,893,049		14,465	10.23
Hotel Lotte Co., Ltd.	2,507,158		12,536	8.86
Shin, Young Ja	297,653		1,488	1.05
Hotel Lotte Pusan Co., Ltd.	220,326		1,102	0.78
Treasury share	18,115		91	0.06
Others	11,036,951		55,185	39.02
Total	28,288,755	₩	141,444	100.00

(b) Description of subsidiaries

(i) A summary of the subsidiaries of the Company is as follows:

December 31, 2021								
<u>Subsidiaries</u>	<u>Location</u>	<u>Main business</u>	<u>Fiscal year end</u>		<u>Capital (in millions of Korean won)</u>	<u>Percentage of ownership (%)</u>		
						<u>Parent Company</u>	<u>Subsidiary</u>	<u>Total</u>
Woori Home Shopping & Television Co., Ltd.	Korea	TV Home-shopping	Dec. 31	₩	40,000	53.49	-	53.49
Lotte GFR Co., Ltd.	Korea	Apparel manufacturing and sales	Dec. 31		8,574	99.93	-	99.93
Lotte Gimhae Development Co., Ltd.	Korea	Building management service	Dec. 31		300	100	-	100
Lotte Suwon Station Shopping Town Co., Ltd.	Korea	Real estate development	Dec. 31		100,000	100	-	100
Lotte Songdo Shopping Town Co., Ltd.	Korea	Real estate development	Dec. 31		106,578	100	-	100
CS Mart Co., Ltd.	Korea	Distribution	Dec. 31		6,384	99.95	-	99.95
Lotte Himart Co., Ltd. (*1)	Korea	Consumer electronics	Dec. 31		118,039	65.25	-	65.25
Lotte Ulsan Development Co., Ltd.	Korea	Real estate business, real estate lease	Dec. 31		25,200	96.83	-	96.83

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
As of December 31, 2021 and 2020

1. General Information of Reporting Entity, continued

(b) Description of subsidiaries, continued

(i) A summary of the subsidiaries of the Company is as follows:, continued

								December 31, 2021		
Subsidiaries	Location	Main business	Fiscal year end	Capital (in millions of Korean won)	Percentage of ownership (%)					
					Parent Company	Subsidiary	Total			
Lotte Cultureworks Co., Ltd. (*2)	Korea	Cinema	Dec. 31	₩ 24,366	86.37	-	86.37			
LOTTE CINEMA VIETNAM CO., LTD.	Vietnam	Cinema	Dec. 31	33,440	-	90	90			
Lotte corporate venture fund No. 1	Korea	Investment on new technology	Dec. 31	2,130	18.78	79.81	98.59			
Lotte Home-shopping Innovation fund No. 1	Korea	Investment on new technology	Dec. 31	5,075	-	98.52	98.52			
Lotte Shopping Innovation fund No. 1	Korea	Investment on new technology	Dec. 31	12,000	99	-	99			
IMM HIMECO Investment 1	Korea	Finance	Dec. 31	310,000	83.71	16.13	99.84			
Heim II Limited	Korea	Finance	Dec. 31	300,000	-	100	100			
Lotte DMC Development Co., Ltd.	Korea	Real estate business	Dec. 31	5,000	95	-	95			
LOTTE REIT Co., Ltd. (*3)	Korea	Real estate business	Dec. 31	121,484	50	-	50			
Lotte Incheon Development Co., Ltd	Korea	Retail, real estate business	Dec. 31	100,000	100	-	100			
Lotte Incheon Town Co.,Ltd	Korea	Real estate business	Dec. 31	65,000	100	-	100			
LOTTE Town Dongtan Co.,LTD	Korea	Real estate business	Dec. 31	70,000	100	-	100			
LOTTE Shopping Town Daegu Co., LTD	Korea	Real estate business	Dec. 31	20,000	100	-	100			
Lotte (China) Management Co., Ltd.	China	Management company	Dec. 31	8,906	70	-	70			
Lotte Department Store (Shenyang) Co., Ltd.	China	Distribution	Dec. 31	98,682	100	-	100			
Lotte Department Store (Chengdu) Co., Ltd.	China	Distribution	Dec. 31	52,035	100	-	100			
LOTTE PROPERTIES (CHENGDU) HK LIMITED	Hong Kong	Holding company	Dec. 31	217,888	73.46	-	73.46			
Lotte Properties (Chengdu) Limited	China	Real estate lease	Dec. 31	482,854	-	100	100			
LOTTE SHOPPING HOLDINGS (SINGAPORE) PTE. LTD.	Singapore	Holding company	Dec. 31	820,033	100	-	100			
LOTTE VIETNAM SHOPPING JOINT STOCK COMPANY	Vietnam	Distribution	Dec. 31	260,172	-	99.99	99.99			
PT. LOTTE SHOPPING INDONESIA	Indonesia	Distribution	Dec. 31	56,414	-	80	80			

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
As of December 31, 2021 and 2020

1. General Information of Reporting Entity, continued

(b) Description of subsidiaries, continued

(i) A summary of the subsidiaries of the Company is as follows:, continued

December 31, 2021							
Subsidiaries	Location	Main business	Fiscal year end	Capital (in millions of Korean won)	Percentage of ownership (%)		
					Parent Company	Subsidiary	Total
PT. LOTTE MART INDONESIA	Indonesia	Distribution	Dec. 31	₩ 91,151	-	100	100
PT. LOTTE Shopping Avenue Indonesia	Indonesia	Distribution	Dec. 31	94,145	-	100	100
Lotte Shopping India Private Limited	India	Distribution	Dec. 31	18	-	100	100
LOTTEMART C&C INDIA PRIVATE LIMITED	India	Distribution	Dec. 31	1,092	-	100	100
Lotte Shopping Plaza Vietnam Co., Ltd.	Vietnam	Distribution	Dec. 31	29,708	-	100	100
LOTTE HOTEL & RETAIL VIETNAM PTE. LTD.	Singapore	Holding company	Dec. 31	69,209	20	40	60
Lotte Holdings Hong Kong Ltd.	Hong Kong	Holding company	Dec. 31	36,107	-	100	100
HAI THAHN - LOTTE COMPANY LIMITED	Vietnam	Hotel Business	Dec. 31	51,581	-	70	70
LOTTE E-COMMERCE VIETNAM CO., LTD	Vietnam	Distribution	Dec. 31	29,807	-	100	100
LOTTE PROPERTIES (HANOI) SINGAPORE PTE. LTD.	Singapore	Holding company	Dec. 31	159,458	90	-	90
LOTTE PROPERTIES HANOI CO., LTD.	Vietnam	Real estate development	Dec. 31	160,401	-	100	100

(*1) As of December 31, 2021, the Company issued exchangeable bonds which are exchangeable to Lotte Himart Co., Ltd., common stocks (see Note 17). Meanwhile, due to the exercise of the bondholders' right to claim early repayment, 272.0 billion won out of a total of 303.6 billion won in exchangeable bonds was repaid early during the current period. As a result, the total number of shares subject to exchange has been changed from 3,536,812 shares to 368,127 shares, and if exchanged in full, the Company's ownership on Lotte Himart Co., Ltd. may be reduced from 65.25% to 63.69%, however there is no influence on the controlling ability of the Company on Lotte Himart Co., Ltd.

(*2) In accordance with stock repurchase agreement (see Note 38), shares issued to non-controlling shareholders as of December 31, 2019 have been classified as financial liabilities. The legal ownership of the Company on Lotte Cultureworks Co., Ltd., is 86.37%, however, it is reported as 100% on a consolidated financial statement.

(*3) The voting rights of the shares held by the Group do not exceed 50% but have been classified as subsidiary considering their control in substance.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
As of December 31, 2021 and 2020

1. General Information of Reporting Entity, continued

(b) Description of subsidiaries, continued

(ii) A summary of the subsidiaries of the Company is as follows:

Subsidiaries	Location	Main business	Fiscal year end	December 31, 2020			
				Capital (in millions of Korean won)	Percentage of ownership (%)		
					Parent Company	Subsidiary	Total
Woori Home Shopping & Television Co., Ltd.	Korea	TV Home-shopping	Dec. 31	₩ 40,000	53.03	-	53.03
Lotte GFR Co., Ltd.	Korea	Apparel manufacturing and sales	Dec. 31	8,574	99.93	-	99.93
Lotte Gimhae Development Co., Ltd.	Korea	Building management service	Dec. 31	300	100	-	100
Lotte Suwon Station Shopping Town Co., Ltd.	Korea	Real estate development	Dec. 31	100,000	100	-	100
Lotte Songdo Shopping Town Co., Ltd.	Korea	Real estate development	Dec. 31	106,578	100	-	100
CS Mart Co., Ltd.	Korea	Distribution	Dec. 31	6,384	99.95	-	99.95
Lotte Himart Co., Ltd. (*1)	Korea	Consumer electronics	Dec. 31	118,039	65.25	-	65.25
Lotte Ulsan Development Co., Ltd.	Korea	Real estate business	Dec. 31	25,200	96.83	-	96.83
Lotte Cultureworks Co., Ltd. (*2)	Korea	Cinema	Dec. 31	24,366	86.37	-	86.37
Lotte Cinema Hong Kong Co., Limited	Hong Kong	Cinema	Dec. 31	2,911	-	100	100
LOTTE CINEMA VIETNAM CO., LTD.	Vietnam	Cinema	Dec. 31	33,440	-	90	90
PT. LOTTE CINEMA INDONESIA	Indonesia	Cinema	Dec. 31	4,354	-	100	100
Lotte corporate venture fund No. 1	Korea	Investment on new technology	Dec. 31	2,130	18.78	79.81	98.59
Lotte DMC Development Co., Ltd.	Korea	Real estate business	Dec. 31	5,000	95	-	95
LOTTE REIT Co., Ltd. (*3)	Korea	Real estate business	Dec. 31	85,984	50	-	50
Lotte Incheon Development Co., Ltd	Korea	Retail, real estate business	Dec. 31	100,000	100	-	100
Lotte Incheon Town Co.,Ltd	Korea	Real estate business	Dec. 31	65,000	100	-	100
LOTTE Town Dongtan Co.,LTD	Korea	Real estate business	Dec. 31	70,000	100	-	100
Lotte (China) Management Co., Ltd.	China	Management company	Dec. 31	8,906	70	-	70
LOTTE SHOPPING RUS Ltd.	Russia	Distribution	Dec. 31	16,176	100	-	100
Lotte Shopping Holdings (Hong Kong) Co., Limited	Hong Kong	Holding company	Dec. 31	2,736,009	100	-	100
Lotte Department Store (Shenyang) Co., Ltd.	China	Distribution	Dec. 31	98,682	100	-	100
Lotte Department Store (Chengdu) Co., Ltd.	China	Distribution	Dec. 31	52,035	100	-	100

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
As of December 31, 2021 and 2020

1. General Information of Reporting Entity, continued

(b) Description of subsidiaries, continued

(ii) A summary of the subsidiaries of the Company is as follows:, continued

Subsidiaries	Location	Main business	Fiscal year end	December 31, 2020			
				Capital (in millions of Korean won)	Percentage of ownership (%)		
					Parent Company	Subsidiary	Total
Lotte Shopping Business Management (Hong Kong) Limited	Hong Kong	SPC	Dec. 31	₩ 367	-	100	100
LOTTE PROPERTIES (CHENGDU) HK LIMITED	Hong Kong	Holding company	Dec. 31	217,888	73.46	-	73.46
Lotte Properties (Chengdu) Limited	China	Real estate lease	Dec. 31	460,142	-	100	100
LOTTE SHOPPING HOLDINGS (SINGAPORE) PTE. LTD.	Singapore	Holding company	Dec. 31	770,305	100	-	100
LOTTE VIETNAM SHOPPING JOINT STOCK COMPANY	Vietnam	Distribution	Dec. 31	210,444	-	99.99	99.99
PT. LOTTE SHOPPING INDONESIA	Indonesia	Distribution	Dec. 31	56,414	-	80	80
PT. LOTTE MART INDONESIA	Indonesia	Distribution	Dec. 31	91,151	-	100	100
PT. LOTTE Shopping Avenue Indonesia	Indonesia	Distribution	Dec. 31	94,145	-	100	100
Lotte Shopping India Private Limited	India	Distribution	Dec. 31	18	-	100	100
LOTTEMART C&C INDIA PRIVATE LIMITED	India	Distribution	Dec. 31	1,092	-	100	100
Lotte Shopping Plaza Vietnam Co., Ltd.	Vietnam	Distribution	Dec. 31	29,708	-	100	100
LOTTE HOTEL & RETAIL VIETNAM PTE. LTD.	Singapore	Holding company	Dec. 31	69,209	20	40	60
Lotte Holdings Hong Kong Ltd.	Hong Kong	Holding company	Dec. 31	36,107	-	100	100
HAI THAHN - LOTTE COMPANY LIMITED	Vietnam	Hotel Business	Dec. 31	51,581	-	70	70
LOTTE E-COMMERCE VIETNAM CO., LTD	Vietnam	Distribution	Dec. 31	29,807	-	100	100
LOTTE PROPERTIES (HANOI) SINGAPORE PTE. LTD.	Singapore	Holding company	Dec. 31	159,458	80	-	80
LOTTE PROPERTIES HANOI CO., LTD.	Vietnam	Distribution, real estate development	Dec. 31	160,401	-	100	100

(*1) As of December 31, 2020, the Company issued exchangeable bonds which are exchangeable to Lotte Himart Co., Ltd., common stocks (see Note 17). The total number of shares to be exchanged is 3,536,812 shares, and if all exchangeable bonds were exchanged to the common shares of Lotte Himart Co., Ltd., the Company's ownership on Lotte Himart Co., Ltd., would have decreased from 65.25% to 50.27%, but there would be no influence on its controlling ability over Lotte Himart Co., Ltd. Also, the Company agreed to lend the common shares of Lotte Himart Co., Ltd. to the extent of 50% of the number of shares in subject of exchange, and the number of lent shares as of December 31, 2020 is 1,000,000 shares. The Company's right to vote and dispose the shares is restricted pursuant to the agreement, however there is no influence on its controlling ability over Lotte Himart Co., Ltd.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
As of December 31, 2021 and 2020

1. General Information of Reporting Entity, continued

(b) Description of subsidiaries, continued

(ii) A summary of the subsidiaries of the Company is as follows:, continued

(*2) In accordance with stock repurchase agreement (see Note 38), shares issued to non-controlling shareholders as of December 31, 2019 have been classified as financial liabilities. The legal ownership of the Company on Lotte Cultureworks Co., Ltd., is 86.37%, however, it is reported as 100% on a consolidated financial statement.

(*3) The voting rights of the shares held by the Group do not exceed 50% but have been classified as subsidiary considering their control in substance.

(c) Financial information of significant subsidiaries as of December 31, 2021 and December 31, 2020 are summarized as follows:

(i) December 31, 2021

<i>(in millions of Korean won)</i>	2021					Profit (loss) for the year
	Subsidiaries (*)	Assets	Liabilities	Equity	Sales	
Woori Home Shopping & Television Co., Ltd.	₩	2,372,911	666,568	1,706,343	1,102,726	55,910
Lotte Suwon Station Shopping Town Co., Ltd.		434,901	398,783	36,118	32,353	(7,624)
Lotte Songdo Shopping Town Co., Ltd.		200,692	128,750	71,942	6,829	(55,296)
CS Mart Co., Ltd.		160,277	52,219	108,058	312,578	3,467
Lotte Himart Co., Ltd.		2,943,545	1,116,187	1,827,358	3,869,749	(57,452)
Lotte Cultureworks Co., Ltd.		1,091,738	946,613	145,125	218,007	(157,037)
LOTTE REIT Co., Ltd.		2,403,895	1,250,818	1,153,077	104,822	35,384
Lotte Incheon Development Co., Ltd		1,065,483	1,009,721	55,762	181,360	30,250
Lotte Incheon Town Co.,Ltd		393,461	340,365	53,096	120	(2,940)
LOTTE Town Dongtan Co.,LTD		701,962	555,559	146,403	273,198	46,827
LOTTE Shopping Town Daegu Co., LTD		186,150	195,512	(9,362)	-	(1,972)
IMM HIMECO Investment 1		310,000	468	309,532	-	(468)
Heim II Limited		523,384	230,135	293,249	-	(6,751)
LOTTE PROPERTIES (CHENGDU) HK LIMITED		415,652	373,861	41,791	-	(128,926)
Lotte Properties (Chengdu) Limited		402,928	15,623	387,305	7,487	(109,648)
LOTTE VIETNAM SHOPPING JOINT STOCK COMPANY		450,149	379,467	70,682	246,197	(27,893)
LOTTE SHOPPING HOLDINGS (SINGAPORE) PTE. LTD.		445,800	22	445,778	-	(83,278)
PT. LOTTE SHOPPING INDONESIA		360,591	218,374	142,217	785,251	(2,457)
PT. LOTTE MART INDONESIA		99,126	229,743	(130,617)	178,116	(16,818)
LOTTE PROPERTIES (HANOI) SINGAPORE PTE. LTD.		161,146	38	161,108	-	(40)
LOTTE PROPERTIES HANOI CO., LTD.		346,538	192,502	154,036	-	(1,624)
LOTTE CINEMA VIETNAM CO., LTD.		85,338	235,834	(150,496)	16,786	(47,991)
PT. LOTTE Shopping Avenue Indonesia		112,435	145,842	(33,407)	11,176	(9,821)

(*) The financial information for the subsidiaries is based on separate financial statements.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
As of December 31, 2021 and 2020

1. General Information of Reporting Entity, continued

(c) Financial information of significant subsidiaries as of December 31, 2021 and December 31, 2020 are summarized as follows:, continued

(ii) December 31, 2020

		2020				
<i>(in millions of Korean won)</i>						
Subsidiaries (*)		Assets	Liabilities	Equity	Sales	Profit (loss) for the year
Woori Home Shopping & Television Co., Ltd.	₩	1,461,722	484,368	977,354	1,075,865	100,314
Lotte Suwon Station Shopping Town Co., Ltd.		452,629	408,891	43,738	42,404	(8,054)
Lotte Songdo Shopping Town Co., Ltd.		215,697	88,463	127,234	7,385	2,448
CS Mart Co., Ltd.		161,821	57,231	104,590	343,030	(135)
Lotte Himart Co., Ltd.		3,349,190	1,423,236	1,925,954	4,051,729	28,721
Lotte Cultureworks Co., Ltd.		1,330,070	1,167,573	162,497	242,581	(235,551)
LOTTE REIT Co., Ltd.		1,573,864	724,799	849,065	76,420	31,161
Lotte Incheon Development Co., Ltd		987,886	962,376	25,510	166,553	5,872
Lotte Incheon Town Co.,Ltd		441,245	385,198	56,047	20	(8,145)
LOTTE Town Dongtan Co.,LTD		712,017	612,445	99,572	269,587	24,793
LOTTE PROPERTIES (CHENGDU) HK LIMITED		504,054	343,131	160,923	-	(7,473)
Lotte Properties (Chengdu) Limited		445,247	16,542	428,705	7,163	728
LOTTE VIETNAM SHOPPING JOINT STOCK COMPANY		442,743	397,855	44,888	300,777	(20,584)
LOTTE SHOPPING HOLDINGS (SINGAPORE) PTE. LTD.		442,599	26	442,573	-	(13,511)
PT. LOTTE SHOPPING INDONESIA		356,518	223,309	133,209	826,547	(4,571)
PT. LOTTE MART INDONESIA		108,196	213,878	(105,682)	200,328	(15,899)
LOTTE PROPERTIES (HANOI) SINGAPORE PTE. LTD.		147,897	1	147,896	-	(35)
LOTTE PROPERTIES HANOI CO., LTD.		204,973	64,187	140,786	-	(1,626)
LOTTE CINEMA VIETNAM CO., LTD.		123,747	215,844	(92,097)	22,928	(36,651)
PT. LOTTE Shopping Avenue Indonesia		114,389	136,017	(21,628)	14,882	(12,871)

(*) The financial information for the subsidiaries is based on separate financial statements.

(d) Changes in the scope of consolidation

(i) Entities included in the subject of consolidated financial statements to subsidiaries in 2021 are as follows:

Subsidiaries	Description
LOTTE Shopping Town Daegu Co., LTD	Business Combination
Lotte Home-shopping Innovation fund No. 1	Establishment
Lotte Shopping Innovation fund No. 1	Establishment
IMM HIMECO Investment 1	Establishment
Heim II Limited	Establishment

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
As of December 31, 2021 and 2020

1. General Information of Reporting Entity, continued

(d) Changes in the scope of consolidation, continued

(ii) Entities liquidated from subsidiaries in 2021 are as follows:

Subsidiaries	Description
Lotte Shopping Business Management (Hong Kong) Limited	Liquidation
LOTTE SHOPPING RUS Ltd.	Liquidation
Lotte Shopping Holdings (Hong Kong) Co., Limited	Liquidation
PT. LOTTE CINEMA INDONESIA	Disposal
Lotte Cinema Hong Kong Co., Limited	Liquidation

(e) Non-controlling interests

Financial information relating to each of the Group's subsidiaries that has material NCI as of December 31, 2021 and December 31, 2020 are summarized as follows:

(i) December 31, 2021

(In millions of Korean won)

Subsidiaries	LOTTE REIT Co., Ltd. (*2)	Woori Home Shopping & Television Co., Ltd. (*1,2)	LOTTE Himart Co.,Ltd (*2)
NCI Percentage (*3)	50.00%	46.51%	33.42%
Current assets	₩ 55,417	1,145,144	683,082
Non-current assets	2,336,935	1,301,606	1,109,717
Current liabilities	657,615	338,914	548,348
Non-current liabilities	593,203	332,722	544,169
Net assets	1,141,534	1,775,114	700,282
Carrying amount of NCI	570,767	825,688	234,366
Dividends paid to NCI	30,898	18,786	9,845
Revenue	104,822	1,102,726	3,869,749
Net profit for the period	4,953	56,517	72,760
Total comprehensive income	4,953	533,699	78,606
Net profit attributable to NCI	2,476	26,284	24,318
Total comprehensive income attributable to NCI	2,476	248,204	26,272
Cash flows from operating activities	91,656	17,974	146,499
Cash flows from investing activities	(875,503)	62,253	4,945
Cash flows from financing activities	772,248	(55,554)	(348,230)
Net increase (decrease) in cash and cash equivalents	₩ (11,599)	24,673	(196,786)

(*1) The financial information for the subsidiaries is based on consolidated financial statements.

(*2) The information of subsidiaries above is adjusted to reflect goodwill and fair value adjustments from business combination, but not intercompany transactions.

(*3) This interest percentage is effective interest percentage.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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As of December 31, 2021 and 2020

1. General Information of Reporting Entity, continued

(e) Non-controlling interests, continued

(ii) December 31, 2020

(In millions of Korean won)

Subsidiaries	LOTTE REIT Co., Ltd. (*2)	Woori Home Shopping & Television Co., Ltd. (*1,2)	LOTTE Himart Co.,Ltd (*2)
NCI Percentage	50.00%	46.97%	34.75%
Current assets	₩ 42,643	929,742	988,972
Non-current assets	1,550,109	591,500	1,056,266
Current liabilities	8,501	331,295	819,366
Non-current liabilities	716,298	153,480	556,031
Net assets	867,953	1,036,467	669,841
Carrying amount of NCI	433,976	486,656	232,901
Dividends paid to NCI	22,183	20,665	8,204
Revenue	76,420	1,075,865	4,051,729
Net profit for the period	43,739	101,484	92,718
Total comprehensive income	43,739	248,048	91,659
Net profit attributable to NCI	21,870	47,662	32,222
Total comprehensive income attributable to NCI	21,870	116,496	31,854
Cash flows from operating activities	71,723	173,850	370,016
Cash flows from investing activities	(11,634)	(133,303)	(205,849)
Cash flows from financing activities	(57,894)	(58,808)	22,542
Effect on foreign currency translation	-	52	-
Net increase (decrease) in cash and cash equivalents	₩ 2,195	(18,209)	186,709

(*1) The financial information for the subsidiaries is based on the consolidated financial statements.

(*2) The information of subsidiaries above is adjusted to reflect goodwill and fair value adjustments from business combination, but not intercompany transactions.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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1. General Information of Reporting Entity, continued

(f) Changes in the Company's ownership interest in subsidiaries that did not result in loss of control

The changes in the Company's ownership interest in subsidiaries for the current period due to acquisition of additional shares and paid in capital increases are summarized as follows:

(In millions of Korean won)

Subsidiaries	Type	Amount	The parent Company's percentage of ownership		The parent Company's portion in net assets	
			Before	After	Before	After
LOTTE PROPERTIES (HANOI) SINGAPORE PTE. LTD.	Additional acquisition	₩ 30,100	80.00%	90.00%	₩ 118,317	133,106
LOTTE REIT Co., Ltd.	Capital increase	166,673	50.00%	50.00%	413,129	579,801
Woori Home Shopping & Television Co., Ltd.	Additional acquisition	3,670	53.03%	53.49%	597,247	602,428
Lotte Himart Co., Ltd.	Treasury stock acquisition	18,661	65.25%	66.58%	1,265,345	1,278,713
Lotte Properties (Chengdu) Limited	Capital increase	22,712	100.00%	100.00%	449,490	472,202
LOTTE SHOPPING HOLDINGS (SINGAPORE) PTE. LTD.	Capital increase	49,728	100.00%	100.00%	470,370	520,098
LOTTE VIETNAM SHOPPING JOINT STOCK COMPANY	Capital increase	49,728	99.99%	99.99%	20,952	70,675

2. Basis of the Accounting

The consolidated financial statements have been prepared in accordance with Korean International Financial Reporting Standards (hereinafter referred to as "K-IFRS" or "Korean IFRS"). The Korean International Financial Reporting Standards shall mean the contents being endorsed in Korea among the standard document and interpretation document announced by International accounting standard board ("IASB").

(a) Basis of measurement

The consolidated financial statements have been prepared based on historical cost except for the following.

- Specific financial assets and financial liabilities (including derivatives)
- Assets held for sale measured at fair value less costs to sell
- Defined benefit plans and plan assets measured at fair value

(b) Functional and presentation currency

The financial statements of the Parent Company and each subsidiary are prepared in functional currency of the respective operation. These consolidated financial statements are presented in Korean won, which is the Parent Company's functional currency.

K-IFRS permit the use of significant accounting estimates in preparing consolidated financial statements and require management to make judgements in applying accounting policies. Refer to Note 4 for details of more complex and higher levels of judgement, significant assumptions and estimates.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of December 31, 2021 and 2020

3. Significant Accounting Policies and Changes in Disclosure

The following are significant accounting policies applied to the preparation of financial statements. These policies will continue to be applied in the period shown, unless otherwise mentioned.

3.1 Enacted, amended standards adopted by the Group

The Group has initially applied the following enacted/amended standards and interpretations from the year beginning January 1, 2021.

- (a) Amendments to K-IFRS 1109 Financial Instruments, 1039 Financial Instruments: recognition and measurement, 1107 Financial Instrument: Disclosure, 1104 Insurance Contract and 1116 Lease - Interest rate indicator reform (2nd amendments)

Regarding to reform of Interest rate indicator, when replacing the interest rate indicators of financial instruments measured by amortized cost, the effective interest rate, not the book value, is adjusted and it includes exceptions such as allowing hedge accounting to continue without interruption even if interest rate indicators are replaced in the hedging relationship. The amendments do not have a significant impact on the financial statements.

- (b) Amendments to K-IFRS 1116 Lease – Discounts on rent related to COVID-19, which will be offered after June 30, 2021.

The scope of the practical simplification method, which allows not to evaluate whether the lease discount, etc. incurred as a direct result of COVID-19, is subject to lease reduction or exemption that affects the lease fee due before June 30, 2022. Lease users consistently apply practical simplifications to contracts with similar characteristics in similar situations. The company has changed our accounting policy for all rent discounts that meet the conditions by introducing amendments to IFRS16.

3.2 Amendments and Enactments of standards and interpretations not applied by the Group

- (a) Amendments to K-IFRS 1103 Business Combination – Reference to the Conceptual Framework

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

- (b) Amendments to K-IFRS 1016 Property, Plant and Equipment - Proceeds before intended use

The amendments prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while the entity is preparing the asset for its intended use. Instead, the entity will recognize the proceeds from selling such items, and the costs of producing those items, in profit or loss. The amendments should be applied for annual periods beginning on or after January 1, 2022, and earlier application of permitted. The Group is in review for the impact of these amendments on the financial statements.

- (c) Amendments to K-IFRS 1037 Provisions, Contingent Liabilities and Contingent Assets - Onerous Contracts: Cost of Fulfilling a Contract

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

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of December 31, 2021 and 2020

3. Significant Accounting Policies and Changes in Disclosure, continued

3.2 Amendments and Enactments of standards and interpretations not applied by the Group, continued

- (d) Amendments to K-IFRS 1001 Presentation of Financial Statements - Classification of Liabilities as Current or Non-current

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

- (e) Establishments to K-IFRS 1117 Insurance Contract

K-IFRS 1117 Insurance Contract replaces K-IFRS 1104 Insurance Contract. All cash flows under the insurance contract are estimated, insurance liabilities are measured using a discount rate reflecting the assumptions and risks at the time of reporting, and profits are recognized as accrual by the services (insurance coverage) provided to the contractor every fiscal year. The amendments should be applied for annual periods beginning on or after January 1, 2023, and earlier application of permitted. The Company considering that these amendments impact on the financial statements.

- (f) K-IFRS 1001 Presentation of Financial Statements – Disclosure of accounting policy

In order to define and disclose important accounting policies and to provide guidance on how to apply the concept of importance, the IAS Practice Book 2 Accounting Policy Disclosure has been revised. The amendments should be applied for annual periods beginning on or after January 1, 2023, and earlier application of permitted. The Company considering that these amendments impact on the financial statements.

- (g) K-IFRS 1008 Accounting Policy, changes and errors in accounting estimates – Definition of Accounting Estimates

Defined accounting estimates and clarified 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 of permitted. The Company expecting that these amendments have no impact on the financial statements.

- (h) K-IFRS 1012 Corporate Tax - deferred tax on assets and liabilities arising from a single transaction

In the initial recognition exception requirement for transactions where assets or liabilities are first recognized, the requirement of transactions that do not cause temporary differences to be added and temporary differences to be deducted at the time of transaction was added. The amendments should be applied for annual periods beginning on or after January 1, 2023, and earlier application of permitted. The Company expecting that these amendments have no impact on the financial statements.

- (i) Annual improvements to K-IFRS 2018-2020

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

- K-IFRS 1101 First time Adoption of Korean International Financial Reporting Standards – Subsidiaries that are first-time adopters
- K-IFRS 1109 Financial Instruments – Fees related to the 10% test for derecognition of financial liabilities
- K-IFRS 1116 Leases – Lease incentives
- K-IFRS 1041 Agriculture – Measuring fair value

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of December 31, 2021 and 2020

3. Significant Accounting Policies and Changes in Disclosure, continued

3.3 Basis of Consolidation

The Group has prepared the consolidated financial statements in accordance with K-IFRS No.1110 'Consolidated Financial Statements'

(a) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it 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 over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

The Group accounts for business combinations using the acquisition method. The consideration transferred is measured at fair value of acquisition date, and in case of identifiable assets / liabilities / contingent liability being acquired from business combination, it is initially measured at the fair value of acquisition date. The Group judges non-controlling interests, which provide a proportional share of net assets upon the liquidation, on each business combination, and measures with fair value or proportionate share among net assets of acquiree. If there is no requirement of other standard, other non-controlling interests are measured at fair value. Transform costs are expensed as incurred.

Goodwill is measured as the difference between the aggregate of the value of the consideration transferred, the amount of any non-controlling interest (NCI), the acquisition-date fair value of the acquirer's previously-held equity interest in the acquiree, and the net of the acquisition-date fair value of the identifiable assets acquired and liability assumed. When the consideration transferred and other components mentioned above is smaller than the fair value amount of acquired net assets of subsidiaries, such difference is recognized as profits and losses for the current period.

Any debts, balance of liabilities, profit and expense, and unrealized gain, etc. from transactions between intercompanies within the Group would be removed. Moreover, the accounting policy of subsidiaries would be modified for the consistent application of accounting policy being adopted by the Group, when there are any differences.

Transactions with non-controlling interests that do not result in a loss of control are directly recognized as equity attributable to the owner of Parent Company with the difference between the adjustment amount of noncontrolling interests and the fair value of consideration paid or received.

When the Group loses the control over subsidiaries, the remaining share of relevant company being possessed would be re-measured at fair value at the same time, and the related difference would be recognized as profits and losses for the current period.

(b) Investment in Associates

Associates are entities over which the Group has significant influence, and the investment associates is recognized at initial acquisition cost using equity method. Unrealized gain occurred from the inter-company transactions between the Group and its associates would be removed to the extent of proportionate share of the Group in associates. The equity method shall be discontinued if the group's interest for the loss of associates equals or exceeds the investment interest in the associates (including the long-term investment interest that forms part of the net investment). However, if the Group has a legal obligation to the associates for additional losses after the Group's interest is reduced to zero (0), or if the Group has to pay on behalf of the associates, only that amount shall be recognized as a loss and liability. Furthermore, if there is any objective indicators of impairment on the investment in associates, the difference between the recoverable amount of the investment and the carrying amount is recognized as impairment loss. When using the financial statements of the associate to apply the equity method, the Group reviews whether the same accounting policies applied by the Group are applied to the same transactions or events in similar circumstances and adjusts the financial statements of the associate if necessary.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of December 31, 2021 and 2020

3. Significant Accounting Policies and Changes in Disclosure, continued

3.3 Basis of Consolidation, continued

(c) Joint Arrangements

A joint arrangement that more than two contract parties own the joint control, is categorized as joint operation or joint venture. Co-operators have rights and obligations regarding assets and liabilities of joint operation, and have recognized the own share among assets, liabilities, profits, and expenses of joint operation. Participants of joint venture have rights to the net assets and the equity method is applied.

3.4 Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments. Equity investments are excluded from cash equivalents unless they are, in substance, cash equivalents, for example in the case of preferred stocks when it has a short maturity with a specified redemption date.

3.5 Foreign currency translation

(a) Functional and presentation currency

The Group measures the items included in the financial statements of individual entities within the Group by applying the currency in the main economic environment in which each business activity is conducted ("functional currency"). The functional currency of the parent company is Korean won, and the consolidated financial statements are prepared in Korean won.

(b) Foreign currency transaction and translation at the end of the reporting period

Foreign currency transactions are recognized as functional currencies with the exchange rate of the transaction date or, in case of items that are remeasured, the exchange rate of the evaluation date. Transactions made in currencies other than the functional currency (foreign currency) are recorded using the exchange rate of the transaction date. Foreign exchange differences arising from settlement of foreign currency transactions or translation of monetary foreign currency assets and liabilities are recognized in profit or loss. However, the gain or loss on monetary items related to the effective portion of the cash flow hedge or net investment that meets the conditions or that are part of the reporting entity's net investment in the foreign operation shall be recognized in other comprehensive income.

Foreign exchange differences related to borrowings are shown in the income statement as financial expenses, and other foreign exchange differences are shown in other income or other expenses.

Foreign exchange differences arising from non-monetary financial assets and liabilities are regarded as part of gain or loss from fair value change. Foreign exchange differences arising from equity instruments measured at fair value through profit or loss are recognized in profit or loss, and foreign exchange differences arising from equity instruments measured at fair value through other comprehensive income are recognized in other comprehensive income.

3.6 Financial assets

(a) Classification

The Group classifies the financial assets in the following categories.

- Financial assets measured at fair value through profit or loss
- Financial assets measured at fair value through other comprehensive income
- Financial assets measured at amortized cost

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

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of December 31, 2021 and 2020

3. Significant Accounting Policies and Changes in Disclosure, continued

3.6 Financial assets, continued

(b) Classification, continued

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 only when its business model for managing those assets changes.

For investments in equity instruments that are not held for trading, classification 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. Changes in fair value of the investments in equity instruments that are not accounted for as other comprehensive income are recognized in profit or loss.

(c) Measurement

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

Hybrid (combined) contracts with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

(i) Debt instrument

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:

- Financial assets measured at 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.

- Financial assets measured at 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.

- Financial assets measured at 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 in the statement of profit or loss within 'Finance income or expenses' in the year in which it arises.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of December 31, 2021 and 2020

3. Significant Accounting Policies and Changes in Disclosure, continued

3.6 Financial assets, continued

(ii) Equity instrument

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 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 'Financial 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 'Finance income or expenses' in the statement of profit or loss as applicable. The impairment loss (reversal) on equity instrument measured at fair value through other comprehensive income is not recognized separately.

(d) Impairment

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

(e) 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.

(f) 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.

3.7 Derivatives

Derivatives are initially recognized at fair value and remeasured at fair value subsequently. Changes in the fair value of derivatives that do not meet the application requirements for hedge accounting are recognized in the income statement as 'finance income or finance expenses' depending on the nature of the transaction.

(a) Hedge accounting

The Group holds forward exchange contracts, interest rate swaps, currency swaps and other derivative contracts to manage interest rate risk and foreign exchange risk. The Group designated derivatives as hedging instruments to hedge the risk of changes in the fair value of assets, liabilities or firm commitments (fair value hedge) and foreign currency risk of highly probable forecasted transactions or firm commitments (cash flow hedge).

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of December 31, 2021 and 2020

3. Significant Accounting Policies and Changes in Disclosure, continued

3.7 Derivatives, continued

(a) Hedge accounting, continued

On initial designation of the hedge, the Group formally documents the relationship between the hedging instruments and hedged items including the risk management objectives and strategy. The document also includes methods that will be used to assess the effectiveness of the hedging instrument on offsetting hedging instruments, related hedged items and its relationship at the inception and changes in the fair value or cash flow of the hedged items due to hedging risk at its subsequent period.

(i) Fair value hedge

Changes in the fair value of a derivative hedging instrument designated as a fair value hedge are recognized in profits and loss for the current period. The gain or loss from remeasuring the hedging instrument at fair value for a derivative hedging instrument and the gain or loss on the hedged item attributable to the hedged risk are recognized in profit or loss in the same line item of the consolidated statement of comprehensive income. The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, or if the hedge no longer meets the criteria for hedge accounting. Any adjustment arising from gain or loss on the hedged item attributable to the hedged risk is amortized to profits and losses for the current period from the date the hedge accounting is discontinued.

(ii) Cash flow hedge

When a derivative is designated to hedge the variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecasted transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivatives is recognized in other comprehensive income, net of tax, and presented in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivatives is recognized immediately in profits and losses for the current period. If the hedging instrument no longer meets the criteria for hedge accounting, expires, or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss on hedging instrument that has been recognized in other comprehensive is reclassified to profit or loss in the period during which the forecasted transaction occurs. However, if the forecasted transaction is no longer expected to occur, then the balance in other comprehensive income is recognized immediately in profit or losses for the current period.

(b) Other derivatives

Changes in the fair value of other derivatives not designated as a hedging instrument are recognized immediately in profit or losses for the current period.

3.8 Trade receivables

Trade receivables are initially recognized as an amount of unconditional consideration if it does not include a significant financial component when it is recognized at fair value. The trade receivables are subsequently measured by deducting the loss allowance at amortized cost using the effective interest method.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of December 31, 2021 and 2020

3. Significant Accounting Policies and Changes in Disclosure, continued

3.9 Inventories

Inventories are measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is based on the total-weighted average method, moving average method and retail method except for goods-in-transit of which cost is determined by the specific identification method.

When inventories are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value, is deducted from cost of sales for the period when such inventories are recognized as cost of sales.

3.10 Non-current assets held for sale

Non-current assets are classified as held for sale when the carrying amount is primarily recovered through the sale transaction and is highly probable to be sold, and such assets are measured at the lower of the carrying amount and fair value less costs to sell.

3.11 Property, plant and equipment

Property, plant and equipment are initially measured at cost and after initial recognition, are carried at cost less accumulated depreciation and accumulated impairment losses. The cost of property, plant and equipment includes expenditures arising directly from the construction or acquisition of the asset, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Property, plant and equipment, except for land, are depreciated over estimated useful lives that appropriately reflect the pattern in which the asset's future economic benefits are expected to be consumed on a straight-line basis.

The estimated useful lives of the Group's property, plant and equipment are as follows:

	<u>Useful lives (years)</u>
Buildings	5 – 50
Structures	7 – 40
Machinery	5 – 30
Tools and equipment	1 – 5
Vehicles	5 – 12
Display fixtures	5
Furniture and fixtures	3 – 8
Other property, plant and equipment (“Other PP&E”)	4 – 25

Depreciation methods, useful lives and residual values of property, plant and equipment are reviewed at the end of each reporting date and adjusted, if appropriate. The change is accounted for as a change in an accounting estimate.

A component that is significant compared to the total cost of property, plant and equipment is depreciated over its separate useful life.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized in other non-operating profit or loss.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of December 31, 2021 and 2020

3. Significant Accounting Policies and Changes in Disclosure, continued

3.12 Borrowing costs

The borrowing costs incurred to acquire or construct a qualifying asset are capitalized during the period in which the asset is prepared to be used for its intended use, and the return on investment from the temporary operation of a loan with particular purpose to acquire the qualifying asset is deducted from the borrowing costs that are capitalizable during the fiscal period. Other borrowing costs are recognized as expenses in the period in which they occur.

3.13 Intangible assets

The goodwill is measured in the manner described in Note 3.3(a) and is presented at cost less accumulated impairment losses. Intangible assets other than goodwill are initially recognized at historical cost and are presented at cost less accumulated amortization and accumulated impairment losses.

Club membership is not amortized because there is no foreseeable limit to the available period. The following intangible assets with a limited useful life are amortized on a straight-line basis during the estimated useful life.

	<u>Useful lives (years)</u>
Industrial property rights	5
Rights to use facility	5 – 20
Other intangible assets (*)	4 – 10

(*) Among other intangible assets, film copyrights are expensed as cost of sales during the period when the related sales are realized, and if the realization of related sales are uncertain, they are treated as intangible asset impairment losses.

Useful lives and the amortization methods for intangible assets with finite useful lives are reviewed at the end of each reporting period. The useful lives of intangible assets that are not being amortized are reviewed at the end of each reporting period to determine whether events and circumstances continue to support indefinite useful life assessments for those assets. Changes are accounted for as changes in accounting estimates.

Research and internally generated development cost during research phase are recognized as expense when incurred. Development costs are recognized as intangible assets when it can establish technical feasibility to complete the asset for sale or use, can demonstrate probable future benefits for the asset, and whether the cost of the asset can be measured reliably. Other development costs are recognized as expense when incurred.

3.14 Investment property

Property held for the purpose of earning rentals or benefiting from capital appreciation is classified as investment property. However, if the property held by the Company does not meet the requirements of investment property in accordance with K-IFRS No.1040, the property is classified as property, plant and equipment. Whether investment property requirements are met is judged based on the degree of significant exposure to the risk of changes in cash flows arising from property use, and the degree of significant service provision to property users. Investment property is measured at cost at initial recognition, including transaction costs incurred at acquisition, and presented at initial cost less accumulated depreciation and accumulated impairment losses.

Subsequent costs are recognized in the carrying amount of investment property at cost or, if appropriate, as separate items if it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing are recognized in profit or loss as incurred.

Investment property except for land, are depreciated on a straight-line basis over 5 to 50 years as estimated useful lives. Depreciation methods, useful lives and residual values are reviewed at the end of each reporting date and adjusted, if appropriate. The change is accounted for as a change in an accounting estimate.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of December 31, 2021 and 2020

3. Significant Accounting Policies and Changes in Disclosure, continued

3.15 Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than assets arising from employee benefits, inventories and deferred tax assets, are reviewed at the end of the reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, irrespective of whether there is any indication of impairment, are tested for impairment annually by comparing their recoverable amount to their carrying amount.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets ("CGU" or Cash Generating Unit). The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. The value in use is estimated by applying a pre-tax discount rate that reflect current market assessments of the time value of money and the risks specific to the asset or CGU for which estimated future cash flows have not been adjusted, to the estimated future cash flows expected to be generated by the asset or CGU.

An impairment loss is recognized in profit or loss if the carrying amount of an asset or a CGU exceeds its recoverable amount.

Goodwill acquired in a business combination is allocated to each CGU that is expected to benefit from the synergies arising from the goodwill acquired. Any impairment identified at the CGU level will first reduce the carrying value of goodwill and then be used to reduce the carrying amount of the other assets in the CGU on a pro rata basis. Except for impairment losses in respect of goodwill which are never reversed, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

3.16 Trade payables and other payables

Trade payables and other payables are liabilities that the Group received goods or services before the end of the reporting period but were not paid. Trade payables and other payables presented as current liabilities unless the payment date is 12 months after the reporting period. The payables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method.

3.17 Financial liabilities

(a) Classification and measurement

The financial liabilities of the Group at fair value through profit or loss are financial instruments held for trading. Financial liabilities incurred principally for the purpose of repurchasing in the near term are classified as short-term financial liabilities held for trading. In addition, an embedded derivative separated from a host, or a derivative that is not designated as effective hedging instrument is classified as a short-term financial liability held for trading. In accordance with stock repurchase agreement (See Note 38.(h)), shares issued to non-controlling shareholders are classified as financial liabilities.

The Group shall classify all non-derivative financial liabilities as accounts payable, debts, or other financial liabilities, etc. subsequently measured at amortized cost, except for financial liabilities that arise when financial liabilities at fair value through profit or loss, financial guarantee contracts, and a transfer of a financial asset do not qualify for derecognition.

The preferred stock whose redemption is mandatory at a specific future date is classified as a liability. Along with interest expenses resulting from other financial liabilities, the interest expense incurred from the redemption of the preferred stock using effective interest method is recognized as finance expense in the statement of comprehensive income.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

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As of December 31, 2021 and 2020

3. Significant Accounting Policies and Changes in Disclosure, continued

3.17 Financial liabilities, continued

(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.

3.18 Hybrid (combined) financial instruments

Hybrid (combined) financial instruments issued by the Group is an exchangeable bond that can be converted into an equity instrument at the determination of the holders.

The liability component of the hybrid (combined) financial instrument is initially recognized at the fair value of the financial liability that has the same condition except the right to exchange, and subsequently at amortized cost until the date of conversion or maturity. The equity component is initially recognized as a difference between the fair value of the hybrid (combined) financial instrument as a whole and the fair value of the liability component and is not subsequently remeasured. Transaction costs directly related to the issuance of hybrid (combined) financial instruments are allocated proportionately to the initial recognition amount of the liability and equity components.

3.19 Provisions

When the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made for the amount of the obligation, sales return provisions, recovery provisions and litigation provisions are recognized. Provisions are measured at the present value of the expected expenditure amount to fulfil the obligation, and the increase in the provision due to passage of time is recognized as interest expenses.

3.20 Current and deferred income taxes

Income tax expense consists of current and deferred income taxes. Income tax shall be recognized in the relevant items in respect of the amounts directly recognized in other comprehensive income or in equity, and other items are recognized as profit or loss.

The current income tax expense is measured on the basis of tax laws enacted or substantially enacted as of the end of the reporting period. The management periodically assesses the tax policies applied by the group when reporting taxes in situations in which applicable tax code regulations may vary depending on the interpretation. The Group recognizes current tax expenses based on the amount expected to be paid to the tax authorities.

Deferred income tax is recognized as the expected corporate tax effect of recovering or settling the carrying amount of assets and liabilities for temporary differences between the carrying amount and the tax base. However, deferred tax assets and liabilities arising from the initial recognition of assets and liabilities in transactions other than business combinations are not recognized if the transaction does not affect accounting or taxable income.

Deferred tax assets are recognized when there is a high probability of future taxable income where deductible temporary differences may be used.

Deferred tax liabilities are recognized unless it is possible to control the timing of dissipation for the temporary differences to be added related to the investment interests for subsidiaries, associates and joint ventures and it is probable that temporary differences are unlikely to dissipate in the foreseeable future. Also, the deferred tax asset is recognized only when deductible temporary differences arising from such assets are probable to dissipate in the foreseeable future and taxable income is probable to arise where temporary differences can be used.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of December 31, 2021 and 2020

3. Significant Accounting Policies and Changes in Disclosure, continued

3.20 Current and deferred income taxes, continued

Deferred tax assets and liabilities are offset when the Group is legally entitled to offset current tax asset and current tax liability, and when the deferred tax assets and liabilities are related to the income taxes levied by the same taxation authority. The current tax assets and liabilities shall be offset if the Group retains the legal rights to offset, intends to settle as net amount and intends to settle the liability at the same time as the asset is realized.

3.21 Employee benefits

(a) Retirement benefits

Retirement benefit plan of the Group is divided into defined contribution plan and defined benefit plan.

Defined contribution plan is a retirement pension plan in which the group pays a fixed amount of contributions to a separate fund, which is recognized as an expense when the employees provide service.

Defined benefit plan is all retirement pension plans other than the defined contribution plan. Generally, defined benefit plans determine the amount of retirement pension benefits to be paid when employees retire due to factors such as age, service period or salary level. The liabilities accounted for in the statement of financial position in relation to the defined benefit plan are the current value of the defined benefit obligation as of the end of the reporting period minus the fair value of the plan assets. The defined benefit obligation is calculated according to the projected unit credit method by an independent actuary every year, and the present value of the defined benefit obligation is calculated by discounting the expected future cash outflow at the interest rate of the high quality corporate bonds with a similar maturity to the payment date. On the other hand, the remeasurement component related to the net defined benefit liability is recognized in other comprehensive income.

In the event of a plan amendment, curtailment or settlement, the gain or loss from past service cost or settlement shall be recognized in profit or loss.

(b) Short-term employee benefits

Short-term employee benefits are employee benefits that are expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related services. When an employee has rendered service to the Group during an accounting period, the Group recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service.

(c) Other long-term employee benefits

Other long-term employee benefits include employee benefits that are expected to be settled beyond 12 months after the end of the annual reporting period in which the employees render the related service. The Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Remeasurements are recognized in profit or loss in the period in which they arise.

3.22 Revenue recognition

(a) Sales of goods and rendering of services

The Group operates department stores, outlet stores, discount stores, consumer electronic retailers, supermarkets, H&B stores, e-commerce, cinema, etc. Sales of goods from contracts with customers are generally recognized when the goods are delivered to the customers. Under K-IFRS No.1115, revenue is recognized applying the following five-step process to contracts with customers:

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

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3. Significant Accounting Policies and Changes in Disclosure, continued

3.22 Revenue recognition, continued

(a) Sales of goods and rendering of services, continued

- Identify contracts with customers
- Identify the separate performance obligations
- Determine the transaction price of the contract
- Allocate the transaction price to each of the separate performance obligations, and
- Recognize the revenue as each performance obligation is satisfied.

Under K-IFRS No.1115, in the case of certain specific sales where the Group acts as an agent, the Group recognizes net sales, after deducting the cost of specific sales, as revenue upon delivery to customers.

(b) Customer loyalty program

The Group operates customer loyalty programs. The customer can use the accumulated award credits (“points”) for discount for their future purchase of goods or services. The revenue from award credits is recognized when the points are redeemed or expired, and the related contractual liability is recognized until the points are redeemed or expired. The points provide the customers with benefits that they would not have if there is no contract entered into. Accordingly, providing fulfilling obligations related to points redemptions a separate performance obligation. Transaction price per performance obligation is allocated based on stand-alone selling price of goods and points. The management estimates the stand-alone selling price of points based on discounts to be provided when the points are redeemed and the probability of redemption from past experience.

(c) Commissions

When the Group acts as an agent rather than as the principal in a transaction, the revenue recognized is the net amount of commission equal to the value generated by the Group.

(d) Rental income

Rental income from investment property, net of lease incentives granted, is recognized in profit or loss on a straight-line basis over the term of the lease, and other rental income is recognized in profit or loss in certain proportion of transaction amount.

(e) Self-sale Construction: apply to Korean Accounting Institution 2017-I-KQA015

Revenue from the self-sale construction is recognized as a progress criterion for contracts that meet the conditions of the 2017-I-KQA015 question and answer by the Korea Accounting Institution, and this accounting process is effective only for K-IFRS.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

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3. Significant Accounting Policies and Changes in Disclosure, continued

3.23 Leases

(a) Lessor

If the Group is a lessor, the lease income from the operating lease is recognized on a straight-line basis over the lease term. Initial direct costs incurred in the course of entering into the operation lease are added to the carrying amount of the underlying asset and recognized as expenses over the lease term on the same basis as the lease income. Each lease asset is presented based on its characteristics in the statement of financial position.

Also, when the Group sublease the underlying assets to a third party, the Group judges whether the lease is a finance lease or not based on the right-of-use assets of main lease.

(b) Lessee

The Group leases various offices, warehouses, retail stores, equipment and cars. Lease contracts are generally concluded for a fixed period, but there may be extension options as described in (ii) below.

Lease terms are negotiated individually and include various terms and conditions. There are no other restrictions imposed under the lease agreement, but the leased asset cannot be provided as collateral for the loan.

The Group will recognize the rights-of-use asset and its corresponding liability at the commencement of the lease on which the leased asset is available.

Assets and liabilities arising from leases are initially measured at the present value. The lease liability includes the net present value of the following lease payments:

- Fixed lease payments (including in-substance fixed lease payment) less incentive to receive
- Variable lease payments that depend on the index or rate initially measured using the index or rate at the commencement date
- Amount expected to be paid by the Group (lessor) according to the guaranteed residual value
- The exercise price of the purchase option if it is reasonably certain that the Group (lessor) will exercise the purchase option
- If the lease period reflects the exercise of the option to terminate the lease by the Group (lessor), the amount to be paid to terminate the lease

Also, the measurement of lease liabilities includes lease payments to be made under the extension option that are reasonably certain.

If it is easy to calculate the implicit interest rate of a lease, the lease payment shall be discounted using the rate. If it is not easy to calculate implicit interest rate, the lessee uses the lessee's incremental borrowing rate, which is the rate to be paid if the lessee borrows the funds necessary to acquire an asset of similar value as a right-of-use asset with similar collateral over a similar economic period.

The Group calculates the incremental borrowing rate as follows:

- If possible, reflect changes in financial position after receiving third-party financing at the latest third-party financial interest rate received by individual lessee
- For leases held by subsidiaries that have not recently received third-party financing, an upward approach is used to adjust credit risk to risk-free interest rates
- Reflects interest rates based on market-observed credit ratings

The Group is exposed to a potential future increase in variable lease payments that are not included in the lease liability until the index or rate is valid for variable lease payments that depend on the index or rate. Lease liability is re-evaluated and right-of-use asset is adjusted when the adjustment amount of the lease payment, which depends on the index or rate, is valid.

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Notes to the Consolidated Financial Statements

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3. Significant Accounting Policies and Changes in Disclosure, continued

3.23 Leases, continued

(b) Lessee, continued

Each lease payment is allocated to the repayment of the lease liability and the finance expenses. Finance expenses shall be recognized in profit or loss over the lease term to the amount calculated to yield an interest for a fixed period on the lease liability balance for each period.

Right-of-use assets are measured at cost consisting of the following.

- Initial measurement amount of lease liabilities
- Lease payments less lease incentive received paid on or before lease commencement date
- Lessee's direct cost of opening a lease
- Estimated amount of costs of restoration

Right-of-use assets are depreciated over the period from the commencement of the lease to the end of the useful life of the right-of-use assets or the end of the lease term, whichever is earlier. If it is reasonably certain that the Group will exercise the purchase option, right-of-use assets are depreciated over the useful life of the underlying asset. The assets are reviewed for the indication of impairment at the end of each reporting period, and if the indication of impairment exists, the recoverable amount for those assets is estimated.

Recoverable amount is estimated by individual asset, or by cash generating unit to which the asset belongs if the recoverable amount of individual asset cannot be estimated. The recoverable amount is determined to be the higher of the value in use and fair value less cost of disposal. Value in use is estimated by discounting the future cash flows expected to be generated by the asset or cash-generating unit at an appropriate discount rate that reflects the time value of money and the current market assessment of the specific risks of an asset which are not adjusted when estimating future cash flow.

Short-term leases for equipment and vehicles and lease payments related to all low value leases are recognized in profit or loss on a straight-line basis. Short-term lease is a lease with a lease term of 12 months or less, and low value lease assets consist of IT devices and low value office furniture.

(i) Variable lease payments

Some property leases include variable lease payment terms that reflect changes in the index or rate, such as sales links generated by stores and the consumer price index. Individual stores may be subject to variable lease payment terms up to 100% of their lease payments. The terms and conditions of the variable lease payment are used for a variety of reasons, including minimizing the fixed cost of new stores. Variable lease payments linked to sales shall be recognized in profit or loss in the period in which the conditions for causing variable lease payment are occurred.

(ii) Extension option and termination option

There are a number of lease contracts, including property, throughout the Group which include extension options and termination options. These conditions are used to maximize operational flexibility in terms of contract management.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

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As of December 31, 2021 and 2020

3. Significant Accounting Policies and Changes in Disclosure, continued

3.24 Finance income and finance costs

Finance income comprises interest income on funds invested (including financial instruments at fair value through profit or loss), dividend income, changes in the fair value of financial instruments at fair value through profit or loss, and gains on hedging instruments that are recognized in profit or loss. Interest income is recognized as it accrues in profit or loss, using the effective interest method. Dividend income is recognized in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, dividends on preference shares classified as liabilities, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognized on financial assets, and losses on hedging instruments that are recognized in profit or loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

3.25 Operating segments

The Group divides the segments based on internal reporting data periodically reviewed by the chief operating decision maker to make decisions on the resources to be allocated to the segments and to evaluate the performance of the segments. As explained in Note 37, the Group divides its operating segments into department stores, discount stores, consumer electronics retail, TV home shopping, supermarkets, cinema, e-commerce and others.

3.26 Emission rights

The Group accounts for greenhouse gases emission right and the relevant liability as below pursuant to the Act on Allocation and Trading of Greenhouse Gas Emission.

(i) Greenhouse gases emission right

Greenhouse Gases Emission Right consists of emission allowances which are allocated from the government free of charge or purchased from the market. The cost includes any directly attributable costs incurred during the normal course of business.

Emission rights held for the purpose of performing the obligation is classified as an intangible asset and is initially measured at cost and are carried at cost less accumulated impairment losses after initial recognition. Emission rights held for short-swing profits are classified as current asset and are measured at fair value with any changes in fair value recognized as profit or loss in the respective reporting period. The Group derecognizes an emission right asset when the emission allowance is unusable, disposed or submitted to government in which the future economic benefits are no longer expected to be probable.

(ii) Emission liability

Emission liability is a present obligation of submitting emission rights to the government with regard to emission of greenhouse gas. Emission liability is recognized when outflow of resources in performing the obligation is probable and the costs required to perform the obligation are reliably estimable. Emission liability is an amount of estimated obligations for emission rights to be submitted to the government for the performing period. The emission liability is measured based on the expected quantity of emission for the performing period in excess of emission allowance in possession and the unit price for such emission rights in the market at the end of the reporting period.

3.27 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.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of December 31, 2021 and 2020

3. Significant Accounting Policies and Changes in Disclosure, continued

3.28 Authorization of financial statements

The consolidated financial statements were authorized by the Board of Directors meeting on March 8, 2022 and may be modified at the shareholder's meeting.

4. Significant Accounting Estimates and Assumptions

The preparation of financial statements requires assumptions and estimates of the future, and management requires judgement to apply the accounting policies of the Group. Estimates and assumptions are continuously evaluated and are made in consideration of reasonably foreseeable future events in light of past experience and current circumstances. The results of an accounting estimate will rarely be the same as the actual results, posing a significant risk of causing significant adjustments.

Estimates and assumptions regarding management's judgement and significant risks that may affect the adjustment of the carrying amount of assets and liabilities in the following fiscal year are as follows. Additional information about significant judgement and estimation of some items is included in the individual notes.

During 2021, the spread of Coronavirus disease 2019 ("COVID-19") has a material impact on both 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. Accordingly, it may have a negative impact on the financial position and financial performance of the Group.

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

The assumptions that sales and profitability are recovered back to the level before the spread of COVID-19 are used for the assessment starting from the year 2022; however, the high level of uncertainty about business plan for the years 2022~2026 still exists. Therefore, some assumptions used in the assessment have been modified to ensure that it cannot exceed a certain growth rate. It is deemed very difficult to fully predict the extent and duration of the impact of COVID-19 on the operations.

(a) Impairment of non-financial asset

The recoverable amount of the cash generating unit to assess whether the assets held, such as right-of-use assets and goodwill, are impaired is determined based on the calculation of value in use (see Note 13 and 15).

(b) Income taxes

The income tax on taxable income of the Group is determined by applying tax laws and taxation authorities in various countries. Therefore, uncertainty exists in determining the final tax effect (see Note 34).

The Group shall pay additional income taxes calculated according to the method provided by the tax law when certain amount of taxable income is not used for investment, wage increase, etc. for a certain period. Therefore, corresponding tax effects should be reflected when measuring current and deferred taxes. As a result, uncertainty exists in determining the final tax effect because the income tax the Group will bear depends on the level of investment and wage increase in each year.

(c) Fair value of financial instruments

In principle, the fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The Group makes judgement on the selection and assumptions of various valuation techniques based on important market conditions as of the end of the reporting period (see Note 7).

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

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4. Significant Accounting Estimates and Assumptions, continued

(d) Impairment of financial assets

The loss allowance for financial assets is measured based on assumptions about default risks and expected loss rates. The Group makes judgement for the setting of these assumptions and the selection of input variables used for impairment model in consideration of the Company's experience, current market conditions and future forecast information as of financial reporting date (see Note 5 and 41).

(e) Net defined benefit liability

The present value of the net defined benefit liability is affected by various factors, especially changes in discount rates, which are determined by actuarial methods (see Note 21).

(f) Revenue recognition

The Group recognizes the refund liabilities and the right to the goods to be collected for the products expected to be returned by the customer after the sales to the customer. Based on experience accumulated at the portfolio level at the time of sale, the return rate is forecast by the expected value method, and the Group's revenue is affected by the estimated change in the expected return rate.

(g) Provision for restoration costs

The Group considers past restoration experiences and current market restoration costs for the timing and amount of outflow of resources which are a variable in the measurement of the provision for restoration costs.

(h) Provision for restructuring costs

The Group recognizes restructuring provision when there is a detailed formal plan for the restructuring and the Group has raised a valid expectation in those affected that the plan will be implemented – either by starting to implement the plan or announcing its main features to those affected.

(i) Leases

In determining the lease term, management considers all relevant facts and circumstances that create an economic incentive to exercise the extension option or not to exercise termination option. The duration of the extension option (or the duration of the termination option) is included in the lease term only if it is reasonably certain that the extension option will be exercised (or not).

Judgement factors related to the exercise of the extension option are as follows:

- If a payment of a significant penalty for terminating (not extending) is required, it is generally reasonably certain that the Group exercises the extension option (not exercising the termination option).
- If the lease improvement is expected to have significant residual value, it is generally reasonably certain that the Group exercises the extension option (not exercising the termination option).
- Other than the above, the Group considers other factors including the term and cost of the past lease and any business disruption required to replace the leased asset.

Lease term is re-evaluated if the option is actually exercised (not exercised) or if the Group bears no obligation to exercise (not exercise) the option. Only if significant events occur that are within the scope of the lessee's control and affect the determination of the lease term, or if there is a significant change in the situation, the Group changes its judgement whether the exercise of extension option (or not) is reasonably certain.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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5. Trade and Other Receivables

(a) Trade and other receivables as of December 31, 2021 are as follows:

(in millions of Korean won)

		Trade receivables	Other receivables	Lease receivables	Total
Current:					
Total carrying amount	₩	450,215	183,872	25,302	659,389
Reduction: allowance for bad debt		(7,064)	(26,824)	-	(33,888)
Net carrying amount		<u>443,151</u>	<u>157,048</u>	<u>25,302</u>	<u>625,501</u>
Non-current:					
Total carrying amount		302	21,118	74,425	95,845
Reduction: allowance for bad debt		-	(103)	(79)	(182)
Net carrying amount	₩	<u>302</u>	<u>21,015</u>	<u>74,346</u>	<u>95,663</u>

(b) Trade and other receivables as of December 31, 2020 are as follows:

(in millions of Korean won)

		Trade receivables	Other receivables	Lease receivables	Total
Current:					
Total carrying amount	₩	410,595	282,315	30,775	723,685
Reduction: allowance for bad debt		(6,127)	(53,959)	(76)	(60,162)
Net carrying amount		<u>404,468</u>	<u>228,356</u>	<u>30,699</u>	<u>663,523</u>
Non-current:					
Total carrying amount		1,990	22,936	172,128	197,054
Reduction: allowance for bad debt		-	(195)	(566)	(761)
Net carrying amount	₩	<u>1,990</u>	<u>22,741</u>	<u>171,562</u>	<u>196,293</u>

6. Restricted Deposits

Restricted deposits included in short-term and long-term financial instruments as of December 31, 2021 and December 31, 2020 are as follows:

(in millions of Korean won)

Account	Description	Depository	2021	2020	Details
Cash and cash equivalents	Cash and cash equivalents	Shinhan Bank	₩ 300	-	Reserved for e-finance business
Other financial assets (current)	Short-term financial instruments	Agricultural Bank of China (*)	-	66,617	Frozen assets of Lotte Properties (Chengdu) Limited
		Industrial Bank of Korea and others	244,445	238,098	Deposits for Mutually Beneficial Cooperation Fund, etc
Other financial assets (non-current)	Long-term financial instrument	Hana Bank and others	3,999	12,944	Pledged assets, etc.
	Other comprehensive income - Fair value	Busan city hall and others	12,782	7,700	Payment guarantee
			₩ <u>261,526</u>	<u>325,359</u>	

(*) The company recognized fully impairment loss

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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7. Fair Value of Financial Instruments

(a) Carrying amount and fair value of financial assets as of December 31, 2021 and December 31, 2020 are summarized as follows:

(in millions of Korean won)

		<u>2021</u>	<u>2020</u>
Financial assets measured at fair value (*1):			
Fair value through profit or loss	Current assets:		
	Short-term financial instruments	₩ 697,881	238,000
	Current debt instruments	1,800	1,876
	Current derivatives assets held for trading	2,464	-
	Non-current assets:		
	Non-current debt instruments	46,134	24,564
	Non-current derivatives assets held for trading	38,077	9,724
	Subtotal	<u>786,356</u>	<u>274,164</u>
Fair value through other comprehensive income	Current assets:		
	Current debt instruments	702	10,806
	Non-current assets:		
	Equity instruments	1,107,942	411,837
	Non-current debt instruments	5,164	5,890
	Subtotal	<u>1,113,808</u>	<u>428,533</u>
Derivatives assets	Current derivatives assets held for hedging	5,230	1,086
	Non-current derivatives assets held for hedging	17,032	-
	Subtotal	<u>22,262</u>	<u>1,086</u>
Total financial assets measured at fair value		₩ <u>1,922,426</u>	<u>703,783</u>
Financial assets not being measured at fair value:			
Financial assets at amortized cost (*2)	Current assets:		
	Cash and cash equivalents	₩ 2,398,789	1,913,236
	Trade and other receivables	625,501	663,523
	Short-term financial instruments	1,232,650	1,724,284
	Short-term loans	10,244	10,854
	Accrued income	7,509	6,935
	Current portion of security deposits	116,076	140,347
	Non-current assets:		
	Long-term financial instruments	3,999	1,844
	Long-term loans	14,477	20,423
	Security deposit	1,148,479	1,158,806
Long-term account receivables	95,664	196,293	
	Subtotal	<u>5,653,388</u>	<u>5,836,545</u>
Total financial assets not being measured at fair value:		<u>5,653,388</u>	<u>5,836,545</u>
Total financial assets		₩ <u>7,575,814</u>	<u>6,540,328</u>

(*1) Marketable financial assets traded in the active market are measured at fair value based on the market prices. Non-marketable financial assets that do not have a quoted market price in an active market are measured at fair value based on valuation of external appraiser at the end of reporting period.

(*2) Differences between fair value and carrying amount of financial assets at amortized cost are immaterial.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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7. Fair Value of Financial Instruments, continued

(b) Other financial assets as of December 31, 2021 and December 31, 2020 are summarized as follows:

(in millions of Korean won)

		<u>2021</u>	<u>2020</u>
Current:			
Short-term financial instruments	₩	1,930,531	1,962,284
Short-term loans		10,244	10,854
Accrued income		7,509	6,934
Current portion of security deposits		116,076	140,347
Current debt instruments		2,502	12,683
Derivatives assets held for trading		2,464	-
Derivatives assets held for hedging		5,230	1,086
Total		<u>2,074,556</u>	<u>2,134,188</u>
Non-current:			
Long-term financial instruments		3,999	1,844
Long-term loans		14,477	20,423
Security deposits		1,148,479	1,158,806
Non-current debt instruments		51,299	30,454
Non-current equity instruments		1,107,942	411,837
Derivatives assets held for trading		38,077	9,724
Derivatives assets held for hedging		17,032	-
Total	₩	<u>2,381,305</u>	<u>1,633,088</u>

(c) Financial assets at fair value through other comprehensive income as of December 31, 2021 and December 31, 2020 are summarized as follows:

(i) Equity instruments

(in millions of Korean won, except number of shares)

			<u>2021</u>		<u>2020</u>	
	<u>Number in shares</u>	<u>Percentage of ownership</u>	<u>Acquisition cost</u>	<u>Carrying amount</u>	<u>Carrying amount</u>	
Marketable equity instruments measured at fair value through other comprehensive income:						
BNK Financial Group Inc.	8,543,826	2.62%	₩ 56,179	71,768	48,529	
Shinhan Financial Group Co., Ltd.	311,118	0.07%	2,248	11,449	9,971	
momo.com Inc.	14,418,200	7.92%	1,259	1,005,832	345,204	
Others	-	-	6,108	3,668	4,828	
Subtotal			₩ 65,794	1,092,717	408,532	

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7. Fair Value of Financial Instruments, continued

(c) Financial assets at fair value through other comprehensive income as of December 31, 2021 and December 31, 2020 are summarized as follows:, continued

(i) Equity instruments, continued

(in millions of Korean won,
except number of shares)

	2021			2020	
	Number in shares	Percentage of ownership	Acquisition cost	Carrying amount	Carrying amount
Non-marketable equity instruments measured at fair value through other comprehensive income:					
Lotte Properties (Shenyang) Limited	101,648,756	17.93%	₩ 124,516	9,652	-
LOTTE MART COMPANY LIMITED (*)	-	-	-	-	13,347
PT. Lotte Capital Indonesia	250,000	15.63%	2,078	3,671	-
Others	-	-	1,348	1,902	3,305
Subtotal			127,942	15,225	16,652
Total			₩ 193,736	1,107,942	425,184

(*) During the year 2020, it was reclassified as assets held for sale. During the year 2021, it was all disposed.

(ii) Debt instruments

(in millions of Korean won)

	2021		2020
	Acquisition cost	Carrying amount	Carrying amount
National housing bond	₩ 5,868	5,867	16,696
Urban railway bond	-	-	-
Total	₩ 5,868	5,867	16,696

(d) Carrying amount and fair value of financial liabilities as of December 31, 2021 and December 31, 2020 are summarized as follows:

(in millions of Korean won)

		2021	2020
Financial liabilities measured at fair value:			
Fair value through profit or loss	Current derivatives liabilities held for trading	-	13,566
	Non-current financial liabilities	₩ 37,507	37,007
	Subtotal	37,507	50,573
Derivatives liabilities	Current derivatives liabilities held for hedging	9,449	27,945
	Non-current derivatives liabilities held for hedging	2,224	43,718
	Subtotal	11,673	71,663
Total financial liabilities measured at fair value:		₩ 49,180	122,236

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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7. Fair Value of Financial Instruments, continued

(d) Carrying amount and fair value of financial liabilities as of December 31, 2021 and December 31, 2020 are summarized as follows:, continued

<i>(in millions of Korean won)</i>		<u>2021</u>	<u>2020</u>
Financial liabilities not being measured at fair value:			
Financial liabilities at amortized cost (*)			
	Current:		
	Trade payables and other payables	₩ 2,419,870	2,177,179
	Short-term borrowings	1,392,799	1,553,891
	Current portion of long-term borrowings	965,119	1,251,849
	Current debentures	1,206,824	1,141,807
	Accrued expenses	223,398	242,307
	Current portion of security deposits	219,353	188,580
	Lease liabilities	628,014	607,479
	Others	554	508
	Non-current:		
	Long-term borrowings	2,731,118	2,093,155
	Long-term debentures	3,657,116	4,141,548
	Security deposits received	32,862	23,639
	Lease liabilities	5,318,115	5,620,804
	Others	43,948	13,342
	Subtotal	<u>18,839,090</u>	<u>19,056,088</u>
Other financial liabilities	Financial guarantee liabilities	804	3,015
	Total financial liabilities not being measured at fair value:	<u>18,839,894</u>	<u>19,059,103</u>
	Total financial liabilities	<u>₩ 18,889,074</u>	<u>19,181,339</u>

(*) Differences between fair value and carrying amount of financial liabilities at amortized cost are immaterial.

(e) Other financial liabilities as of December 31, 2021 and December 31, 2020 are summarized as follows:

<i>(in millions of Korean won)</i>		<u>2021</u>	<u>2020</u>
Current:			
	Accrued expenses	₩ 223,398	242,307
	Current portion of security deposits	219,353	188,580
	Derivatives liabilities held for hedging	9,449	27,945
	Derivatives liabilities held for trading	-	13,566
	Others	1,358	3,524
	Total	<u>₩ 453,558</u>	<u>475,922</u>
Non-current:			
	Security deposits	₩ 32,862	23,639
	Derivatives liabilities held for hedging	2,224	43,718
	Financial liabilities	37,507	37,007
	Others	43,948	13,342
	Total	<u>₩ 116,541</u>	<u>117,706</u>

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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7. Fair Value of Financial Instruments, continued

(f) Fair value hierarchy

When measuring the fair value of an asset or a liability, the Group uses market observable data as much as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- ✓ Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- ✓ Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- ✓ Level 3: inputs for the assets or liability that are not based on observable market data (unobservable inputs)

The fair value measurements of financial instruments that are measured at fair value, classified by fair value hierarchy as of December 31, 2021 and December 31, 2020 are as follows:

(i) December 31, 2021

(in millions of Korean won)

		2021			
		Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss	₩	-	459,881	326,475	786,356
Financial assets at fair value through other comprehensive income		1,092,717	5,867	15,225	1,113,809
Derivatives assets held for hedging		-	22,262	-	22,262
Total		<u>1,092,717</u>	<u>488,010</u>	<u>341,700</u>	<u>1,922,427</u>
Financial liabilities at fair value through profit or loss		-	-	37,507	37,507
Derivatives liabilities held for hedging		-	11,673	-	11,673
Total	₩	<u>-</u>	<u>11,673</u>	<u>37,507</u>	<u>49,180</u>

(ii) December 31, 2020

(in millions of Korean won)

		2020			
		Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss	₩	-	-	274,164	274,164
Financial assets at fair value through other comprehensive income		408,532	16,696	3,305	428,533
Derivatives assets held for hedging		-	1,086	-	1,086
Total		<u>408,532</u>	<u>17,782</u>	<u>277,469</u>	<u>703,783</u>
Financial liabilities at fair value through profit or loss		-	13,566	37,007	50,574
Derivatives liabilities held for hedging		-	71,663	-	71,663
Total	₩	<u>-</u>	<u>85,229</u>	<u>37,007</u>	<u>122,237</u>

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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7. Fair Value of Financial Instruments, continued

(f) Fair value hierarchy, continued

In measuring Level 2 fair values, the Group used price, index, etc. at the end of the reporting period.

In measuring Level 3 fair values, the Group used discounted cash flows model and net asset valuation model and the Group used the significant unobservable inputs such as forecasted annual revenue growth rate and risk-adjusted discount rate, capital cost, etc. to assess the fair value. Fair value of financial instruments at Level 3 included financial instruments that has a carrying value with a reasonable approximation of fair value.

(g) Level 3 Fair values

Changes in Level 3 fair values as of December 31, 2021 and December 31, 2020 are as follows:

<i>(in millions of Korean won)</i>		<u>2021</u>	<u>2020</u>
Beginning balance	₩	240,462	311,227
Total loss for the year		(8,081)	(38,011)
Gain included in profit and loss		43,301	63,568
Gain (loss) included in OCI		(51,382)	(101,579)
Purchases		88,349	10,540
Disposal		(16,537)	(29,994)
Reclassification		-	(13,300)
Ending balance	₩	<u>304,193</u>	<u>240,462</u>

(h) Sensitivity analysis

For the fair values of Level 3 financial instruments, reasonably possible changes as of December 31, 2021 to one of the significant unobservable inputs, holding other inputs constant, would have the following effects on the fair values:

(i) Other comprehensive income- Financial assets measured at fair value

<i>(in millions of Korean won)</i>		<u>Discount rate</u>	
		<u>1%p Decrease</u>	<u>1%p Increase</u>
Other comprehensive income- Financial assets measured at fair value	₩	29	(20)

(ii) Settlement agreement

<i>(in millions of Korean won)</i>		<u>Discount rate</u>	
		<u>5% Decrease</u>	<u>5% Increase</u>
Settlement agreement	₩	79	(79)

(iii) Financial liabilities at fair value through profit or loss

<i>(in millions of Korean won)</i>		<u>Discount rate</u>	
		<u>1%p Decrease</u>	<u>1%p Increase</u>
Financial liabilities at fair value through profit or loss	₩	12,231	(10,117)

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7. Fair Value of Financial Instruments, continued

(h) Sensitivity analysis, continued

(iv) Stock option

(in millions of Korean won)

		Stock price	
		5% Decrease	5% Increase
Stock Option (Assets)	₩	(1,173)	1,173
		Stock price volatility	
		5% Decrease	5% Increase
	₩	(2,209)	2,215

8. Inventories

(a) Inventories as of December 31, 2021 and December 31, 2020 are summarized as follows:

(in millions of Korean won)

		2021			2020		
		Acquisition cost	Valuation allowance	Book value	Acquisition cost	Valuation allowance	Book value
Merchandise (*)	₩	1,089,036	(25,690)	1,063,346	1,072,686	(27,873)	1,044,813
Finished goods		23,624	(2,140)	21,484	21,525	(3,774)	17,751
Semi-finished goods		5	-	5	27	-	27
Work in process		492	-	492	433	-	433
Raw materials		11,076	(117)	10,959	9,779	(174)	9,605
Ingredients		881	-	881	1,094	-	1,094
Supplies		781	-	781	774	-	774
Materials-in-transit		12,960	-	12,960	13,715	-	13,715
Unsold building		78,239	(24,779)	53,460	74,029	(22,233)	51,796
Unfinished building		214,606	-	214,606	86,984	-	86,984
Land		16,307	-	16,307	20,328	-	20,328
Total	₩	<u>1,448,007</u>	<u>(52,726)</u>	<u>1,395,281</u>	<u>1,301,374</u>	<u>(54,054)</u>	<u>1,247,320</u>

(*) As of December 31, 2020 inventories expected to be returned of ₩1,061 million are included.

(b) For the years ended December 31, 2021 and December 31, 2020, the amount of inventories recognized as cost of goods sold and changes of allowance for valuation losses of inventories are as follows:

(in millions of Korean won)

		2021	2020
Cost of goods sold:			
- Amount of inventories recognized as cost of goods sold	₩	8,788,590	9,279,094
- Decrease in valuation allowance of inventories		(1,328)	(7,536)

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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9. Other Non-financial Assets

Other non-financial assets as of December 31, 2021 and December 31, 2020, are summarized as follows:

<i>(in millions of Korean won)</i>		<u>2021</u>	<u>2020</u>
Current:			
Advance payments	₩	38,504	16,116
Prepaid expenses		32,336	26,913
Prepaid value added tax		32,809	39,948
Other assets		3,034	35
Total		<u>106,683</u>	<u>83,012</u>
Non-current:			
Long-term advance payments		179,088	136,088
Long-term prepaid expenses		4,863	11,353
Total	₩	<u>183,951</u>	<u>147,441</u>

10. Assets Held for Sale

Assets held for sale as of December 31, 2021 and December 31, 2020 are summarized as follows:

<i>(in millions of Korean won)</i>		<u>2021</u>	<u>2020</u>
Equity instruments at fair value through other comprehensive income (*1)	₩	-	13,347
Investments in associates and joint ventures (*2)		30,047	-
Land and others (*3,4)		222,693	230,249
Total	₩	<u>252,740</u>	<u>243,596</u>

(*1) The Group disposed of Equity instruments at fair value through other comprehensive income of LOTTE MART COMPANY LIMITED, classified as assets held for sale, during year 2021.

(*2) The Group classified LOTTE PROPERTIES HCMC COMPANY LIMITED's 12% equity interests of the 40%, Investments in associates, as assets held for sale during year 2021.

(*3) The Group classified VIC market-Kintex (₩85,149 million) store as assets held for sale as a result of approval of discontinuance of operation and decision of store disposal.

(*4) The Group classified land for which control will be transferred in the case of conversion in accordance with joint agreement, as assets held for sale (₩137,544 million).

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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11. Investments in Associates

(a) The details of associates as of December 31, 2021 and December 31, 2020, are summarized as follows:

(in millions of Korean won)

Company	Location	Major operation	2021	
			Percentage of ownership (%)	Book value
FRL Korea Co., Ltd.	Korea	Import and selling of clothing	49.00	₩ 243,527
Zara Retail Korea Co.,Ltd	Korea	Import and selling of clothing	20.00	20,856
LOTTE CARD Co.,Ltd.	Korea	Credit finance business	20.00	387,738
LOTTE PROPERTIES HCMC COMPANY LIMITED (*1)	Vietnam	Real estate development	40.00	100,157
Eugene Unicorn Private Investment Co., Ltd.	Korea	Trust and collective investment business	47.06	29,702
Chorokbaem Media Co.,Ltd. (*2)	Korea	Broadcasting program business and real estate rental business	3.98	25,295
LOTTE-KDB Open Innovation Fund	Korea	Investment on new technology	41.47	17,391
INNOCEAN WORLDWIDE INC. (*2)	Korea	Advertising agency and advertisement production	10.30	115,653
Others	-	-	-	38,447
Total				₩ 978,766

(in millions of Korean won)

Company	Location	Major operation	2020	
			Percentage of ownership (%)	Book value
FRL Korea Co., Ltd.	Korea	Import and selling of clothing	49.00	₩ 256,835
Zara Retail Korea Co.,Ltd	Korea	Import and selling of clothing	20.00	29,269
LOTTE CARD Co.,Ltd.	Korea	Credit finance business	20.00	349,071
LOTTE PROPERTIES HCMC COMPANY LIMITED	Vietnam	Real estate development	40.00	85,393
LOTTE-KDB Open Innovation Fund	Korea	Investment on new technology	41.47	9,791
INNOCEAN WORLDWIDE INC. (*2)	Korea	Advertising agency and advertisement production	10.30	111,264
Others	-	-	-	35,189
Total				₩ 876,812

(*1) LOTTE PROPERTIES HCMC COMPANY LIMITED's Book value (₩100,156 million) on December 31, 2021, included assets held for sale (₩30,047 million).

(*2) The group has less than 20% of the voting rights, however it is classified as an investment in Associates because it can exert a significant influence on major sales and financial policy decisions, by participating in the company's board of directors.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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As of December 31, 2021 and 2020

11. Investments in Associates, continued

(b) Changes in investments in associates for the years ended December 31, 2021 and December 31, 2020 are summarized as follows:

(in millions of Korean won)

		2021								
		Beginning balance	Acquisition	Dividends	Profit (loss) accounted for by equity method	Changes in equity accounted for by equity method	Impairment	Disposal	Others (*)	Ending balance
FRL Korea Co., Ltd.	₩	256,835	-	(49,000)	28,255	7,437	-	-	-	243,527
Zara Retail Korea Co.,Ltd		29,269	-	(12,000)	3,724	(137)	-	-	-	20,856
Lotte Card Co., Ltd.		349,071	-	(10,374)	42,048	7,085	-	-	(92)	387,738
LOTTE PROPERTIES										
HCMC COMPANY LIMITED		85,393	-	-	3,063	11,701	-	-	-	100,157
Eugene Unicorn Private Investment Co., Ltd.		-	30,000	-	(298)	-	-	-	-	29,702
Chorokbaem Media Co.,Ltd.		-	25,295	-	-	-	-	-	-	25,295
LOTTE-KDB Open Innovation Fund		9,791	7,800	-	(200)	-	-	-	-	17,391
Innocean Worldwide Inc.		111,264	-	(4,635)	6,792	2,232	-	-	-	115,653
Others		35,189	-	-	10,666	(2,023)	(3,207)	(13,484)	11,306	38,447
Total	₩	<u>876,812</u>	<u>63,095</u>	<u>(76,009)</u>	<u>94,050</u>	<u>26,295</u>	<u>(3,207)</u>	<u>(13,484)</u>	<u>11,214</u>	<u>978,766</u>

(*) Others include changes in equity method-retained earnings and others.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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11. Investments in Associates, continued

(b) Changes in investments in associates for the years ended December 31, 2021 and December 31, 2020 are summarized as follows:, continued

(in millions of Korean won)

		2020								
		Beginning balance	Acquisition (*1)	Dividends	Profit (loss) accounted for by equity method	Changes in equity accounted for by equity method	Impairment	Disposal	Others (*2)	Ending balance
FRL Korea Co., Ltd.	₩	281,282	-	-	(10,623)	(13,824)	-	-	-	256,835
Zara Retail Korea Co.,Ltd		32,650	-	(2,000)	(1,332)	-	-	-	(49)	29,269
Lotte Card Co., Ltd.		336,570	-	(5,710)	18,590	426	-	-	(805)	349,071
LOTTE PROPERTIES										
HCMC COMPANY LIMITED		87,045	-	-	3,663	(5,315)	-	-	-	85,393
LOTTE-KDB Open Innovation Fund		10,265	-	-	(474)	-	-	-	-	9,791
Innocean Worldwide Inc. (*3)		-	-	(3,090)	4,766	(1,858)	-	-	111,446	111,264
Others		46,963	1,800	-	(1,200)	(324)	(3,773)	(8,277)	-	35,189
Total	₩	794,775	1,800	(10,800)	13,390	(20,895)	(3,773)	(8,277)	110,592	876,812

(*1) Newly acquired investment from Start-up Fund No. 1 was added.

(*2) Others include changes in equity method-retained earnings and others.

(*3) As it became possible to participate at the board meeting of INNOCEAN WORLDWIDE INC., during the year 2020, the relevant ownership was reclassified from equity instruments at fair value through other comprehensive income to an associate. In accordance with stock trading agreement from May 10, 2019, the 2,060,000 shares of INNOCEAN WORLDWIDE INC., cannot be transferred voluntarily nor provided as pledged assets from the closing date of stock trading to the listing date of Lotte Cultureworks Co., Ltd unless the seller agrees in advance.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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11. Investments in Associates, continued

(c) Financial information of significant associates as of and for the years ended December 31, 2021 and December 31, 2020, are summarized as follows:

(in millions of Korean won)

		2021							
		Current asset	Non-current asset	Current liabilities	Non-current liabilities	Sales	Operating income (loss)	Other comprehensive income (loss) (*2)	Total comprehensive income (loss) (*2)
FRL Korea Co., Ltd	₩	526,034	120,695	123,801	25,934	613,934	77,878	15,178	72,840
Zara Retail Korea Co.,Ltd		118,800	268,080	115,140	167,461	355,392	30,228	(685)	17,936
Lotte Card Co., Ltd. (*1)		17,083,757	-	14,413,734	-	2,009,632	285,238	34,348	254,906
LOTTE PROPERTIES HCMC COMPANY LIMITED		222,373	28,850	732	101	-	(1,373)	-	7,659
Eugene Unicorn Private Investment Co., Ltd.		2,899	60,450	234	-	-	(639)	-	(634)
Chorokbaem Media Co.,Ltd.		118,615	277,781	79,315	43,347	103,352	5,066	(7)	(12,667)
LOTTE-KDB Open Innovation Fund		5,844	36,097	-	-	5,056	1,157	-	1,157
Innocean Worldwide Inc.		1,738,451	460,896	1,181,917	182,668	1,502,034	135,732	34,798	100,687

(*1) All financial information is presented as current asset and current liabilities since Lotte Card Co., Ltd. is a finance company that does not classify asset and liabilities as current or non-current.

(*2) Other comprehensive income (loss) and total comprehensive income (loss) exclude amounts attributed to non-controlling shareholders.

(in millions of Korean won)

		2020							
		Current asset	Non-current asset	Current liabilities	Non-current liabilities	Sales	Operating income (loss)	Other comprehensive income (loss) (*2)	Total comprehensive income (loss) (*2)
FRL Korea Co., Ltd	₩	529,030	159,650	94,011	70,516	574,606	(12,914)	(28,213)	(49,892)
Zara Retail Korea Co.,Ltd		118,554	236,237	107,370	101,078	342,010	(3,593)	(246)	(6,905)
Lotte Card Co., Ltd. (*1)		14,746,498	-	12,274,949	-	1,733,478	117,427	(2,024)	97,107
LOTTE PROPERTIES HCMC COMPANY LIMITED		197,166	17,704	1,150	239	-	(1,203)	-	9,157
LOTTE-KDB Open Innovation Fund		3,884	19,729	-	-	-	(1,158)	-	(1,158)
Innocean Worldwide Inc.		1,579,822	462,859	1,051,894	206,880	1,221,072	111,418	(15,898)	47,510

(*1) All financial information is presented as current asset and current liabilities since Lotte Card Co., Ltd. is a finance company that does not classify asset and liabilities as current or non-current.

(*2) Other comprehensive income (loss) and total comprehensive income (loss) exclude amounts attributed to non-controlling shareholders.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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11. Investments in Associates, continued

(d) The reconciliation of the net assets of the significant associates to the carrying amount of the equity interest in the associate as of December 31, 2021 and December 31, 2020 are as follows:

(in millions of Korean won)

		2021						
		Net assets (a)	Ownership %	Group's share of net asset	Impairment	Goodwill	Others (*2)	Carrying amount
		(*1)	(b)	(a*b)				
FRL Korea Co., Ltd	₩	496,993	49.00	243,527	-	-	-	243,527
Zara Retail Korea Co.,Ltd		104,279	20.00	20,856	-	-	-	20,856
Lotte Card Co., Ltd.		2,639,998	20.00	528,000	(100,371)	-	(39,891)	387,738
LOTTE PROPERTIES								
HCMC COMPANY								
LIMITED		250,392	40.00	100,157	-	-	-	100,157
Eugene Unicorn Private								
Investment Co., Ltd.		63,116	47.06	29,702	-	-	-	29,702
Chorokbaem Media Co.,Ltd.		273,735	3.98	10,895	-	-	14,400	25,295
LOTTE-KDB Open								
Innovation Fund.		41,936	41.47	17,391	-	-	-	17,391
Innocean Worldwide Inc.		820,053	10.30	84,465	-	24,034	7,154	115,653

(*1) Net assets exclude non-controlling interests.

(*2) Others include unamortized amounts of difference of fair value and others.

(in millions of Korean won)

		2020						
		Net assets (a)	Ownership %	Group's share of net asset	Impairment	Goodwill	Others (*2)	Carrying amount
		(*1)	(b)	(a*b)				
FRL Korea Co., Ltd	₩	524,153	49.00	256,835	-	-	-	256,835
Zara Retail Korea Co.,Ltd		146,343	20.00	29,269	-	-	-	29,269
Lotte Card Co., Ltd.		2,445,124	20.00	489,025	(105,209)	-	(34,745)	349,071
LOTTE PROPERTIES								
HCMC COMPANY								
LIMITED		213,483	40.00	85,393	-	-	-	85,393
LOTTE-KDB Open								
Innovation Fund.		23,612	41.47	9,791	-	-	-	9,791
Innocean Worldwide Inc.		775,438	10.30	79,870	-	24,034	7,360	111,264

(*1) Net assets exclude non-controlling interests.

(*2) Others include unamortized amounts of difference of fair value and others.

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11. Investments in Associates, continued

- (e) Current and accumulated unreflected changes in equity of associates unrecognized due to cessation of equity method as of December 31, 2021 are as follows:

<i>(in millions of Korean won)</i>	2021	
	Unrecognized profits (losses) for the year	Unrecognized accumulated losses
Prototype	₩ (13)	(159)
Shandong Longzhile Cinema Co., Ltd.	(596)	(596)
Hubei XL Cinema Co., Ltd.	(30)	(30)

- (f) The fair value of the shares held by important marketable associates as of December 31, 2021 and December 31, 2020 are as follows.

(i) December 31, 2021

<i>(in millions of Korean won)</i>	Number in shares	Market price per share (Korean Won)	Market value	Book value
Chorokbaem Media Co., Ltd.	8,915,835 ₩	3,100	27,639	25,295
Innocean Worldwide Inc.	2,060,000	55,400	114,124	115,652

(ii) December 31, 2020

<i>(in millions of Korean won)</i>	Number in shares	Market price per share (Korean Won)	Market value	Book value
Innocean Worldwide Inc.	2,060,000 ₩	59,600	122,776	111,263

12. Investments in Joint Venture

- (a) The details of joint ventures as of December 31, 2021 and December 31, 2020 are summarized as follows:

<i>(in millions of Korean won)</i>	2021			
	Company	Location	Major operation	Percentage of ownership (%)
STL Co., Limited	Korea	Import and selling of clothing	50.00 ₩	2,557
International Business Center Company Limited	Vietnam	Distribution	50.00	39,664
LOTTE JTB Co., Ltd.	Korea	Travel business	50.00	-
Others	-	-	-	526
Total			₩	<u>42,747</u>

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12. Investments in Joint Venture, continued

(a) The details of joint ventures as of December 31, 2021 and December 31, 2020 are summarized as follows, continued

(in millions of Korean won)

Company	Location	Major operation	2020	
			Percentage of ownership (%)	Carrying amount
STL Co., Limited	Korea	Import and selling of clothing	50.00	₩ 1,978
International Business Center Company Limited	Vietnam	Distribution	50.00	44,977
LOTTE JTB Co., Ltd.	Korea	Travel business	50.00	896
Others	-	-	-	849
Total				₩ 48,700

(b) Changes in joint ventures for the years ended December 31, 2021 and 2020, are summarized as follows:

(in millions of Korean won)

		2021					Ending balance	
		Beginning balance	Dividends	Share of profit (loss) of associates	Share of other comprehensive income (loss) of associates	Impairment		Others (*)
STL Co., Limited	₩	1,978	-	578	-	-	-	2,556
International Business Center Company Limited		44,977	(3,960)	3,106	1,576	(11,273)	5,237	39,663
LOTTE JTB Co., Ltd.		896	-	(921)	-	-	25	-
Others		849	-	(380)	72	-	(14)	527
Total	₩	48,700	(3,960)	2,383	1,648	(11,273)	5,248	42,746

(*) Others include changes in foreign currency translation and others.

(in millions of Korean won)

		2020						Ending balance	
		Beginning balance	Dividends	Share of profit (loss) of associates	Share of other comprehensive income (loss) of associates	Impairment	Disposal		Others (*)
STL Co., Limited	₩	1,964	-	14	-	-	-	-	1,978
International Business Center Company Limited		54,425	(4,570)	4,057	(993)	(4,192)	-	(3,750)	44,977
LOTTE JTB Co., Ltd.		11,160	-	(4,211)	-	(6,221)	-	168	896
Others		3,984	-	(26)	(34)	-	(3,075)	-	849
Total	₩	71,533	(4,570)	(166)	(1,027)	(10,413)	(3,075)	(3,582)	48,700

(*) Others include changes in foreign currency translation and others.

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12. Investments in Joint Venture, continued

(c) Financial information of significant joint ventures as at and for the years ended December 31, 2021 and December 31, 2020 are summarized as follows:

(in millions of Korean won)

		2021							
		Current assets	Non-current assets	Current liabilities	Non-current liabilities	Sales	Operating income (loss)	Other comprehensive income (loss)	Total comprehensive income (loss)
STL Co., Limited	₩	7,463	441	1,671	406	17,943	1,171	-	1,157
International Business Center Company Limited		14,736	37,322	17,790	1,932	15,944	7,412	-	6,212
LOTTE JTBCo., Ltd.		103,628	52,316	145,723	4,553	951	(6,719)	220	(6,193)

(in millions of Korean won)

		2020							
		Current assets	Non-current assets	Current liabilities	Non-current liabilities	Sales	Operating income (loss)	Other comprehensive income (loss)	Total comprehensive income (loss)
STL Co., Limited	₩	5,301	351	764	217	11,958	20	-	28
International Business Center Company Limited		12,993	36,405	16,680	1,825	20,073	9,908	-	8,114
LOTTE JTBCo., Ltd.		82,333	53,185	119,953	3,702	4,983	(8,832)	336	(8,086)

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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12. Investments in Joint Venture, continued

(d) The reconciliation of the net assets of the joint ventures to the carrying amount of the equity interest in the investment in associates as of December 31, 2021 and 2020 are summarized as follows:

(in millions of Korean won)

		2021						
		Net assets (a)	Ownership % (b)	Group's share of net asset (a*b)	Goodwill	Impairment Loss	Others (*)	Carrying amount
STL Co., Limited	₩	5,827	50.00	2,914	-	(358)	-	2,556
International Business Center Company Limited		32,337	50.00	16,168	18,860	-	4,635	39,663
LOTTE JTB Co., Ltd.		5,670	50.00	2,835	-	(5,035)	2,200	-

(*) Others include unamortized amounts of difference of fair value, unrecognized amounts of profit or loss and foreign currency differences arising from translation.

(in millions of Korean won)

		2020						
		Net assets (a)	Ownership % (b)	Group's share of net asset (a*b)	Goodwill	Impairment Loss	Others (*)	Carrying amount
STL Co., Limited	₩	4,670	50.00	2,335	-	(357)	-	1,978
International Business Center Company Limited		30,893	50.00	15,446	30,132	-	(601)	44,977
LOTTE JTB Co., Ltd.		11,862	50.00	5,931	-	(5,035)	-	896

(*) Others include unamortized amounts of difference of fair value, accumulated impairment losses, unrecognized amounts of profit/loss and foreign currency differences arising from translation.

(e) Current and accumulated unreflected changes in equity of joint ventures due to cessation of equity method as of December 31, 2021 are summarized as follows:

(in millions of Korean won)

		Unrecognized loss	Unrecognized accumulated loss
Shenyang SL Cinema Investment Management Co., Ltd.	₩	(87)	(521)
LOTTE JTB Co., Ltd.		(2,200)	(2,200)

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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13. Property, Plant and Equipment

(a) Details of property, plant and equipment as of December 31, 2021 and 2020 are summarized as follows:

(in millions of Korean won)

		2021				2020			
		Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Book value	Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Book value
Land	₩	8,161,486	-	(970)	8,160,516	8,014,779	-	(1,099)	8,013,680
Buildings		7,537,648	(2,606,262)	(19,875)	4,911,511	7,082,199	(2,556,477)	(17,102)	4,508,620
Structures		302,470	(132,812)	(24,277)	145,381	334,830	(146,659)	(29,275)	158,896
Machinery		247,279	(167,641)	(21,088)	58,550	232,823	(153,622)	(18,521)	60,680
Vehicles		6,943	(5,282)	(367)	1,294	7,911	(5,593)	(403)	1,915
Display fixtures		478,800	(415,829)	(24,196)	38,775	472,829	(397,148)	(15,650)	60,031
Furniture and fixtures		4,452,511	(3,480,220)	(223,815)	748,476	4,142,277	(3,372,366)	(219,055)	550,856
Tools and equipment		105,445	(86,091)	(4,146)	15,208	98,605	(76,784)	(3,717)	18,104
Other PP&E		47,710	(30,407)	(5,603)	11,700	55,125	(28,880)	(8,333)	17,912
Construction-in-progress		495,959	-	(8,847)	487,112	991,019	-	(8,839)	982,180
Total	₩	21,836,251	(6,924,544)	(333,184)	14,578,523	21,432,397	(6,737,528)	(321,995)	14,372,874

(b) Changes in property, plant and equipment for the year ended December 31, 2021 are as follows:

(in millions of Korean won)

		2021							Ending balance
		Beginning balance	Acquisitions	Business Combination	Depreciation	Impairment	Disposals	Others (*)	
Land	₩	8,013,680	543	189,171	-	-	(409,061)	366,183	8,160,516
Buildings		4,508,620	35,183	-	(198,489)	(2,545)	(382,669)	951,411	4,911,511
Structures		158,896	282	-	(9,443)	(3,289)	(0)	(1,065)	145,381
Machinery		60,680	9,197	-	(15,609)	(2,572)	(293)	7,147	58,550
Vehicles		1,915	252	-	(632)	(21)	(315)	95	1,294
Display fixtures		60,031	6,499	-	(26,450)	(9,725)	(656)	9,076	38,775
Furniture and fixtures		550,856	255,778	7,696	(247,115)	(14,302)	(10,221)	205,784	748,476
Tools and equipment		18,104	498	-	(7,287)	(277)	(210)	4,380	15,208
Other PP&E		17,912	85	-	(1,270)	-	(7,487)	2,460	11,700
Construction-in-progress		982,180	619,087	19,531	-	(22,428)	(54)	(1,111,204)	487,112
Total	₩	14,372,874	927,405	216,398	(506,295)	(55,159)	(810,966)	434,267	14,578,523

(*) Others include reclassification between accounts, changes in acquisition cost, effects of changes in foreign exchange rates and etc.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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As of December 31, 2021 and 2020

13. Property, Plant and Equipment, continued

(c) Changes in property, plant and equipment for the year ended December 31, 2020 is as follows:

(in millions of Korean won)

		2020						
		Beginning balance	Acquisitions	Depreciation	Impairment	Disposals	Others (*)	Ending balance
Land	₩	7,975,433	79	-	(456)	(243,014)	281,638	8,013,680
Buildings		4,723,871	40,487	(198,178)	(3,804)	(59,596)	5,840	4,508,620
Structures		194,092	729	(11,262)	(19,014)	(296)	(5,353)	158,896
Machinery		83,846	8,255	(15,907)	(16,755)	(364)	1,605	60,680
Vehicles		2,015	864	(730)	(107)	(94)	(33)	1,915
Display fixtures		87,418	5,809	(40,595)	(9,032)	(506)	16,937	60,031
Furniture and fixtures		715,734	117,728	(250,492)	(58,006)	(19,601)	45,493	550,856
Tools and equipment		20,824	5,361	(8,473)	(363)	(25)	780	18,104
Other PP&E		23,882	49	(1,563)	(3,379)	(15)	(1,062)	17,912
Construction-in-progress		668,479	612,936	-	(9,085)	(811)	(289,339)	982,180
Total	₩	14,495,594	792,297	(527,200)	(120,001)	(324,322)	56,506	14,372,874

(*) Others include reclassification between accounts, changes in acquisition cost, effects of changes in foreign exchange rates and etc.

(d) The Group performed impairment test for cash generating units of department stores, discount stores, consumer electronics retailers, supermarkets, cinema, e-commerce, etc. that have indication of impairment, and the details of impairment losses for the year ended December 31, 2021 are summarized as follows:

(in millions of Korean won)

		2021							
		Department Store	Discount store	Consumer electronics retail	Supermarket	Cinema	E-Commerce	Others	Total
Impairment loss on property, plant and equipment	₩	6,810	8,481	1,460	3,339	11,289	4	23,776	55,159
Impairment loss on intangible assets (excluding goodwill)		29	-	(125)	-	847	1,213	1,411	3,375
Impairment loss on goodwill		36,800	-	82,265	53	-	-	142	119,260
Impairment loss on right-of-use asset		228,052	56,659	3,906	12,152	35,335	-	59	336,163
Impairment loss on investment properties		-	-	-	-	-	-	35,055	35,055
Impairment loss on other non-current assets		-	-	-	-	3,000	-	-	3,000
Total	₩	271,691	65,140	87,506	15,544	50,471	1,217	60,443	552,011

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13. Property, Plant and Equipment, continued

- (d) The Group performed impairment test for cash generating units of department stores, discount stores, consumer electronics retailers, supermarkets, cinema, e-commerce, etc. that have indication of impairment, and the details of impairment losses for the year ended December 31, 2020 are summarized as follows:, continued

(in millions of Korean won)	2020							Total	
	Department Store	Discount store	Consumer electronics retail	Supermarket	Cinema	E-Commerce	Others		
Impairment loss on property, plant and equipment	₩	27,492	70,015	1,048	4,344	12,431	-	4,670	120,000
Impairment loss on intangible assets (excluding goodwill)		169	256	-	-	2,557	5,261	851	9,094
Impairment loss on goodwill		135,872	42,763	28,394	66	-	28,265	9,383	244,743
Impairment loss on right-of-use asset		109,719	268,464	2,499	18,550	96,618	-	8,468	504,318
Impairment loss on other non-current assets		-	360	-	-	-	-	-	360
Total	₩	<u>273,252</u>	<u>381,858</u>	<u>31,941</u>	<u>22,960</u>	<u>111,606</u>	<u>33,526</u>	<u>23,372</u>	<u>878,515</u>

- (e) Pledged property, plant and equipment provided by the Group as of December 31, 2021, are as follows:

(in millions of Korean won)	Offered assets (*)	2021					
		Book amount	Guaranteed amount	Type of borrowings	Amount of borrowings	Guarantee recipient	
	Land and buildings	₩	3,008,734	2,631,128	Secured Loan and others	2,142,003	Kookmin Bank and others

- (*) Provided as collateral for borrowings, security deposit for lease, and provisional attachment on interests.

- (f) The capitalized borrowing costs and capitalization interest rates for the years ended December 31, 2021 and 2020 are as follows:

(in millions of Korean won)	2021	2020	
Capitalized borrowing costs	₩	21,599	18,631
Capitalization interest rates	1.00%~4.60%	1.99%~4.60%	

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14. Investment Property

(a) Investment property as of December 31, 2021 and December 31, 2020 are summarized as follows:

(in millions of Korean won)

		2021				2020			
		Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Book value	Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Book value
Land	₩	725,627	-	(129)	725,498	1,193,342	-	-	1,193,342
Buildings		369,659	(133,339)	(27)	236,293	594,326	(161,663)	(23)	432,640
Others (*)		925,882	(49,825)	(71,645)	804,412	751,241	(35,863)	(39,322)	676,056
Total	₩	2,021,168	(183,164)	(71,801)	1,766,203	2,538,909	(197,526)	(39,345)	2,302,038

(*) Others include right-of-use assets reclassified into investment property.

(b) Changes in investment property for the year ended December 31, 2021 are as follows:

(in millions of Korean won)

		2021				
		Beginning balance	Acquisitions	Depreciation	Others (*2)	Ending balance
Land	₩	1,193,342	18,265	-	(486,109)	725,498
Buildings		432,640	64,533	(9,211)	(251,669)	236,293
Others (*1)		676,056	93,199	(33,539)	68,696	804,412
Total	₩	2,302,038	175,997	(42,750)	(669,082)	1,766,203

(*1) Others include right-of-use assets reclassified into investment property.

(*2) Others include reclassification between accounts, changes in acquisition cost, the effects of changes in foreign exchange rates and others.

(c) Changes in investment property for the year ended December 31, 2020 are as follows:

(in millions of Korean won)

		2020				
		Beginning balance	Acquisitions	Depreciation	Others (*2)	Ending balance
Land	₩	921,977	134,307	-	137,058	1,193,342
Buildings		637,211	70,376	(9,719)	(265,228)	432,640
Others (*1)		934,547	185	(19,164)	(239,512)	676,056
Total	₩	2,493,735	204,868	(28,883)	(367,682)	2,302,038

(*1) Others include right-of-use assets reclassified into investment.

(*2) Others include reclassification between accounts, changes in acquisition cost, the effects of changes in foreign exchange rates and others.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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14. Investment Property, continued

(d) Income and expense from investment property

The details of income and expense from investment property for the years ended December 31, 2021 and December 31, 2020 are as follows:

(in millions of Korean won)

		<u>2021</u>	<u>2020</u>
Rental income	₩	141,440	210,310
Direct operating expense (including maintenance and repair expenses)		47,136	65,888

(e) Fair value of investment property as of December 31, 2021 is as follows:

(in millions of Korean won)

		<u>Book value</u>	<u>Fair value</u>
Land and buildings	₩	1,766,203	6,130,547

15. Goodwill and Intangible Assets

(a) Intangible assets as of December 31, 2021 and December 31, 2020 are summarized as follows:

(in millions of Korean won)

		2021				2020			
		<u>Acquisition cost</u>	<u>Accumulated amortization</u>	<u>Accumulated impairment losses</u>	<u>Book value</u>	<u>Acquisition cost</u>	<u>Accumulated amortization</u>	<u>Accumulated impairment losses</u>	<u>Book value</u>
Goodwill	₩	2,576,060	-	(1,390,180)	1,185,880	2,736,553	-	(1,448,113)	1,288,440
Industrial property rights		146,845	(9,649)	(453)	136,743	146,536	(9,407)	(449)	136,680
Rights to use facility		39,463	(38,245)	(608)	610	39,456	(37,694)	(608)	1,154
Membership		30,544	-	(3,457)	27,087	31,097	-	(3,553)	27,544
Other intangible Assets		457,540	(275,988)	(12,072)	169,480	411,149	(224,019)	(8,650)	178,480
Total	₩	<u>3,250,452</u>	<u>(323,882)</u>	<u>(1,406,770)</u>	<u>1,519,800</u>	<u>3,364,791</u>	<u>(271,120)</u>	<u>(1,461,373)</u>	<u>1,632,298</u>

(b) Changes in intangible assets for the year ended December 31, 2021 is as follows:

(in millions of Korean won)

		2021							
		<u>Beginning balance</u>	<u>Acquisition</u>	<u>Business Combination</u>	<u>Amortization</u>	<u>Impairment</u>	<u>Disposals</u>	<u>Others (*)</u>	
Goodwill	₩	1,288,440	-	14,123	-	(119,259)	-	2,576	1,185,880
Industrial property rights		136,680	240	-	(247)	(4)	(4)	78	136,743
Rights to use facility		1,154	-	-	(547)	-	-	3	610
Membership		27,544	-	-	-	96	(553)	-	27,087
Other intangible assets		178,480	47,333	2,407	(88,225)	(3,468)	(8,175)	41,128	169,480
Total	₩	<u>1,632,298</u>	<u>47,573</u>	<u>16,530</u>	<u>(89,019)</u>	<u>(122,635)</u>	<u>(8,732)</u>	<u>43,785</u>	<u>1,519,800</u>

(*) Others include reclassification between accounts and foreign exchange effects.

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15. Goodwill and Intangible Assets, continued

(c) Changes in intangible assets for the year ended December 31, 2020 is as follows:

(in millions of Korean won)

		2020						
		Beginning balance	Acquisition	Amortization	Impairment	Disposals	Others (*)	Ending Balance
Goodwill	₩	1,538,969	-	-	(244,742)	(164)	(5,623)	1,288,440
Industrial property rights		137,110	220	(453)	(227)	(5)	35	136,680
Rights to use facility		1,896	-	(666)	(74)	-	(2)	1,154
Membership		27,645	-	-	(169)	(195)	263	27,544
Other intangible assets		142,414	21,621	(95,504)	(8,625)	(3,490)	122,064	178,480
Total	₩	1,848,034	21,841	(96,623)	(253,837)	(3,854)	116,737	1,632,298

(*) Others include reclassification between accounts and foreign exchange effects.

(d) Impairment testing for cash-generating units containing goodwill

For the purpose of impairment testing, goodwill is allocated to CGUs which are expected to create synergy within the Group.

Details of the goodwill allocated to the groups of cash-generating units as of December 31, 2021 and December 31, 2020 are as follows:

(in millions of Korean won)

		2021	2020
Department stores	₩	63,029	99,829
Discount stores		37,562	34,986
Consumer electronics retail		761,408	843,673
TV home shopping		273,296	273,296
Supermarket		3,284	3,337
E-Commerce		4,860	-
Others		42,440	33,319
Total	₩	1,185,879	1,288,440

- Recoverable amount for each of cash-generating unit for each operating segment above is measured at higher of value in use and net fair value. Net fair value is the amount obtainable from the estimated proceeds from the sales of the asset in an arm's length transaction between knowledgeable and willing parties, less estimated costs of disposal. The value in use of each cash-generating unit was determined by discounting its estimated future cash flows as relevant cash-generating units are continuously used. The approach used to determine value in use as of December 31, 2021 was consistent with those used in 2020. The calculation of value in use was based on the following key assumptions:

- Cash flows were estimated based on past experience, actual historical results of operations and business plan. For department stores, discount stores, consumer electronics retail, TV home shopping, supermarkets, cinema and others are estimated based on a 5- year business plan, and the e-commerce division is estimated based on a 10-year business plan.

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15. Goodwill and Intangible Assets, continued

(d) Impairment testing for cash-generating units containing goodwill, continued

- For department stores, discount stores, consumer electronics retail, TV home shopping, supermarkets, cinema and others, the annual revenue growth rate for the following five years is estimated at 0%~2.0% (2020: 0%~3.5%).

- The e-commerce division's annual revenue growth rate for the following 10-year in the future is estimated based on an analysis of average revenue growth rates in the past and GDP growth rates estimated by external agencies. The cash flow after the 10-year period is estimated with growth rate of constantly at 1%.

- The weighted average cost of capital from the same industry is applied as the discount rate in determining recoverable amount of cash-generating units. The weighted average costs of capital for each cash-generating unit are as follows:

	<u>2021</u>	<u>2020</u>
Department stores	7.23%~11.81%	5.50%~7.38%
Discount stores	7.34%~10.91%	5.50% ~10.00%
Consumer electronics retail	7.89%	7.63%
TV home shopping	9.65%	6.67%
Supermarket	7.34%	5.50% ~ 7.42%
Cinema	8.00% ~ 10.91%	8.86%~10.11%
E-Commerce	7.34%	5.50%
Others	5.30% ~ 10.24%	4.55% ~ 9.77%

The relevant values through major assumption represent the management's estimation of future trends for distribution industry. And as a result of impairment testing on the basis of external and internal source (historical data) as of December 31, 2021, recoverable amounts of the cash-generating units in discount stores, supermarket, consumer electronic retail and e-commerce were less than its book value, including goodwill, therefore impairment losses were recognized.

The impairment losses recognized in goodwill for the years ended December 31, 2021 and 2020 are as follows:

(in millions of Korean won)

		<u>2021</u>	<u>2020</u>
Department stores	₩	36,800	135,872
Discount stores		-	42,763
Supermarkets		53	66
Consumer electronics retail		82,265	28,394
E-Commerce		-	28,265
Others		142	9,383
Total	₩	<u>119,260</u>	<u>244,743</u>

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15. Goodwill and Intangible Assets, continued

(e) Impairment testing of other intangible assets with indefinite estimated useful lives

Details of intangible assets with indefinite estimated useful lives as of December 31, 2021 and December 31, 2020 are as follows:

<i>(in millions of Korean won)</i>		<u>2021</u>	<u>2020</u>
Department stores	₩	10,138	10,721
Discount stores		1,448	1,360
Consumer electronics retail		139,848	139,723
TV home shopping		8,775	8,775
Supermarket		1,744	1,744
Cinema		803	803
E-Commerce		406	406
Others		-	88
Total	₩	<u>163,162</u>	<u>163,620</u>

The impairment loss of ₩96 million is recognized during the current period, and as a result of the Group's impairment test on indefinite intangible assets for the year 2020, ₩94 million was recognized as impairment loss.

16. Trade and Other Payables

Details of trade and other payables as of December 31, 2021 and December 31, 2020 are as follows:

<i>(in millions of Korean won)</i>		<u>2021</u>	<u>2020</u>
Trade payables	₩	610,720	681,214
Other payables		1,809,150	1,495,965
Total	₩	<u>2,419,870</u>	<u>2,177,179</u>

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17. Borrowings and Debentures

(a) Borrowings and debentures as of December 31, 2021 and December 31, 2020 are as follows:

(in millions of Korean won)

		2021	2020
Current:			
Short-term borrowings	₩	1,392,799	1,553,891
Current portion of long-term borrowings		965,119	1,251,848
Current portion of debentures		1,207,100	1,142,080
Current portion of discount on debentures		(276)	(273)
Total		<u>3,564,742</u>	<u>3,947,546</u>
Non-current:			
Long-term borrowings		2,744,408	2,115,453
Discount on long-term borrowings		(13,290)	(22,298)
Long-term debentures		3,664,263	4,163,800
Discount on debentures		(6,770)	(9,920)
Debentures redemption premium		799	7,681
Exchange rights adjustment		(1,176)	(20,013)
Total	₩	<u>6,388,234</u>	<u>6,234,703</u>

(b) Short-term borrowings as of December 31, 2021 and December 31, 2020 are as follows:

(in millions of Korean won)

Lender	Details	Annual interest rate		2021	2020
Korea Development Bank and others (*)	General note	1.27% ~ JIBOR 3M+2.30%	₩	1,352,799	1,353,891
Shinhan Bank and others	Financial note	2.50% ~ 2.70%		40,000	200,000
			₩	<u>1,392,799</u>	<u>1,553,891</u>
		Total			

(*) As of December 31, 2021, JIBOR 3M: 3.75%

(c) Long-term borrowings as of December 31, 2021 and December 31, 2020 are as follows:

(in millions of Korean won)

Lender	Details	Annual interest rate		2021	2020
Mizuho Corporate Bank, Ltd. and others (*1)	Local currency	1.63% ~ 3M Financial Bonds I (Bank Bonds) AAA + 3.15%	₩	3,283,029	2,951,000
Hana Bank and others (*2)	Foreign currency	3M USD Libor + 1.0% ~ CoF 2W + 0.9%		429,262	416,302
	Subtotal			<u>3,712,291</u>	<u>3,367,302</u>
Less: Discount on long-term borrowings				(16,054)	(22,298)
	Subtotal			<u>3,696,237</u>	<u>3,345,004</u>
Less: Current portion of long-term borrowings, net of discount				(965,118)	(1,251,848)
Total			₩	<u>2,731,119</u>	<u>2,093,156</u>

(*1) As of December 31, 2021, 3M Financial Bonds I (Bank Bonds) AAA: 1.43%

(*2) As of December 31, 2021, 3M USD Libor: 0.19%, CoF 2W: 5.42%

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17. Borrowings and Debentures, continued

(d) Debentures as of December 31, 2021 and December 31, 2020 are as follows:

(in millions of Korean won)

Description	Maturity	Annual interest rate	2021	2020
65-2nd placed	2022-03-03	2.45% ₩	240,000	240,000
66-2nd placed	2022-06-23	2.64%	50,000	50,000
66-3rd placed	2025-06-23	2.98%	140,000	140,000
70-2nd placed	2021-04-04	2.02%	-	170,000
70-3rd placed	2026-04-04	2.48%	70,000	70,000
72-2nd placed	2022-01-23	2.36 %	160,000	160,000
73-2nd placed	2022-06-15	2.50%	150,000	150,000
73-3rd placed	2024-06-15	2.69%	100,000	100,000
74th placed	2022-06-29	2.48%	50,000	50,000
75th placed	2024-08-07	2.74%	150,000	150,000
76-1st placed (foreign currency)	2021-05-21	3M USD Libor	-	108,800
76-2nd placed (foreign currency)	2021-05-21	3M USD Libor+0.95%	-	190,400
77-1st placed	2021-05-28	2.64%	-	160,000
77-2nd placed	2023-05-30	2.96%	310,000	310,000
77-3rd placed	2028-05-30	3.47%	100,000	100,000
78-1st placed (foreign currency)	2021-08-17	3M USD Libor	-	174,080
78-2nd placed (foreign currency)	2021-08-28	3M USD Libor + 0.95%	-	108,800
79th placed	2033-08-07	3.55%	70,000	70,000
80th placed	2038-08-29	3.40%	30,000	30,000
81st placed (foreign currency)	2022-01-28	3M USD Libor	118,550	108,800
82-1st placed	2022-01-28	2.09%	110,000	110,000
82-2nd placed	2024-01-30	2.29%	150,000	150,000
82-3rd placed	2029-01-30	2.73%	140,000	140,000
83-1st placed	2024-08-29	1.59%	100,000	100,000
83-2nd placed	2026-08-28	1.67%	70,000	70,000
83-3rd placed	2029-08-29	1.80%	110,000	110,000
84th placed (foreign currency)	2022-11-29	3M USD Libor	118,550	108,800
85th placed	2023-04-28	2.33%	350,000	350,000
86-1st placed	2025-07-18	2.20%	30,000	30,000
86-2nd placed	2030-07-19	2.58%	20,000	20,000
87-1st placed (foreign currency)	2023-08-18	3M USD Libor+1.40%	118,550	108,800
87-2nd placed (foreign currency)	2023-08-21	3M USD Libor+1.30%	59,275	54,400
87-3rd placed (foreign currency)	2023-08-28	3M USD Libor+2.10%	59,275	54,400

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17. Borrowings and Debentures, continued

(d) Debentures as of December 31, 2021 and December 31, 2020 are as follows; continued

Description	Maturity	Annual interest rate		2021	2020
88-1st placed	2025-09-23	2.07%	₩	135,000	135,000
88-2nd placed	2030-09-23	2.55%		60,000	60,000
89-1st placed	2024-04-16	1.63%		170,000	-
89-2nd placed	2026-04-16	2.13%		190,000	-
89-3rd placed	2031-04-16	2.95%		35,000	-
90-1st placed	2024-05-21	3M USD Libor+0.05%		118,550	-
90-2nd placed	2024-05-20	0.53%		207,463	-
91st placed (foreign currency)	2024-08-19	0.86%		118,550	-
Exchangeable bonds (*)	2023-04-04	-		31,600	303,600
1st collateralized public bond (LOTTE REIT Co., Ltd.)	2022-07-30	1.55%		170,000	170,000
2nd collateralized public bond (LOTTE REIT Co., Ltd.)	2023-12-12	2.90%		31,000	-
4-3rd corporate bond (Lotte Himart Co., Ltd.)	2022-10-28	2.70%		40,000	40,000
5-2nd corporate bond (Lotte Himart Co., Ltd.)	2021-01-28	2.44%		-	50,000
6th corporate bond (Lotte Himart Co., Ltd.)	2021-07-05	2.52%		-	180,000
7th corporate bond (Lotte Himart Co., Ltd.)	2023-06-11	2.18%		200,000	200,000
8th corporate bond (Lotte Himart Co., Ltd.)	2024-06-28	1.97%		140,000	-
1st placed (Lotte Cultureworks Co., Ltd.)	2023-08-20	2.01%		-	60,000
2nd placed (Lotte Cultureworks Co., Ltd.)	2023-09-24	2.07%		-	40,000
3rd placed (Lotte Cultureworks Co., Ltd.)	2023-11-26	3.55%		10,000	20,000
4th placed (Lotte Cultureworks Co., Ltd.)	2023-03-03	3.30%		40,000	-
Subtotal				<u>4,871,363</u>	<u>5,305,880</u>
Less: Discount on debentures				(7,046)	(10,193)
Debentures redemption premium				799	7,681
Less: Exchange rights adjustment				(1,176)	(20,013)
Total book value				<u>4,863,940</u>	<u>5,283,355</u>
Less: Current portion of debentures				(1,206,824)	(1,141,807)
Total			₩	<u>3,657,116</u>	<u>4,141,548</u>

(*) The Company issued exchangeable bonds which are exchangeable for shares of LOTTE Himart Co., Ltd. and the terms and conditions are as follows:

- (1) Type of bonds: Registered unguaranteed unsecured overseas exchangeable bonds
- (2) Total face value of bonds(In Korean won): ₩ 303,600,000,000
- (3) Bond interest rate
Coupon rate (%): -
Yield to maturity (%): 0.50
- (4) Date of bond maturity: April 04, 2023
- (5) Principal redemption method:
i. Redemption on maturity date: Redemption in lump sum on the maturity date for the principal amount of bonds for which a condition for early redemption has not occurred and the exchange right has not been exercised.
ii. Early redemption: Lotte Shopping Co., Ltd. ("Lotte Shopping") has a call option, whereas bond holders have a put option.
- (6) Put option by bondholders:

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17. Borrowings and Debentures, continued

(d) Debentures as of December 31, 2021 and December 31, 2020 are as follows:, continued

The put option can be exercised if any of the following conditions occurs:

- i. After the third anniversary of the date of payment (April 04, 2021);
- ii. If any change of control occurs in the LOTTE Himart; or
- iii. The issued stocks of the Company are delisted from the stock exchange or their transaction is suspended for 30 consecutive transaction days or longer.

(7) Call option by the Company:

The call option can be exercised if any of the following conditions occurs:

- i. If the closing price of LOTTE Himart Co., Ltd for 20 transactional days in 30 consecutive transaction days reaches 130% or more of the exchange price between 3 years from the issuance date (April 04, 2021) and 30 business days to the maturity date;
- ii. If the balance of bonds that has not been redeemed reaches less than 10% of the sum of the total issued amount (clean up call); or
- iii. Any additional tax burden arises due to the amendments of the related laws and regulations.

(8) Matters relating to exchange:

- i. Exchange ratio (%): 100
- ii. Exchange price (won per share): ₩85,840
- iii. Type of shares to be issued following exchange: common shares of LOTTE Himart Co., Ltd.
- iv. Period to apply for exchange:

Start date:	May 14, 2018
End date:	March 24, 2023

v. Matters for the adjustment of exchange price:

In case when a condition for re-adjustment of the exchange price has occurred, such as a stock dividend, the exchange price will be adjusted in accordance with the provisions in the relevant bonds purchase agreement.

(e) Annual repayment schedule of long-term borrowings and debentures as of December 31, 2021 are as follows:

(in millions of Korean won)

		2021		
		Borrowings	Debentures	Total
	₩	967,883	1,207,100	2,174,983
2022.01.01 ~ 2022.12.31		1,774,379	1,209,700	2,984,079
2023.01.01 ~ 2023.12.31		763,000	1,254,563	2,017,563
2024.01.01 ~ 2024.12.31		-	305,000	305,000
2025.01.01 ~ 2025.12.31		207,029	895,000	1,102,029
After 2026.01.01		3,712,291	4,871,363	8,583,654
Total	₩	3,712,291	4,871,363	8,583,654

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18. Unearned Revenues

The details of unearned revenues as of December 31, 2021 and December 31, 2020 are as follows:

<i>(in millions of Korean won)</i>		<u>2021</u>	<u>2020</u>
Current:			
Membership points	₩	477	1,015
Other points		55,134	49,326
Unearned rental income		6,602	9,444
Others (*)		121,618	98,724
Total		<u>183,831</u>	<u>158,509</u>
Non-current:			
Unearned rental income		28,919	39,453
Total	₩	<u>28,919</u>	<u>39,453</u>

(*) Others include contract liabilities described in Note 29.

19. Provisions

(a) Changes in provisions for the year ended December 31, 2021 are as follows:

<i>(in millions of Korean won)</i>	<u>Beginning balance</u>	<u>Increase</u>	<u>Utilization</u>	<u>Ending balance</u>
Current:				
Provision for bonus payable	₩ 588	42,443	(43,031)	-
Provision for sales return	8,196	4,846	(5,087)	7,955
Provision for restoration	2,904	2,725	(960)	4,669
Provision for litigation	2,236	186	(2)	2,420
Provision for restructuring (*1)	12,610	1,987	(8,837)	5,760
Other provisions (*2)	12,897	118,256	(121,219)	9,934
Total	<u>39,431</u>	<u>170,443</u>	<u>(179,136)</u>	<u>30,738</u>
Non-current:				
Provision for restoration	124,711	22,626	(16,343)	130,994
Provision for litigation	6,915	-	-	6,915
Total	₩ <u>131,626</u>	<u>22,626</u>	<u>(16,343)</u>	<u>137,909</u>

(*1) The Group recognized the compensation cost for the store companies due to restructuring as a provision.

(*2) Other provisions include provision for broadcasting reserve fund and others.

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19. Provisions, continued

(b) Changes in provisions for the year ended December 31, 2020 are as follows:

<i>(in millions of Korean won)</i>	<u>Beginning balance</u>	<u>Increase</u>	<u>Utilization</u>	<u>Ending balance</u>
Current:				
Provision for bonus payable ₩	620	46,206	(46,238)	588
Provision for sales return	8,738	5,799	(6,341)	8,196
Provision for restoration	2,301	783	(180)	2,904
Provision for litigation	3,313	2,102	(3,179)	2,236
Provision for restructuring	22,186	38,596	(48,172)	12,610
Other provisions (*)	11,845	32,043	(30,991)	12,897
Total	<u>49,003</u>	<u>125,529</u>	<u>(135,101)</u>	<u>39,431</u>
Non-current:				
Provision for restoration	128,042	4,673	(8,004)	124,711
Provision for litigation	-	6,915	-	6,915
Total	₩ <u>128,042</u>	<u>11,588</u>	<u>(8,004)</u>	<u>131,626</u>

(*) Other provisions include provision for broadcasting reserve fund and others.

20. Other Non-financial Liabilities

Other non-financial liabilities as of December 31, 2021 and December 31, 2020 are summarized as follows:

<i>(in millions of Korean won)</i>	<u>2021</u>	<u>2020</u>
Current:		
Withholdings	₩ 146,352	76,595
Withholdings of value added tax	72,609	87,596
Advances received	1,371,215	1,151,860
Other liabilities	3,207	1,300
Total	₩ <u>1,593,383</u>	<u>1,317,351</u>

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21. Employee Benefits

(a) Details of defined benefit liabilities as of December 31, 2021 and 2020 are summarized as follows:

<i>(in millions of Korean won)</i>		<u>2021</u>	<u>2020</u>
Present value of defined benefit obligations	₩	826,735	906,824
Fair value of plan assets		(940,333)	(985,359)
Defined benefit liabilities (assets)		<u>(113,598)</u>	<u>(78,535)</u>
Defined benefit asset		121,737	91,273
Defined benefit liability	₩	<u>8,138</u>	<u>12,738</u>

(b) Details of present value of other long-term employee benefits as of December 31, 2021 and 2020 are summarized as follows:

<i>(in millions of Korean won)</i>		<u>2021</u>	<u>2020</u>
Present value of other long-term employee benefits	₩	26,651	31,422

(c) Changes in the defined benefit obligations for the years ended December 31, 2021 and 2020 are as follows:

<i>(in millions of Korean won)</i>		<u>2021</u>	<u>2020</u>
Beginning balance	₩	906,824	882,045
Current service costs		111,075	137,373
Past service costs		(4,004)	-
Interest costs		23,719	21,638
Remeasurements:			
Actuarial loss from change in demographic assumptions		(685)	1,594
Actuarial gain from change in financial assumptions		(68,307)	(33,946)
Actuarial gain from experience adjustments		<u>(22,908)</u>	<u>(15,298)</u>
Subtotal		<u>(91,900)</u>	<u>(47,650)</u>
Benefit payments		(125,649)	(87,788)
Others		6,626	1,206
Changes due to business combination		44	-
Ending balance	₩	<u>826,735</u>	<u>906,824</u>

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21. Employee Benefits, continued

(d) Changes in the plan assets for the years ended December 31, 2021 and 2020 are as follows:

<i>(in millions of Korean won)</i>		<u>2021</u>	<u>2020</u>
Beginning balance	₩	985,359	921,212
Return on plan assets		26,052	23,684
Remeasurements		(11,745)	(6,627)
Employer contribution		56,760	124,986
Benefit payments		(113,590)	(76,679)
Others		(2,501)	(1,217)
Ending balance	₩	<u>940,335</u>	<u>985,359</u>

The estimated contributions to the plan for the next annual reporting period are ₩94,211 million.

(e) The components of plan assets as of December 31, 2021 and 2020 are summarized as follows:

<i>(in millions of Korean won)</i>		<u>2021</u>	<u>2020</u>
Principal guaranteed insurance policies	₩	940,213	985,218
Contributions to the National Pension Fund		122	141
Total	₩	<u>940,335</u>	<u>985,359</u>

(f) Expenses recognized for the years ended December 31, 2021 and 2020 are as follows:

<i>(in millions of Korean won)</i>		<u>2021</u>	<u>2020</u>
Current service costs	₩	111,075	137,373
Past service costs		(4,004)	-
Interest costs		23,719	21,638
Return on plan assets		(26,052)	(23,684)
Contributions to defined contribution plans and others(*)		89,027	7,211
Long-term employee benefits		(880)	(30,740)
Total	₩	<u>192,885</u>	<u>111,798</u>

(*) The Group recognized ₩ 75,925 million for employee termination benefits due to voluntary retirement during 2021.

(g) Defined benefit obligation

① Actuarial assumptions

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

	<u>2021</u>	<u>2020</u>
Discount rate	1.79~7.75%	1.42~7.99%
Expected rate of promotion	0.82~4.38%	0.94~3.86%
Expected rate of increase in salaries	0.52~10.07%	0.20~10.07%

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21. Employee Benefits, continued

(g) Defined benefit obligation, continued

② Sensitivity analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions would have affected the defined benefit obligation by the amounts are as follows:

<i>(in millions of Korean won)</i>	<u>Increase</u>	<u>Decrease</u>
Discount rate (1%p movement) ₩	(61,524)	70,745
Expected rate of promotion (1%p movement)	61,462	(52,730)
Expected rate of increase in salaries (1%p movement)	70,711	(62,597)

Although the analysis does not take account of the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumptions shown.

(h) Information about the maturity profile of the defined benefit obligation as of December 31, 2021 is as follows:

<i>(in millions of Korean won)</i>	<u>Less than 1 year</u>	<u>Between 1-2 years</u>	<u>Between 2-5 years</u>	<u>Between 5-10 years</u>	<u>Over 10 years</u>
Benefits payment ₩	76,225	84,421	262,176	502,165	1,441,445

The weighted average duration of the defined benefit obligation is 8.16 years.

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22. Hybrid securities

Details of hybrid securities classified as equity as of December 31, 2021 are as follows:

(in millions of Korean won)

	<u>Issue date</u>	<u>Expiration date</u>	<u>Interest (%)</u>	<u>Amount</u>
5 th private bond type of hybrid securities (*)	2021-06-22	2051-06-22	4.20	₩ 40,000
6 th private bond type of hybrid securities (*)	2021-12-22	2051-12-22	5.30	100,000
	Subtotal			<u>140,000</u>
	Issuance cost			(426)
	Total			<u>₩ 139,574</u>

(*) Condition for issuance of bond type hybrid securities are as follows:

(in millions of Korean won)

	5 th private bond type of hybrid securities	6 th private bond type of hybrid securities
Amount	₩ 40,000	100,000
Expiration date	30 years (expiration can be extended according to Lotte Culture networks Co., Ltd decision-making at maturity)	30 years (expiration can be extended according to Lotte Culture networks Co., Ltd decision-making at maturity)
Interest	Issue date ~ 2023.06.22: 4.20 % 2.0% step-up interest rate applied after 2 years of issuance Add 0.5% per year since step-up interest rates were applied	Issue date ~ 2023.12.22: 5.30 % 2.0% step-up interest rate applied after 2 years of issuance Add 0.5% per year since step-up interest rates were applied
Condition of interest payment	September 22, 2021 for the first time, 3 months' interest is deferred on the 22nd of every 3 months until the expiration date.	March 22, 2022 for the first time, 3 months' interest is deferred on the 22nd of every 3 months until the expiration date.
Others	Early repayment rights can be exercised every year after 2 years of issuance and thereafter.	Early repayment rights can be exercised every interest payment date after 2 years of issuance and thereafter.

Above, 5th, 6th hybrid security's expiration can be extended according to Lotte Cultureworks Co., Ltd.'s decision-making at maturity. In addition, bond's interest payment can be postponed by Lotte Cultureworks Co., Ltd.'s own right. If interest payment is postponed, dividends on common stock cannot be resolved or paid until the deferred interest is paid in full.

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23. Derivatives

(a) Details of derivatives outstanding as of December 31, 2021 are as follows:

Purpose	Type	Description
Cash flow hedge	Currency swaps	At the maturity of the swap, the principal and the interest payments for debentures and borrowings in foreign currency based on floating rates are exchanged back with the principal and fixed interest rate payments in local currency.
	Interest swaps	Fixed interest is paid regarding variable interest of KRW and foreign currency borrowings.
Trade	Total return swap (*)	Cash flows of an investor in beneficiary are exchanged with contracted cash flows.
	Currency forward	The principal amount in KRW is exchanged based on agreed exchange rate at the maturity date.

(*) Total return swaps of the Group as of December 31, 2021 are as follows:

(in millions of Korean won)

Name	Guaranteed Buyer	Guaranteed Seller	Conclusion date of agreement	Maturity date	Agreement Amount	Underlying assets	Purpose of agreement	Description of agreement and settlement method	Special relationship with contract party or issuance company of underlying assets	Collateral	Brokerage financial company	Special agreement
		LOG No. 1 Co., Ltd.			W 40,000						KB Securities	
		LOG No. 3 Co., Ltd.	2017-02-17	2022-02-17	24,300							
		Portobello No. 1 Co., Ltd.			4,700						Daiwa Securities	
		Portobello No. 2 Co., Ltd.	2017-03-24	2022-03-24	40,000			1. Settlement of differences between the selling price of underlying assets and the principal of investment				
		LOY No. 1 Co., Ltd.			57,000							
		LOY No. 2 Co., Ltd.	2017-07-19	2022-07-20	65,000	Real estate investment trust related beneficiary certificates	Settlement of disposal of underlying assets				KB Securities and others	
TRS	Lotte Shopping Co., Ltd	LOY No. 3 Co., Ltd.			41,000			2. Settlement of differences between the actual dividends and standard dividends on each dividend payment date (every 3 months)	None	None		
		Kimpo Hangang Park No. 1 Co., Ltd.			29,800						Mirae Asset Daewoo	
		Kimpo Hangang Park No. 2 Co., Ltd.	2017-09-08	2022-09-16	120							
		LEP No. 1 Co., Ltd.			30,000							
		LEP No. 2 Co., Ltd.			70,000							
		LEP No. 3 Co., Ltd.	2021-04-29	2026-04-29	50,000						KB Securities	
		LEP No. 4 Co., Ltd.			73,000							

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23. Derivatives, continued

(b) Hedge Accounting

As of December 31, 2021, the Group entered into currency swap contracts to hedge fair value risk that debentures issued in foreign currency redeemed on the maturity date are dependent on changes in foreign currency. The gain or loss arising from changes in fair value of derivatives are recognized as profit or loss for the period since gain or loss on foreign currency translation from the debentures and the borrowings issued in foreign currency can be hedged through the currency swap.

Meanwhile, the Group entered into interest swap contracts for the purpose of hedging changes in interest rate of certain debentures and borrowings issued in foreign currency and borrowings in Korean won. Effective portion of gain or loss on derivatives arising from the interest rate swaps is recognized in other comprehensive income and any ineffective portion is recognized in profit or loss for the period. The gain or loss on derivatives from the interest swap contracts are recognized in other comprehensive income as it is determined to be all effective.

Details of derivative contracts for hedging as of December 31, 2021 are as follows:

(in thousands of Korean won, full foreign currency)

Type	Description	Amount	Exchange Rate (KRW, VND, USD, IDR)	Annual Interest Rate	Payable interest rate	Maturity	Remarks	
Currency Swap	81 placed (foreign currency)	USD 100,000,000	₩ 1,128.00	3M USD Libor	2.24%	2022.01.28	The Bank of Tokyo-Mitsubishi UFJ	
	84 placed (foreign currency)	USD 100,000,000	1,177.00	3M USD Libor	1.87%	2022.11.29	The Bank of Tokyo-Mitsubishi UFJ	
	87-1st placed (foreign currency)	USD 100,000,000	1,193.80	3M USD Libor+2.05%	2.26%	2023.08.18	Kookmin Bank	
	87-2nd placed (foreign currency)	USD 50,000,000	1,193.30	3M USD Libor+1.30%	1.47%	2023.08.21	KEB Hana Bank	
	87-3rd placed (foreign currency)	USD 50,000,000	1,190.50	3M USD Libor+2.10%	2.16%	2023.08.28	Credit Agricole	
	90-1st placed (foreign currency)	USD 100,000,000	1,129.50	3M USD Libor+0.05%	1.64%	2024.05.21	The Bank of Tokyo-Mitsubishi UFJ	
	90-2nd placed (foreign currency)	USD 175,000,000	1,129.50	1.53%	1.61%	2024.05.20	SMBC Bank	
	91 placed (foreign currency)	USD 100,000,000	1,159.00	0.86%	1.96%	2024.08.19	The Bank of Tokyo-Mitsubishi UFJ	
	Long-term Borrowing		USD 62,825,000	VND 23,233	Libor 3M+2.6%	5.13%	2023-09-08	Techcom bank
			USD 20,000,000	VND 23,292	Libor 3M+2.6%	5.13%	2023-09-08	Maritime bank
		USD 30,175,000	VND 23,190	Libor 3M+2.6%	4.81%	2023-09-08	Maritime bank	
		USD 20,000,000	VND 23,190	Libor 3M+2.6%	4.92%	2023-09-08	Shinhan bank	
		USD 7,000,000	VND 23,190	Libor 3M+3.2%	5.41%	2023-09-08	Maritime Bank	
		USD 60,000,000	VND 23,190	Libor 3M+3.2%	5.52%	2023-09-08	Shinhan Bank	
		USD 10,000,000	VND 23,680	Libor 3M+1.0%	5.45%	2023-01-19	Standard Chartered bank	
		USD 5,000,000	VND 23,680	Libor 3M+2.0%	6.45%	2023-03-23	Standard Chartered bank	
Short-term borrowing		USD 9,000,000	VND 23,480	Libor 3M+2.44%	4.17%	2022-01-14	Maritime bank	
		USD 25,000,000	VND 22,880	Libor 3M+3.25%	5.15%	2022-09-21	Standard Chartered bank	

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23. Derivatives, continued

		USD 9,000,000	VND 22,880	2.20%	4.10%	2022-09-29	Standard Chartered bank
		USD 20,000,000	VND 23,075	2.08%	3.73%	2022-06-22	Standard Chartered bank
		USD 29,000,000	IDR 14,675	3M USD Libor+1.6%	1.78%	2022-02-25	Hana bank
		USD 132,640	IDR 14,675	3M USD Libor+1.6%	1.78%	2022-02-25	Hana bank
Interest rate Swap	Short-term borrowing	KRW 200,000,000	Not Applicable	CD (91) + 0.50%	1.62%	2023-03-17	Shinhan Bank

(c) Fair value of derivatives outstanding as of December 31, 2021 and 2020 are summarized as follows:

(in millions of Korean won)

Description	Type		2021		2020	
			Assets	Liabilities	Assets	Liabilities
Cash flow hedge	Currency swaps	₩	21,055	11,673	1,086	44,800
	Interest swaps		1,206	-	-	26,863
Trade	Total return swap		31,612	-	9,724	-
	Currency forward		-	-	-	13,566
	Stock options		8,929	-	-	-
Total		₩	62,802	11,673	10,810	85,229

(d) Gain or loss on valuation of derivatives for the year ended December 31, 2021 are as follows:

(in millions of Korean won)

Purpose	Type		Amount	Note
Risk hedge	Currency swaps	₩	50,668	Profit or loss (*)
			11,673	Other comprehensive income
	Interest rate swaps		2,441	Other comprehensive income
Trade	Total return swap		32,464	Profit or loss
	Stock options		8,929	Profit or loss

(*) Fair value hedging is applied to currency rate swap portion of currency swaps.

24. Share Capital and Capital Surplus

(a) The share capital of the Company as of December 31, 2021 and 2020 are as follows:

(in millions of Korean won, except for number of shares)

		2021	2020
Authorized shares(shares)		60,000,000	60,000,000
Par value per share (in thousands of Korean won)	₩	5	5
Number of shares issued(shares)		28,288,755	28,288,755
Share capital	₩	141,444	141,444

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24. Share Capital and Capital Surplus, continued

(b) Capital surplus as of December 31, 2021 and 2020 consists of the following:

<i>(in millions of Korean won)</i>		<u>2021</u>	<u>2020</u>
Additional paid-in capital	₩	3,414,873	3,414,873
Others		159,339	159,339
Total	₩	<u>3,574,212</u>	<u>3,574,212</u>

25. Capital Adjustments

Capital adjustments as of December 31, 2021 and 2020 are as follows:

<i>(in millions of Korean won)</i>		<u>2021</u>	<u>2020</u>
Treasury stocks	₩	3,803	3,803
Other capital adjustments		3,028,627	3,009,010
Total	₩	<u>3,032,430</u>	<u>3,012,813</u>

26. Retained Earnings

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

<i>(in millions of Korean won)</i>		<u>2021</u>	<u>2020</u>
Legal reserves	₩	249,801	241,885
Voluntary reserves		8,370,052	9,320,052
Unappropriated retained earnings (deficit)		376,784	(385,336)
Total	₩	<u>8,996,637</u>	<u>9,176,601</u>

27. Accumulated Other Comprehensive Income (loss)

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

<i>(in millions of Korean won)</i>		<u>2021</u>			
		<u>Beginning balance</u>	<u>Changes for the year</u>	<u>Tax effects for the year</u>	<u>Ending balance</u>
Fair value gain (loss) through other comprehensive income	₩	56,928	309,865	(106,039)	260,754
Exchange rate differences on translating foreign operations		(69,625)	116,580	(10,860)	36,095
Cash flow hedge		(13,428)	14,044	(3,346)	(2,730)
Interests in the other comprehensive income in investment in associates		(51,731)	27,981	(6,313)	(30,063)
Total	₩	<u>(77,856)</u>	<u>468,470</u>	<u>(126,558)</u>	<u>264,056</u>

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27. Accumulated Other Comprehensive Income (loss), continued

(in millions of Korean won)

		2020			
		Beginning balance	Changes for the year	Tax effects for the year	Ending balance
Fair value gain (loss) through other comprehensive income	₩	109,741	(63,484)	10,671	56,928
Exchange rate differences on translating foreign operations		(60,775)	(11,853)	3,003	(69,625)
Cash flow hedge		(12,410)	(509)	(509)	(13,428)
Interests in the other comprehensive income in investment in associates		(36,219)	(20,114)	4,602	(51,731)
Total	₩	337	(95,960)	17,767	(77,856)

28. Earnings (losses) per Share

(a) Basic earnings (losses) per share for the years ended December 31, 2021 and 2020 are as follows:

(i) December 31, 2021

(in Korean won, except for number of shares)

		2021
		Continuing operations
Net loss attributable to controlling interests	₩	(292,279,479,719)
Interest on hybrid securities		(703,043,478)
Weighted average number of common shares outstanding (in shares)		28,270,640
Basic loss per share	₩	(10,363)

(ii) December 31, 2020

(in Korean won, except for number of shares)

		2020	
		Continuing operations	Discontinued operations
Net income (loss) attributable to controlling interests	₩	(809,618,746,752)	23,679,056,399
Weighted average number of common shares outstanding (in shares)		28,270,640	28,270,640
Basic earnings (loss) per share	₩	(28,638)	838

(iii) Weighted average number of common shares outstanding

(in number of shares)

	2021	2020
Initial number of common shares outstanding	28,288,755	28,288,755
Treasury share	(18,115)	(18,115)
Weighted average number of common shares outstanding	28,270,640	28,270,640

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28. Earnings (losses) per Share, continued

(b) Diluted earnings (losses) per share

Diluted earnings (losses) per share for the years ended December 31, 2021 and 2020 are as follows:

(i) December 31, 2021

(in Korean won, except for number of shares)

		2021
		Continuing operations
Net loss attributable to controlling interests	₩	(292,279,479,719)
Interest on hybrid securities		(703,043,478)
Effect of exchange of exchangeable bond, net of tax (*)		(1,881,554,728)
Diluted net loss attributable to common shareholders		(294,864,077,925)
Weighted average number of common shares for diluted earnings per share (in shares)		<u>28,270,640</u>
Diluted net loss per share	₩	<u>(10,430)</u>

(*) The dilutive effect occurred in exchangeable bond of LOTTE Himart Co., Ltd. for the year ended December 31, 2021.

(ii) December 31, 2020

(in Korean won, except for number of shares)

		2020	
		Continuing operations	Discontinued operations
Profit (Loss) for the year attributable to the owners of the Company	₩	(809,618,746,752)	23,679,056,399
Effect of exchange of exchangeable bond, net of tax (*)		(8,994,156,899)	-
Diluted profit(loss) attributable to common shareholders		(818,612,903,651)	23,679,056,399
Weighted average number of common shares for diluted earnings per share (in shares)		<u>28,270,640</u>	<u>28,270,640</u>
Diluted earnings (loss) per share	₩	<u>(28,956)</u>	<u>838</u>

(*) The dilutive effect occurred in exchangeable bond of LOTTE Himart Co., Ltd. for the year ended December 31, 2020.

(iii) Diluted weighted average number of common shares

Weighted average number of common shares and weighted average number of common shares for diluted earnings per share for the current and previous year are the same.

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29. Sales

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

		<u>2021</u>	<u>2020</u>
<i>(in millions of Korean won)</i>			
	Sales of merchandise	₩ 19,358,159	19,667,770
	Sales of products	677,550	651,705
	Other sales (*)	1,542,539	1,512,610
	Total sales	<u>21,578,248</u>	<u>21,832,085</u>
Revenue from contracts with customers	Sales discounts and sales returns	(1,201,373)	(1,185,998)
	Provision for sales return and deferred sales	(294,459)	(236,468)
	Cost of specific sales	(5,833,269)	(5,390,436)
	Total sales deduction	<u>(7,329,101)</u>	<u>(6,812,902)</u>
Revenue from other sources: rental revenue		1,324,402	1,165,199
Total		<u>₩ 15,573,549</u>	<u>16,184,382</u>

(*) Due to COVID-19, other sales include government grant of ₩4,158 million received from Korean Film Council for cinema promotion and also include government grant of ₩24,154 million received from Korea Argo-Fisheries & Food Trade Corporation and Korea Fisheries Association to promote agricultural consumption. other sales include government grant of ₩3,069 million received from Korean Film Council for cinema promotion during 2020.

(b) The contract assets and liabilities of the Group recognized related to the revenue from contracts with customers as of December 31, 2021 and 2020 are as follows:

		<u>2021</u>	<u>2020</u>
<i>(in millions of Korean won)</i>			
Contract liabilities			
	Customer loyalty program	₩ 116,166	93,474
	Gift vouchers	990,677	817,378
	Advances from Real-estate Sales	13,487	22,517
	Others	149,536	156,887
Total		<u>₩ 1,269,866</u>	<u>1,090,256</u>

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29. Sales, continued

(c) The amounts recognized as revenue and redemption of gift vouchers for the year ended December 31, 2021, in relation to contract liabilities carried forward from the year ended December 31, 2020 are as follows:

<i>(in millions of Korean won)</i>		<u>2021</u>	<u>2020</u>
Revenue			
Customer loyalty programs	₩	92,625	102,806
Others		<u>130,062</u>	<u>129,338</u>
Total		<u><u>222,687</u></u>	<u><u>232,144</u></u>
Collected			
Gift vouchers		<u>423,206</u>	<u>406,947</u>
Total	₩	<u><u>423,206</u></u>	<u><u>406,947</u></u>

(d) In relation to gift vouchers, expected satisfaction of performance obligation by period are as follows:

(in millions of Korean won)

	<u>Book amount</u>	<u>1 year</u>	<u>Between 1-5 years</u>	<u>Over 5 years</u>
₩	990,677	516,006	470,209	4,462

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30. Selling, General and Administrative Expenses and Bad Debt Expenses

Details of selling, general and administrative expenses and bad debt expenses for the years ended December 31, 2021 and December 31, 2020 are as follows:

<i>(in millions of Korean won)</i>	<u>2021</u>	<u>2020</u>
Salaries and bonuses	₩ 1,239,220	1,289,127
Retirement benefits	192,395	143,064
Long-term employee benefits	(869)	(30,206)
Employee benefits	239,417	242,929
Training expenses	11,523	9,845
Travel expenses	13,806	15,904
Vehicles maintenance expenses	2,327	2,501
Insurance premiums	11,843	14,136
Taxes and dues	283,425	190,033
Entertainment expenses	2,909	4,115
Supplies expenses	56,092	49,720
Publication expenses	1,518	1,606
Communication expenses	20,994	22,630
Utility expenses	250,301	256,673
Repairs and maintenance	53,205	41,530
Rental expenses	129,622	124,299
Depreciation	1,113,685	1,162,104
Amortization	55,022	48,088
Commission expenses	1,138,608	1,079,057
Service commission expenses	888,458	919,590
Advertising expenses	181,268	182,796
Samples expenses	599	232
Sales commissions	123,186	115,581
Sales promotion expenses	102,142	99,741
Decoration expenses	20,341	8,756
Bad debt expenses	732	2,321
Transportation expenses	180,634	176,809
Research and development expenses	312	276
Provisions (reversal)	(4,961)	4,708
Compensation expenses	25,865	14,893
Others	1,015	1,730
Total	₩ <u>6,334,634</u>	<u>6,194,588</u>

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31. Other Income and Expenses

Details of other income and expenses for the years ended December 31, 2021 and 2020 are as follows:

(in millions of Korean won)

	<u>2021</u>	<u>2020</u>
Other income:		
Gain on foreign currency transactions	₩ 2,325	2,906
Gain on foreign currency translation	734	492
Gain on disposal of property, plant and equipment	54,665	17,102
Gain on disposal of intangible assets	360	-
Reversal of impairment loss on intangible assets	125	263
Gain on expired lease	31,138	119,376
Gain on disposal of right-of-use assets	28,270	22,271
Gain on bargain purchase	19,843	-
Gain on disposal of assets and liabilities held for sale	21,127	3,351
Reversal of impairment losses on other non-current assets	4	52
Miscellaneous gains	59,341	53,213
Total	₩ <u>217,932</u>	<u>219,026</u>
Other expenses:		
Loss on foreign currency transactions	₩ 1,735	2,655
Loss on foreign currency translation	129	2,345
Impairment loss on investment in properties	35,055	-
Loss on disposal of property, plant and equipment	17,211	19,888
Impairment loss on right-of-use assets	336,162	504,318
Impairment loss on property, plant and equipment	55,160	120,001
Loss on disposal of intangible assets	6,814	2,318
Impairment loss on intangible assets	122,759	253,837
Loss on expired lease	22,012	3,215
Loss on disposal of right-of-use assets	12,967	14,997
Loss on disposal of assets held for sale	32	295
Impairment loss on other non-current assets	3,000	360
Donations	14,820	17,640
Other bad debt expenses	6,139	7,278
Miscellaneous losses	19,729	18,807
Total	₩ <u>653,724</u>	<u>967,954</u>

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32. Nature of expenses

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

<i>(in millions of Korean won)</i>		<u>2021</u>	<u>2020</u>
Purchase of inventories	₩	8,832,893	9,278,386
Changes in inventories		68,820	191,830
Employee benefits		1,688,361	1,662,228
Rental expenses		132,139	127,035
Depreciation and amortization		1,216,624	1,274,746
Sales commissions		123,186	115,581
Sales promotion expenses		113,030	109,490
Commission expenses		1,152,245	1,093,441
Service expenses		909,781	941,092
Advertising expenses		188,679	195,731
Utility expenses		254,725	261,756
Taxes and dues		285,151	192,455
Others		400,314	394,527
Total of costs of goods sold and selling, general and administration expenses	₩	<u>15,365,948</u>	<u>15,838,298</u>

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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33. Finance Income and Finance Costs

(a) Details of finance income and finance costs for the years ended December 31, 2021 and 2020 are as follows:

(in millions of Korean won)

		<u>2021</u>	<u>2020</u>
Finance income:			
Interest income according to the effective interest rate method	₩	73,737	77,402
Dividend income		11,651	11,227
Gain on foreign currency transactions		9,390	6,766
Gain on foreign currency translation		11,005	83,310
Gain on valuation of debt instrument measured at fair value through profit or loss		3,048	2,819
Gain on disposal of debt instrument measured at fair value through other comprehensive income		331	-
Gain on disposal of debt instrument measured at fair value through profit or loss		-	4
Gain on valuation of financial liability measured at fair value through profit or loss		-	73,669
Gain on valuation of derivatives held for hedging		57,314	-
Gain on valuation of derivatives held for trading		41,392	7,462
Gain on transaction of derivatives held for hedging		33,780	18
Gain on transaction of derivatives held for trading		11,684	817
Gain on disposal of investments in subsidiaries, associates and joint ventures		497	1,879
Reversal of impairment loss on investments in associates		-	1,964
Gain on disposal of assets and liabilities held for sales		-	153
Total	₩	<u>253,829</u>	<u>267,490</u>
Finance costs:			
Interest expense	₩	483,591	486,530
Loss on foreign currency transactions		35,206	3,469
Loss on foreign currency translation		59,295	22,556
Loss on valuation of debt instrument measured at fair value through profit or loss		2,996	5,207
Loss on disposal of debt instrument measured at fair value through other comprehensive income		22,886	-
Loss on valuation of financial liability measured at fair value through profit or loss		500	-
Loss on valuation of derivatives held for hedging		6,646	83,638
Loss on valuation of derivatives held for trading		-	24,753
Loss on transaction of derivatives held for hedging		586	66
Loss on transaction of derivatives held for trading		5	3,426
Loss on loan repayment		1,623	-
Loss on bonds repayment		14,409	-
Financial guarantee expense (reversal)		(1,021)	2,991
Impairment loss on investments in financial assets measured at amortized cost		70,795	-
Loss on disposal of investments in subsidiaries, associates and joint ventures		48,316	323
Impairment loss on investments in associates & joint ventures		14,480	16,151
Total	₩	<u>760,313</u>	<u>649,110</u>

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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33. Finance Income and Finance Costs, continued

(b) Details of finance income and finance costs by financial instruments category for the years ended December 31, 2021 and 2020 are as follows:

(in millions of Korean won)

		2021							
		Cash and cash equivalents	Financial assets at amortized cost	Financial instruments at fair value through profit or loss	Financial instruments at fair value through other comprehensive income	Derivatives assets and liabilities held for trading	Derivatives assets and liabilities held for hedging	Financial liabilities at amortized cost	Total
Recognized in profit or loss :									
Interest income	₩	37,616	36,121	-	-	-	-	-	73,737
Interest expense		(514)	(26,032)	-	-	-	-	(457,044)	(483,590)
Dividend income		-	-	2,539	9,112	-	-	-	11,651
Valuation / Disposal		-	-	(448)	(22,556)	53,071	83,862	(16,032)	97,897
Impairment		-	(77,665)	-	-	-	-	-	(77,665)
Exchange differences		13,616	2,898	(6)	-	-	225	(89,643)	(72,910)
Financial guarantee expense		-	-	-	-	-	-	1,021	1,021
Subtotal		50,718	(64,678)	2,085	(13,444)	53,071	84,087	(561,698)	(449,859)
Recognized in other comprehensive income (loss)(*)									
Fair value gain through other comprehensive income		-	-	-	842,092	-	-	-	842,092
Gain (loss) on valuation of derivatives		-	-	-	-	-	14,114	-	14,114
Subtotal		-	-	-	842,092	-	14,114	-	856,206
Total	₩	50,718	(64,678)	2,085	828,648	53,071	98,201	(561,698)	406,347

(*) The gain or loss on valuation are amounts before offsetting effect of income taxes.

(in millions of Korean won)

		2020							
		Cash and cash equivalents	Financial assets at amortized cost	Financial instruments at fair value through profit or loss	Financial instruments at fair value through other comprehensive income	Derivatives assets and liabilities held for trading	Derivatives assets and liabilities held for hedging	Financial liabilities at amortized cost	Total
Recognized in profit or loss :									
Interest income	₩	34,090	43,312	-	-	-	-	-	77,402
Interest expense		(2,265)	(17,818)	-	-	(3,643)	-	(462,804)	(486,530)
Dividend income		-	-	-	11,227	-	-	-	11,227
Valuation / Disposal		-	-	71,438	-	(19,900)	(83,686)	-	(32,148)
Impairment		-	(9,599)	-	-	-	-	-	(9,599)
Exchange differences		3,976	(2,361)	(1,646)	72,220	-	-	(9,740)	62,449
Financial guarantee expense		-	-	-	-	-	-	(2,991)	(2,991)
Subtotal		35,801	13,534	69,792	83,447	(23,543)	(83,686)	(475,535)	(380,190)
Recognized in other comprehensive income (loss)(*)									
Fair value gain through other comprehensive income		-	-	-	158,670	-	-	-	158,670
Gain (loss) on valuation of derivatives		-	-	-	-	-	(615)	-	(615)
Subtotal		-	-	-	158,670	-	(615)	-	158,055
Total	₩	35,801	13,534	69,792	242,117	(23,543)	(84,301)	(475,535)	(222,135)

(*) The gain or loss on valuation are amounts before offsetting the effect of income taxes.

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34. Income Taxes

(a) Tax income for the years ended December 31, 2021 and 2020 are as follows:

<i>(in millions of Korean won)</i>	<u>2021</u>	<u>2020</u>
Current income taxes	₩ 25,312	68,462
Deferred tax due to temporary differences	(174,995)	(113,471)
Total income tax effect	(149,683)	(45,009)
Income tax charged directly to equity	(215,594)	(15,982)
Tax income (*)	₩ (365,277)	(60,991)

(*) For the prior period, income tax expenses classified as discontinued operation are included.

(b) Details of income tax expense recognized directly to equity for the years ended December 31, 2021 and 2020, are as follows:

<i>(in millions of Korean won)</i>	<u>2021</u>	<u>2020</u>
Fair value gain (loss) through other comprehensive income	₩ (177,129)	(10,809)
Exchange differences on translating foreign operations	(9,342)	3,741
Gain (loss) on valuation of derivatives	(3,416)	(402)
Remeasurements of defined benefit liabilities	(19,417)	(13,300)
Changes in equity of equity method investments	(6,290)	4,789
Income tax charged directly to equity	₩ (215,594)	(15,981)

Income tax related to fair value loss through other comprehensive income, exchange differences on translating foreign operations, gain (loss) on valuation of derivatives, remeasurements of defined benefit liabilities and changes in equity of equity method investments are recognized in other comprehensive income.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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34. Income Taxes, continued

(c) Income tax expense and related accounting benefits for the years ended December 31, 2021 and 2020 are as follows:

<i>(in millions of Korean won)</i>		<u>2021</u>	<u>2020</u>
Net loss before income tax expense	₩	(638,241)	(747,561)
Income tax using statutory tax rate		(153,992)	(180,448)
Adjustment:			
Tax effects on non-taxable income		(14,216)	(94,565)
Tax effects on non-deductible expense		10,161	47,312
Tax credit		144	(879)
Adjustment for prior periods		(3,861)	(19,481)
Tax effects on share of profit (loss) of subsidiaries and associates		(3,274)	(20,283)
Changes in deferred tax assets that are not realizable		(588,898)	41,978
Changes in deferred tax due to change in tax rate		2,600	50,010
Carried forward deferred income tax unrecognized		306,873	75,642
Others		79,187	39,723
Tax income	₩	<u>(365,276)</u>	<u>(60,991)</u>
Effective tax rate (*)		-	-

(*) The Group has not presented effective tax rate due to loss incurred in 2021 and 2020.

(d) Deferred tax assets and liabilities are measured using the expected future tax rate to be applied for the year in which temporary differences are expected to be reversed.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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34. Income Taxes, continued

(e) Changes in deferred tax assets (liabilities) for the years ended December 31, 2021 and 2020 are as follows:

(in millions of Korean won)

		2021			
		Beginning balance	Profit or loss	Equity	Ending balance
Buildings	₩	(9,572)	(6,452)	-	(16,024)
Depreciation		69,534	(13,845)	-	55,689
Allowance for bad debt expense		10,803	2,936	-	13,739
Accrued income		(1,303)	3	-	(1,300)
Unearned revenues		573	195	-	768
Long-term prepaid expenses		(36,480)	(11,002)	-	(47,482)
Losses on valuation of inventories		6,048	(2,421)	-	3,627
Provision for sales return		1,422	(368)	-	1,054
Property, plant and equipment (capitalization of borrowing costs)		(9,523)	(390)	-	(9,913)
Land		32,209	2,810	-	35,019
Land (asset revaluation)		(1,062,762)	109,687	-	(953,075)
Provision for mileage program		444	(57)	-	387
Accrued expense		9,770	3,794	-	13,564
Gain (loss) on foreign currency translation		1,552	5	-	1,557
Construction-in-progress		1,355	(1,008)	-	347
Other intangible assets		(4,116)	(9,973)	-	(14,089)
Security deposits for leases		69,149	(5,242)	-	63,907
Goodwill		(14,565)	16,857	-	2,292
Exchangeable bonds		(4,843)	4,559	-	(284)
Investments in subsidiaries and associates		(108,161)	(34,788)	(6,290)	(149,239)
Fair value gain (loss) on equity instruments through other comprehensive income		(103,838)	-	(177,129)	(280,967)
Loss (gain) on valuation of derivatives		4,534	(10,353)	(3,416)	(9,235)
Salaries and retirement benefits		4,741	12,309	(19,417)	(2,367)
Translation difference of foreign subsidiaries		6,288	-	(9,342)	(3,054)
Right-of-use assets and lease liabilities		270,277	69,383	-	339,660
Carried forward deferred income tax		69,377	283,154	-	352,531
Others		98,816	(19,203)	-	79,613
Total	₩	<u>(698,271)</u>	<u>390,590</u>	<u>(215,594)</u>	<u>(523,275)</u>

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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34. Income Taxes, continued

- (e) Changes in deferred tax assets (liabilities) for the years ended December 31, 2021 and 2020 are as follows, continued

(in millions of Korean won)

		2020			
		Beginning balance	Profit or loss	Equity	Ending balance
Buildings	₩	(10,397)	825	-	(9,572)
Depreciation		84,738	(15,204)	-	69,534
Allowance for bad debt expense		1,444	9,359	-	10,803
Accrued income		(2,237)	934	-	(1,303)
Unearned revenues		4,120	(3,547)	-	573
Long-term prepaid expenses		(35,982)	(498)	-	(36,480)
Losses on valuation of inventories		7,989	(1,941)	-	6,048
Provision for sales return		1,407	15	-	1,422
Property, plant and equipment (capitalization of borrowing costs)		(10,719)	1,196	-	(9,523)
Land		32,283	(74)	-	32,209
Land (asset revaluation)		(1,071,987)	9,225	-	(1,062,762)
Provision for mileage program		182	262	-	444
Accrued expense		13,172	(3,402)	-	9,770
Gain (loss) on foreign currency translation		1,762	(210)	-	1,552
Construction-in-progress		1,618	(263)	-	1,355
Other intangible assets		(47,011)	42,895	-	(4,116)
Security deposits for leases		27,288	41,861	-	69,149
Goodwill		(47,554)	32,989	-	(14,565)
Exchangeable bonds		(7,837)	2,994	-	(4,843)
Investments in subsidiaries and associates		(113,501)	551	4,789	(108,161)
Fair value gain (loss) on equity instruments through other comprehensive income		(93,029)	-	(10,809)	(103,838)
Loss (gain) on valuation of derivatives		5,339	(403)	(402)	4,534
Salaries and retirement benefits		23,022	(4,981)	(13,300)	4,741
Translation difference of foreign subsidiaries		2,547	-	3,741	6,288
Right-of-use assets and lease liabilities		318,164	(47,887)	-	270,277
Carried forward deferred income tax		-	69,377	-	69,377
Others		103,438	(4,622)	-	98,816
Total	₩	(811,741)	129,451	(15,981)	(698,271)

- (f) As of December 31, 2021 and 2020, the amounts of temporary differences related to investments in associates, joint ventures and subsidiaries for which deferred tax assets were not recognized are as follows:

(in millions of Korean won)

		2021	2020
Investments in associates	₩	104,340	73,063
Investments in subsidiaries		2,271,930	2,435,785
Total	₩	2,376,270	2,508,848

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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35. Consolidated Statements of Cash Flows

(a) As of December 31, 2021 and 2020, the details of cash and cash equivalents are as follows:

<i>(in millions of Korean won)</i>		2021	2020
Cash	₩	13,959	17,533
Deposits		274,708	334,088
Other cash equivalents		2,110,122	1,561,615
Total	₩	2,398,789	1,913,236

(b) Adjustments for cash flows from operating activities and changes in operating assets and liabilities for the years ended December 31, 2021 and 2020 are as follows:

(i) Adjustments

<i>(in millions of Korean won)</i>		2021	2020
Retirement benefits	₩	104,737	135,327
Long-term employee benefits (reversal)		(880)	(30,740)
Depreciation		1,127,605	1,178,122
Amortization		89,019	96,624
Impairment loss on intangible assets		122,634	253,837
Loss on disposal of intangible assets		6,814	2,318
Loss on foreign currency translation		59,424	24,901
Loss on foreign currency transactions		34,289	2,209
Loss on disposal of property, plant and equipment		17,211	19,888
Loss on lease termination		22,012	3,215
Loss on disposal of right-of-use assets		12,967	14,997
Impairment loss on property, plant and equipment		55,160	120,001
Impairment loss on investment in properties		35,055	-
Impairment loss on right-of-use assets		336,162	504,318
Financial guarantee expense		(1,021)	2,991
Bad debt expense (reversal)		6,871	(18,775)
Contribution (reversal) to other provisions liabilities		(4,961)	11,717
Impairment loss on other non-current assets		3,000	360
Impairment loss on financial assets measured at amortized cost		70,795	-
Loss on valuation of debt instrument at fair value through profit or loss		2,996	5,207
Loss on valuation of financial liability at fair value through profit or loss		500	-
Loss on disposal of equity instrument at fair value through other comprehensive income		22,886	-
Loss on transactions of derivatives		591	3,492
Loss on valuation of derivatives		6,646	108,392
Loss on bonds repayment		14,409	-
Loss on loans repayment		1,623	-
Equity method loss on instrument in associates and joint ventures		1,528	21,024
Loss on disposal of investments in associates, joint ventures and subsidiaries		48,316	323
Impairment loss on investments in associates and joint ventures		14,480	16,150

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35. Consolidated Statements of Cash Flows, continued

(b) Adjustments for cash flows from operating activities and changes in operating assets and liabilities for the years ended December 31, 2021 and 2020 are as follows:, continued

(i) Adjustments, continued

(in millions of Korean won)

	<u>2021</u>	<u>2020</u>
Miscellaneous losses	₩ -	3,249
Loss on disposal of assets held for sale	32	295
Other expenses without cash outflows	28,992	1,349
Interest expense	483,591	500,667
Income tax profit	(365,277)	(60,991)
Gain on foreign currency translation	(11,739)	(83,802)
Gain on foreign currency transactions	(6,213)	(6,464)
Gain on disposal of property, plant and equipment	(54,665)	(17,101)
Gain on disposal of intangible assets	(360)	(0)
Gains on the disposal of assets held for sale	(21,127)	(3,505)
Gains on lease termination	(31,138)	(119,376)
Gain on disposal of right-of-use assets	(28,270)	(22,271)
Gain on valuation of debt instrument at fair value through profit or loss	(3,048)	(2,819)
Gain on disposal of debt instrument at fair value through profit or loss	-	(4)
Gain on valuation of financial liabilities at fair value through profit or loss	-	(73,669)
Gain on disposal of equity instrument at fair value through other comprehensive income	(331)	-
Gain on transactions of derivatives	(45,464)	(836)
Gain on valuation of derivatives	(98,706)	(7,462)
Equity method profit on instrument in associates and joint ventures	(97,960)	(34,248)
Gain on disposal of investments in associates, joint ventures and subsidiaries	(497)	(4,613)
Other income without cash inflows	(8,724)	(21,484)
Gain on bargain purchase	(19,843)	-
Interest income	(73,737)	(77,436)
Dividend income	(11,651)	(11,227)
Total	₩ <u>1,844,733</u>	<u>2,434,150</u>

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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35. Consolidated Statements of Cash Flows, continued

(b) Adjustments for cash flows from operating activities and changes in operating assets and liabilities for the years ended December 31, 2021 and 2020 are as follows:, continued

(ii) Changes in operating assets and liabilities

<i>(in millions of Korean won)</i>		<u>2021</u>	<u>2020</u>
Decrease (increase) in trade receivables	₩	(42,336)	201,625
Decrease (increase) in other receivables		(69,342)	24,904
Decrease (increase) in other financial assets		(92,727)	71,981
Decrease in inventories		72,056	242,881
Increase in other non-financial assets		(1,175)	(19,388)
Increase (decrease) in trade payables		141,659	(52,749)
Increase (decrease) in other payables		203,170	(361,613)
Increase (decrease) in other financial liabilities		85,239	(63,760)
Increase (decrease) in unearned revenues		40,149	(23,999)
Decrease in provisions		(7,381)	(2,818)
Increase (decrease) in other non-financial liabilities		196,635	(16,191)
Payment of defined benefit liabilities		(107,958)	(83,240)
Payment of other long-term employee benefits		(4,294)	(7,080)
Decrease (increase) in plan assets		56,831	(48,902)
Total	₩	<u>470,526</u>	<u>(138,349)</u>

(c) Non-cash transactions for the years ended December 31, 2021 and 2020 are as follows:

<i>(in millions of Korean won)</i>		<u>2021</u>	<u>2020</u>
Payables for acquisition of property, plant and equipment	₩	22,645	(18,815)
Payables for acquisition of intangible assets		753	(1,697)
Acquisition of right-of-use assets		491,621	189,435
Reclassification of borrowings and debentures to current portion		2,171,943	2,393,656

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35. Consolidated Statements of Cash Flows, continued

(d) Adjustment in liabilities arising from financial activities for the year ended December 31, 2021 are as follows:

(in millions of Korean won)

	2021						
	Liabilities from financing activities						
	Leasehold Deposits Received	Short-term borrowings and debentures	Long-term borrowings and debentures	Non-current financial liabilities at fair value through profit or loss (*2)	Lease liabilities	Derivatives for hedging	Total
Beginning balance	₩ 212,218	3,947,547	6,234,703	37,007	6,228,283	70,577	16,730,335
Net cash flow from financing activities	(38,560)	(3,014,670)	2,399,457		(831,683)		(1,485,456)
Non-cash flows (*1)	78,556	2,631,866	(2,245,925)	500	549,529	(81,165)	933,361
Ending balance	₩ 252,214	3,564,743	6,388,235	37,507	5,946,129	(10,588)	16,178,240

(*1) Gain (loss) on valuation and transaction of derivatives assets, interest expenses of borrowings and debentures, gain (loss) on foreign currency translation, reclassification from non-current portion into current portion and others are included.

(*2) Since there was conditional repurchase agreement existed when trading in-kind contributions of Lotte Cultureworks Co., Ltd, the estimated repurchased amounts for the future were classified as non-current financial liabilities at fair value through profit or loss.

(e) Adjustment in liabilities arising from financial activities for the year ended December 31, 2020 are as follows:

(in millions of Korean won)

	2020						
	Liabilities from financing activities						
	Short-term borrowings and debentures	Long-term borrowings and debentures	Non-current financial liabilities at fair value through profit or loss (*2)	Lease liabilities	Derivatives for hedging	Total	
Beginning balance	₩ 2,840,441	6,710,079	110,676	6,662,981	(12,456)	16,311,721	
Net cash flow from financing activities	(1,200,883)	1,958,006	-	(543,897)	-	213,226	
Non-cash flows(*1)	2,307,988	(2,433,382)	(73,669)	109,199	83,033	(6,831)	
Ending balance	₩ 3,947,546	6,234,703	37,007	6,228,283	70,577	16,518,116	

(*1) Gain (loss) on valuation and transaction of derivatives assets, interest expenses of borrowings and debentures, gain (loss) on foreign currency translation, reclassification from non-current portion into current portion and others are included.

(*2) Since there was conditional repurchase agreement existed when trading in-kind contributions of Lotte Cultureworks Co., Ltd, the estimated repurchased amounts for the future were classified as non-current financial liabilities at fair value through profit or loss.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

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35. Consolidated Statements of Cash Flows, continued

- (f) The company presented cash flows related to lease deposits(income) and lease deposits(expense) as operating cash flows on the cash flow statement until 2020. From the 2021, the cash flow was presented as investment activity cash flow and financial activity cash flow, respectively. In the case of preparing the comparatively indicated previous cash flow statement on the same basis as 2021, operating cash flows decreased ₩43,377 million, investing cash flows increased ₩67,670 million, financial cash flows decreased ₩24,294 million and there is no effect on agreed net assets, net income, net cash flow, and earnings (loss) per share.

36. Greenhouse Gases Emission Rights

- (a) Emission Right

The Company participates in the allocation and trading system of emissions from 2015. The third planned commitment period is from 2021 to 2025. The emissions were allocated to each compliance year as follows:

<u>Year</u>	<u>Emission (tCO2-eq)</u>
2020	679,878
2021	770,535

The Company has carried forward emission right of 70,693 tCO2-eq from the previous compliance period. There are no pledged emission rights as of the end of 2021, and the submitted emission rights to the government is 744,228 tCO2-eq in 2019 and 672,199 tCO2-eq in 2020. The Group has 784,374 tCO2-eq as of December 31, 2021.

- (b) Emission liabilities

The Company disposed of 35,604 tCO2-eq and 35,347 tCO2-eq of emission rights in 2021 and 2020 respectively and is estimated to emit 699,346 tCO2-eq in 2021.

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37. Operating Segment

(a) The Group reports the business segments based on the nature of goods and services to aid the decision making of top management as follows:

Classification	Department store	Discount store	Consumer electronics retail	Supermarket	TV home shopping	Cinema	E-Commerce	Others
Main business	Retail stores for middle and high-end merchandise	Retail and whole-sale stores for middle and low price merchandise	Consumer electronics	Retail and whole-sale stores for middle and low price merchandise	Business using broadcast channel	Movie and video screening business	Retail industry under e-commerce regulation	Others
Major products or services	Sales of merchandise and leasing		Sales of home appliance	Sales of merchandise and leasing	Sales of merchandise	Operating movie theaters	Sales of merchandise, leasing, etc.	
Major Customers	General Consumers							

(b) Information about reportable segments as of and for the years ended December 31, 2021 and 2020 are as follows:

(in millions of Korean won)

		2021								
		Department store	Discount store	Consumer electronics retail	Supermarket	TV home shopping	Cinema	E-commerce	Others	Total
Revenue from customers	₩	2,815,738	5,666,721	3,869,586	1,443,296	1,078,931	234,737	91,117	373,423	15,573,549
Inter-segment sales		72,327	49,277	162	9,035	23,794	56	17,117	151,743	323,511
Total segment sales	₩	2,888,065	5,715,998	3,869,748	1,452,331	1,102,725	234,793	108,234	525,166	15,897,060

(in millions of Korean won)

		2020								
		Department store	Discount store	Consumer electronics retail	Supermarket	TV home shopping	Cinema	E-commerce	Others	Total
Revenue from customers	₩	2,585,206	6,087,685	4,051,681	1,649,711	1,051,824	265,351	115,249	377,675	16,184,382
Inter-segment sales		69,934	70,903	48	6,826	24,041	348	22,647	128,626	323,373
Total segment sales	₩	2,655,140	6,158,588	4,051,729	1,656,537	1,075,865	265,699	137,896	506,301	16,507,755

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37. Operating Segment, continued

(c) Reconciliations of total segment sales and operating profit to their respective consolidated financial statements line items for the years ended December 31, 2021 and 2020 are as follows:

(in millions of Korean won)

		Sales		Operating profit	
		2021	2020	2021	2020
Department store	₩	2,888,065	2,655,140	348,763	327,707
Discount store		5,715,998	6,158,588	(31,903)	(13,504)
Consumer electronics retail		3,869,749	4,051,729	106,835	161,076
Supermarket		1,452,331	1,656,537	(5,181)	(20,071)
TV home shopping		1,102,726	1,075,865	102,040	125,193
Cinema		234,793	265,699	(132,313)	(160,442)
E-Commerce		108,234	137,896	(155,821)	(94,831)
Others		525,166	506,302	85,840	73,112
Segment total		15,897,062	16,507,756	318,260	398,240
Elimination of inter-segment amounts		(323,512)	(323,374)	(110,657)	(50,481)
Reclassification of income to discontinued operations		-	-	-	(1,676)
After consolidated adjustments	₩	15,573,550	16,184,382	207,603	346,083

(in millions of Korean won)

		Depreciation and amortization		Profit (loss) for the year	
		2021	2020	2021	2020
Department store	₩	616,927	576,762	930,946	(70,935)
Discount store		282,194	329,334	(22,588)	(467,154)
Consumer electronics retail		140,994	143,806	(57,292)	28,903
Supermarket		49,166	54,345	(91,810)	(54,535)
TV home shopping		30,352	26,589	56,384	101,588
Cinema		130,928	166,376	(212,625)	(235,380)
E-Commerce		31,305	20,999	(394,220)	(120,262)
Others		77,395	59,110	(131,656)	12,504
Segment total		1,359,261	1,377,321	77,139	(805,271)
Elimination of inter-segment amounts		(142,638)	(102,574)	(350,103)	118,702
Reclassification of income from discontinued operations		-	-	-	(23,679)
After consolidated adjustments	₩	1,216,623	1,274,747	(272,964)	(710,248)

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
As of December 31, 2021 and 2020

37. Operating Segment, continued

(d) Reconciliation of segment assets and liabilities to their respective consolidated financial statement line items as of December 31, 2021 and 2020 are as follows:

(in millions of Korean won)

		Assets		Liabilities	
		2021	2020	2021	2020
Department store	₩	17,429,356	17,312,152	12,869,991	13,359,745
Discount store		8,002,519	8,716,020	3,216,570	3,636,091
Consumer electronics retail		2,943,950	3,349,436	1,116,187	1,423,236
Supermarket		930,722	1,006,103	323,192	361,374
TV home shopping		2,450,792	1,525,077	671,675	484,813
Cinema		1,176,280	1,453,481	1,109,244	1,308,233
E-Commerce		260,633	205,618	275,881	127,512
Others		7,041,131	5,570,984	3,796,544	2,735,309
Segment total		40,235,383	39,138,871	23,379,284	23,436,313
Elimination of inter-segment amounts		(6,808,851)	(6,309,467)	(1,749,757)	(1,695,672)
After consolidated adjustments	₩	33,426,532	32,829,404	21,629,527	21,740,641

(e) Sales, before consolidated adjustments, by geographical areas for the years ended December 31, 2021 and 2020 are as follows:

(in millions of Korean won)

Region		2021	2020
Domestic	₩	14,601,561	15,075,343
China		36,202	38,828
Vietnam		284,756	351,582
Indonesia		974,543	1,041,838
Russia		-	164
Total	₩	15,897,062	16,507,755

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38. Contingencies and Commitments

(a) As of December 31, 2021, the Group has the following credit commitments with financial institutions:

<i>(in millions of Korean won, full foreign currency)</i>	<u>Currency</u>	<u>Credit line</u>	<u>Amount used under credit facility</u>
General loan	KRW	1,799,643	1,468,225
	CNY	248,000,000	248,000,000
	VND	1,985,000,000,000	941,900,000,000
	USD	742,000,000	742,000,000
	IDR	2,320,000,000,000	1,670,000,000,000
Discount of bill	KRW	640,000	240,000
Buyer's credit	KRW	300,000	31,296
Bank overdraft	KRW	62,000	-
Letter of credit and others	USD	37,000,000	14,256,656
Foreign currency payment guarantee	USD	138,000	21,000

(b) Material contracts of the Group are as follows:

1) LOTTE SHOPPING CO.,LTD.

In accordance with the management contracts with Lotte Incheon Development Co., Ltd., LOTTE STATION B/D.CO., Lotte Property & Development Co., Ltd. and CS MART CO., LTD, the Company is responsible for the operation of department stores, discount stores, shopping malls and supermarkets. In return, the Company receives 10% of operating profits (before depreciation expenses) for department stores, discount stores and supermarkets and 9% of operating profits (before depreciation expenses) for shopping malls as management fees which is recorded as other sales.

2) Woori Home Shopping & Television Co., Ltd.

Woori Home Shopping & Television Co. Ltd., a subsidiary of Group, has signed a partnership card issuance agreement with Lotte Card Co., Ltd. and BC Card Co., Ltd. This agreement will be renewed annually. In addition, Woori Home Shopping & Television Co.Ltd. is in contract with Lotte Global Logistics Co., Ltd., CJ Logistics Corporation and HANJIN CO., LTD for logistics services. In addition, it has a supply contract to broadcast programs with a number of cable TV broadcasters.

(c) As of December 31, 2021, the Group is involved in 32 lawsuits as a plaintiff totaling ₩62,054 million and the Group is involved in 45 lawsuits as a defendant totaling ₩54,037 million. Regarding 13 lawsuits as a defendant, the Group recorded ₩9,335 million as provisions.

Also, the Group is involved in 10 lawsuits as a defendant with damage related to victims of humidifier disinfectant totaling of ₩24,008 million and the Group recognized other liabilities of ₩2,234 million in regard to the claim on victims of humidifier disinfectant as of December 31, 2021.

The group management believes that the ultimate resolutions of other legal actions, except lawsuits above, will not have a material impact on the financial position or results of operations of the Group.

Also, Woori Home Shopping & Television Co., Ltd., a subsidiary of the Group, was subject to administrative disposition of 6 months suspension from the Ministry of science and ICT for 6hours (2AM~8AM) in accordance with article 18 clause 1 of the Broadcast Act. The lawsuit to request for cancellation of suspension and execution were filed and, suspension of execution was admitted.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of December 31, 2021 and 2020

38. Contingencies and Commitments, continued

The lawsuit between Lotte Properties (Chengdu) Limited, a subsidiary of the Group, and the Chinese government is in place regarding short-term financial instrument with restricted usage. It was frozen by the Chinese government in connection with land-raising payments. The Company recognizes impairment loss on short-term financial instrument with restricted usage (₩70,794 million) as 2021.

(d) As of December 31, 2021, the commitment limit of the secured loan of credit sales the Group has entered with KEB Hana Bank and others amounts to ₩1,038,000 million.

(e) Performance guarantees and others.

1) Lotte Shopping Co., Ltd.

As of December 31, 2021, the Company is provided performance guarantees totaling ₩49,986 million (117 cases) from Seoul Guarantee Insurance Company and others for its business.

2) Woori Home Shopping Co., Ltd.

As of December 31, 2021, Woori Home Shopping Co., Ltd., a subsidiary of Group, is provided the payment guarantee for product sales from the INDUSTRIAL BANK OF KOREA (₩6,000 million) and agreement performance guarantee form Seoul Guarantee Insurance Company (₩2,108 million).

3) Lotte Himart Co., Ltd.

As of December 31, 2021, Lotte Himart Co., Ltd., a subsidiary of Group, is provided the guarantees in relation with supply agreement with some suppliers, who require the guarantee, totaling ₩ 15,483 million from Seoul Guarantee Insurance Company.

4) LOTTE Town Dongtan Co.,LTD

As of December 31, 2021, LOTTE Town Dongtan Co., LTD. is provided the guarantees in relation with electric bill payments on Korea Electric Power Corporation, totaling of ₩1,470 million from Seoul Guarantee Insurance Company.

5) LOTTE Shopping Town Daegu Co., LTD

Lotte Shopping Town Daegu Co., LTD., a subsidiary, provides subordinated loans to Stown Daegu First, which provides a significant amount of withholding under the corporate tax law and special collection under the local tax law. In addition, Seoul Guarantee Insurance Company provides a guarantee of ₩5,126 million in safety management deposits for construction works with the insured as the Daegu Gyeongbuk Free Economic Zone Authority in connection with the Daegu Suseong Shopping Mall development project.

6) LOTTE Incheon Development Co., LTD

As of December 31, 2021, LOTTE Incheon Development Co., LTD. is provided the guarantees in relation with the implementation of agreement on construction safety management deposit and etc, totaling of ₩4,364 million from Seoul Guarantee Insurance Company.

(f) Brand usage contract, etc.

The Company and some subsidiaries have entered into contracts with Lotte Corporation for the use of brand, management consulting, and management support service as of December 31, 2021. The cost of use of brand is 0.15% of sales less advertising expenses. The Group pays for management consulting and management support service the amount allocated by Lotte Corporation, based on objective and reasonable allocation criteria, from the costs that have incurred in the course of performing such relevant business plus 5% of such allocated amount.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of December 31, 2021 and 2020

38. Contingencies and Commitments, continued

(g) As of December 31, 2021, the Company has designated the Company or a third party that requires the purchase of the entire credit loan receivable with respect to Lotte Capital Co., LTD. and KEB Hana bank in connection with the new collateral plan (₩50.8 billion, maturing on March 24th, 2022) of KORAMCO Specialty Investment Private Property Investment Trust No. 57.

(h) Lotte Cultureworks Co., Ltd, a subsidiary of the Group, issued common shares of 7,687,456 in exchange for common shares of 1,860,000 as in-kind contributions from Innocean Worldwide Inc. in 2019. At the issuance date, Lotte Cultureworks Co., Ltd. agreed to purchase all shares issued to the new owner with cash if Lotte Cultureworks Co., Ltd did not disclose the Company information to the public within a certain period of time based on agreement with the new owner. The Company does not oppose performance of such obligation unless it violates the law. The new owner cannot dispose the shares to the third party voluntarily nor provide it as pledged assets without consent from Lotte Cultureworks Co., Ltd. until the listing date. If the new owner wishes to sell the shares after the listing date, Lotte Cultureworks Co., Ltd. can exercise its preferential right to purchase directly or by designating the third party.

(i) In accordance with stock trading agreement on May 10, 2019 with the seller, the common shares of 2,060,000 from Innocean Worldwide Inc. cannot be disposed or provided as pledged assets without the prior consent from the seller until the listing date of Lotte Cultureworks Co., Ltd. Also, if the Group wishes to sell the shares from Innocean Worldwide Inc. after the listing date to the third party, the seller can exercise its preferential right to purchase directly or by designating the third party.

(j) As of December 31, 2021, the Company has provided investment commitments (LOC, LOA, LOU) to SC Bank and others in relation to loan agreements for the following subsidiaries; PT. LOTTE SHOPPING INDONESIA, LOTTE CINEMA VIETNAM CO., LTD., LOTTE VIETNAM SHOPPING JOINT STOCK COMPANY, LOTTE PROPERTIES HANOI CO., LTD. However, the investment commitment is not considered as payment guarantees.

(k) Lotte Cultureworks Co., Ltd. has purchased ₩3,000 million of subordinate debentures issued by Kodit 2020 the 13th & 15th Securitization Specialty Co., Ltd. of the SPC and the SPC has the right of pledge for the debentures. If there is a change in major shareholder or the credit rating falls below BBB+ for Lotte Cultureworks Co., Ltd, the early redemption of ₩10,000 million and ₩40,000 million is agreed in relation to the 20-3rd placed private equity bond.

(l) Lotte Incheon Town Co., LTD, a subsidiary, signed a joint agreement with J&D Development Co., Ltd. on October 23, 2020 to jointly conduct the development project of the Incheon Guwol Agricultural Products Wholesale Market. Under this agreement, J&D Development Co., Ltd. paid ₩184 billion to Lotte Incheon Town Co., LTD, 40% of the designated price of the project site, as an advance payment to acquire the beneficiary rights of the managed land trust. Lotte Incheon Town Co., LTD, invests ₩276 billion, 60% of the recognized price of the business site, in this project, while Lotte Incheon Town and J&D Development are promoting a joint project with a 60%:40% business stake. Under the joint agreement, Lotte Incheon Town Co., LTD, owns a real estate located in Yeonsu-gu, Incheon, and the real estate was invested for sale after completion. Under this agreement, Lotte Incheon Town Co., LTD, as a business execution representative, supervises the entire project, including business planning, licensing, financing, construction, completion, and sale, has 60% of the profits from the sale and pays 60% of the joint costs.

(m) The Group has a call option to exercise 70.26% of its shares in used countries held by affiliated companies, Eugene Unicorn Private Equity Investment Co. and other investors from the date of first acquisition to the third year.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of December 31, 2021 and 2020

38. Contingencies and Commitments, continued

(n) Others

The Group disposed of land and buildings to structured entities and the Group has been leasing back the assets and the details are as follows:

1) The Group disposed of land and buildings of 3 stores including Lotte mart Jeju store to KTB Confidence Private Real Estate Investment Trust No.29 for ₩220 billion in 2008 and the Group has been leasing back the assets. The Group has the preemptive options to purchase the land and the building at a fair value at the end of the lease. During the year 2020, the operation for Lotte mart Hangdong store was discontinued.

2) The Group disposed of land and buildings of 6 stores including Lotte department store Bundang store to Lotte Retail Real Estate Investment Trust No.1~4 for ₩594.9 billion in 2010 and 2011, and the Company has been leasing back the assets. The Group has the preemptive options to purchase the land and the building at a fair value at the end of the lease. During the year 2020, the operation for Lotte mart Guro, Dobong store was discontinued.

3) The Group has been leasing the building of Lotte outlet Asiapolis store from KB Star Retail Private Real Estate Investment Trust No.1 since 2013 and the Group has the preferential right of negotiation to purchase the building.

4) In 2014, the Group disposed of land and buildings of 2 Lotte department stores including Ilsan store and 5 Lotte mart stores including Bupyeong store to KB Lotte Master Lease Private Real Estate Investment Trust No.1 for ₩601.7 billion and the Group has been leasing back the assets. The Group disposed land and buildings of 2 Lotte department stores including Dongrae store and 3 Lotte mart stores including Sung Jung store to Capstone Private Real Estate Investment Trust No.11 for ₩500.1 billion and the Group has been leasing back the assets. The Group has the preferential right of negotiation to purchase the land and the building at the end of the lease.

5) In 2015, the Group disposed land and buildings of Lotte outlets store Gwang Myeong to KTB Confidence Private Real Estate Investment Trust No.55 for ₩146.9 billion and the Group has been leasing the assets. And the Group disposed of land and buildings of Lotte mart Yangdeok to KTB Confidence Private Real Estate Investment Trust No.81 for ₩55.1 billion and the Group has been leasing back the assets. The Group has the preferential right of negotiation to purchase the land and the building at the end of the lease.

6) During 2018, the land and buildings of Lotte Mart's Geumcheon branch are sold for ₩64.2 billion to the KORAMCO Specialty Investment Private Property Investment Trust No.82 and the Group has been leasing back from KORAMCO respectively. The Group has the preferential right of negotiation to purchase the land and the building at the end of the lease.

The Group does not consolidate these structured entities.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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39. Inter Company Transactions and Balances with Consolidated Companies

(a) The Company has provided payment guarantees and collaterals for consolidated companies as of December 31, 2021 as follows:

(Foreign Currency)

Consolidated company	Guarantee recipient	Guaranteed amount	Guarantee period	Remarks
Subsidiaries				
Lotte Department Store (Chengdu) Co., Ltd.	KEB Hana Bank	CNY 220,000,000	May 28, 2021 ~ May 27, 2022	
		CNY 20,000,000	May 28, 2021 ~ May 27, 2022	
PT. LOTTE MART INDONESIA	Standard Chartered Bank Korea Ltd.	IDR 300,000,000,000	April 13, 2021 ~ April 13, 2022	
	Shinhan Bank	IDR 250,000,000,000	April 14, 2021 ~ April 14, 2022	
	KEB Hana Bank	USD 29,000,000	February 25, 2021 ~ February 25, 2022	
Lotte Cinema Vietnam Co., Ltd.	Standard Chartered Bank Korea Ltd	USD 25,000,000	Sept 22, 2021 ~ Sept 21, 2022	
	The Export-Import Bank of Korea	USD 20,000,000	July 2, 2019 ~ July 1 2022	
		USD 9,000,000	Sept 30, 2021 ~ Sept 29, 2022	Payment guarantee for financing
	KEB Hana Bank	USD 10,000,000	Jan 21, 2020 ~ Jan 20, 2023	
		USD 6,000,000	March 25, 2020 ~ March 24, 2023	
		USD 20,000,000	June 23, 2021 ~ June 23, 2022	
LOTTE PROPERTIES (CHENGDU) HK LIMITED	KOOKMIN BANK	USD 165,000,000	March 12, 2021 ~ March 11, 2022	
	NongHyup Bank	USD 60,000,000	March 15, 2021 ~ March 15, 2022	
	Shinhan Bank	USD 30,000,000	November 16, 2021 ~ November 15, 2022	
	Woori Bank	USD 30,000,000	November 16, 2021 ~ November 15, 2022	
	Industrial and Commercial Bank of China	USD 30,000,000	November 16, 2021 ~ November, 15 2022	

(b) The Company entered into and maintain an agreement to jointly provide financial support for Suwon Landmark 4th Co., Ltd., Suwon Landmark 5th Co., Ltd., LIT 1st Co., Ltd., KS 1st Co., Ltd., LD1Q 1st, NHLD 1st, S Bright Dongtan, Woori Lotte Dongtan 1st, SIncheon Development 1st Co., Ltd, LST 2nd and LOTTE Shopping Town Daegu Co., LTD 1st in default of the principal and interest on the asset backed commercial paper (₩195,000,000 thousand of par value, maturing on May 28, 2024) of LOTTE Suwon Station Shopping Town CO., LTD., the asset backed loan (₩155,000,000 thousand of par value, maturing on May 23, 2022) issued by Lotte Incheon Town Co., Ltd., the asset backed commercial paper (₩68,000,000 thousand of par value, maturing on April 21, 2022) by Lotte Ulsan Development Co., Ltd., the asset backed loan (₩490,000,000 thousand of par value, maturing on October 28, 2024) by LOTTE Town Dongtan Co., LTD, the asset backed commercial paper (₩120,000,000 thousand of par value, maturing on June 24, 2022) by Lotte Incheon Development Co., Ltd, the asset backed commercial paper (₩100,000,000 thousand of par value, maturing on May 31, 2022) by Lotte Song-do Shopping Town Co., Ltd, the asset backed commercial paper (₩195,000,000 thousand of par value, maturing on June 16, 2022) by Lotte Shopping Town Daegu Co., Ltd. Regarding above agreements, the Company will supplement capital if the issuers cannot repay the principal and interest. Regarding When the Company fails to satisfy with the credit ranking maintenance clause in accordance with funds supplementation agreement regarding LOTTE Town Dongtan Co., LTD., the benefit of time may be lost.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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39. Inter Company Transactions and Balances with Consolidated Companies, continued

- (c) The Company has provided rent payment guarantees for Lotte Suwon Station Shopping Town Co., Ltd. during the term of the lease (20 years) from the beginning of the lease contract in 2014.

40. Related Party Transactions

- (a) Details of the Company's major shareholders as of December 31, 2021 are as follows:

Related company	Percentage of ownership (%)
Lotte Corporation (*)	40.00
Hotel Lotte Co., Ltd.	8.86
Hotel Lotte Pusan Co., Ltd.	0.78

(*) It has a significant influence over the Company.

- (b) Transactions which occurred in the normal course of business with related companies for the years ended December 31, 2021 and 2020 are as follows:

(in millions of Korean won)

Name of related parties	2021				
	Sales	Purchase	Acquisition of property, plant and equipment and intangible assets	Other income (*2,3)	Other expenses (*3)
Shareholders:					
Lotte Corporation	₩ 4,417	-	-	-	33,482
Hotel Lotte Co., Ltd.	68,250	559	-	103	36,352
Hotel Lotte Pusan Co., Ltd.	3,457	-	2,003	-	7,819
Subtotal	76,124	559	2,003	103	77,653
Associates:					
FRL Korea Co., Ltd.	27,357	-	-	-	-
Zara Retail Korea	10,567	-	-	-	-
LOTTE CARD Co., Ltd	3,610	-	-	315	177,314
Others	2,793	5,661	-	120	4,796
Subtotal	44,327	5,661	-	435	182,110
Others (*1):					
Lotte Engineering & Construction Co., Ltd.	1,615	-	393,451	0	2,173
Lotte Confectionery Co., Ltd.	5,973	52,580	-	-	14,015
Lotte Chilsung Beverage Co., Ltd.	10,799	52,370	-	40	137
Lotte Data Communication Company (*4)	1,371	-	52,126	-	177,694
Daehong Communications Co., Ltd.	702	-	-	-	25,932
Lotte Station B/D. Co., Ltd.	9,915	687	-	554	1,073
Lotte GRS Co., Ltd.	9,329	937	-	23	3,330
Lotte International Co., Ltd.	1,325	121,455	-	-	3
LOTTE FOOD CO., LTD.	3,505	78,588	-	11	7,338
LOTTE ALUMINIUM CO., LTD.	87	6,355	2,029	45	8,629
Lotte Global Logistics Co., Ltd.	5,033	36	44,045	-	279,929
Korea Fuji Film Co., Ltd.	458	159	-	2	0
LOTTE Property&Development(*5)	15,589	-	-	831,471	33,349
LOTTE ASSET DEVELOPMENT CO.,LTD.(*6)	2,755	-	542	321	43,985
Korea Seven Co., Ltd.	4,946	39	-	236	1,033
Others	14,650	9,230	29,616	2,195	120,944
Subtotal	88,052	322,436	521,809	834,898	719,564
Total	₩ 208,503	328,656	523,812	835,436	979,327

(*1) Although the entities are not related parties under K-IFRS No.1024, the entities are considered to be part of the Large Enterprise Group in accordance with the Monopoly Regulation and Fair Trade Act and overseas affiliates.

(*2) Other income includes disposals of property, plant and equipment.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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40. Related Party Transactions, continued

(b) Transactions which occurred in the normal course of business with related companies for the years ended December 31, 2021 and 2020 are as follows:, continued

(*3) The Group has entered into lease agreements with related parties. As a result, interest income received in accordance with amortization of lease receivables and interest expense paid in accordance with amortization of lease liabilities for the year ended December 31, 2021 are included in other income and expenses.

(*4) Other expenses include ₩6,800 million in the mobile gift certificate business transferred from Lotte Data Communication Company. (Note 44)

(*5) The Company signed a Sale and leaseback contract with LOTTE Property&Development as 2021, Other sales include ₩831,365 million in sale of Lotte World Tower shares.

(*6) Other expenses include ₩42,670 million in the Shopping-mall business transferred from LOTTE ASSET DEVELOPMENT CO., LTD. (Note 44)

(in millions of Korean won)

Name of related parties	2020				
	Sales	Purchase	Acquisition of property, plant and equipment and intangible assets	Other income (*2,3)	Other expenses (*3)
Shareholders:					
Lotte Corporation	₩ 4,397	-	-	5	34,139
Hotel Lotte Co., Ltd.	58,994	8,920	42	38	40,148
Hotel Lotte Pusan Co., Ltd.	4,695	-	189	92	8,571
Subtotal	68,086	8,920	231	135	82,858
Associates:					
FRL Korea Co., Ltd.	24,812	-	-	-	13
Zara Retail Korea	9,548	-	-	-	-
LOTTE CARD Co, Ltd	3,437	-	-	422	168,528
Others	378	-	-	3	243
Subtotal	38,175	-	-	425	168,784
Others (*1):					
Lotte Engineering & Construction Co., Ltd.	1,099	626	386,761	-	674
Lotte Confectionery Co., Ltd.	9,242	61,394	-	0	9,560
Lotte Chilsung Beverage Co., Ltd.	7,749	55,610	-	42	309
Lotte Data Communication Company	1,139	299	50,570	93	147,157
Daehong Communications Co., Ltd.	48	168	-	-	23,514
Lotte Station B/D Co., Ltd.	13,264	-	-	17	1,288
Lotte GRS Co., Ltd.	9,827	670	-	22	3,295
Lotte International Co., Ltd.	885	121,117	-	9	11
LOTTE FOOD CO., LTD.	3,686	98,472	-	0	8,784
LOTTE ALUMINIUM CO., LTD.	71	6,142	1,881	29	9,385
Lotte Global Logistics Co., Ltd.	2,079	1,040	177	328	288,176
Korea Fuji Film Co., Ltd.	747	57	-	5	24
LOTTE Property&Development	23,464	-	2,531	66	33,731
LOTTE ASSET DEVELOPMENT CO.,LTD.	34,883	-	1,694	3,999	19,832
Korea Seven Co., Ltd.	2,665	90	-	656	919
Others	19,661	11,577	8,433	1,598	107,929
Subtotal	130,509	357,262	452,047	6,864	654,588
Total	₩ 236,770	366,182	452,278	7,424	906,230

(*1) Although the entities are not related parties under K-IFRS No.1024, the entities are considered to be part of the Large Enterprise Group in accordance with the Monopoly Regulation and Fair Trade Act and overseas affiliates.

(*2) Other income includes disposals of property, plant and equipment.

(*3) The Group has entered into lease agreements with related parties. As a result, interest income received in accordance with amortization of lease receivables and interest expense paid in accordance with amortization of lease liabilities for the year ended December 31, 2021 are included in other income and expenses.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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40. Related Party Transactions, continued

(c) Fund transactions with related parties for the year ended December 31, 2021 and 2020 are as follows:

(in millions of Korean won)

Name of related parties		2021			
		Borrowing	Cash contribution	Stock purchase	Collection
Associates:					
LOTTE-KDB Open Innovation Fund.	₩	-	7,800	-	-
Eugene Unicorn Private Equity Investment Co., Ltd.		-	30,000	-	-
Chorokbaem Media Co.,Ltd.		-	25,000	-	-
Stonebridge innovation quarter investment fund		-	-	-	3,600
Busan Lotte creative movie fund		-	-	-	7,650
Hemisphere Film Investors II LLC		-	-	-	1,235
Hemisphere Film Investors III LLC		-	-	-	649
IBK-ISU		-	-	-	350
Others (*1):					
LOTTE CAPITAL Co., Ltd. (*2)		85,000	-	-	-
LOTTE ASSET DEVELOPMENT CO.,LTD.		-	-	72,381	-
LOTTE Property & Development (*3)		59,668	-	-	-
Total	₩	144,668	62,800	72,381	13,484

(*1) Although the entities are not related parties under K-IFRS No.1024, the entities are considered to be part of the Large Enterprise Group in accordance with the Monopoly Regulation and Fair Trade Act and overseas affiliates.

(*2) Amount includes borrowings from Lotte Capital incurred via Sbright Dongtan and Suwon Landmark 4th (₩40,000 million and ₩25,000 million, respectively).

(*3) The Company purchased common shares amounting to ₩30,100 million of PROPERTIES (HANOI) SINGAPORE PTE. LTD. and ₩42,282 million of Lotte Shopping town Daegu Co., LTD from LOTTE Property & Development

(in millions of Korean won)

Name of related parties		2020		
		Borrowing	Repayment	Stock purchase
Associates:				
Lotte start-up fund No. 1	₩	-	-	1,800
Others (*):				
LOTTE ASSET DEVELOPMENT CO., LTD		7,041	7,041	-
Lotte Capital Lease & Finance (China) Co., Ltd. and others		-	7,956	-
Total	₩	7,041	14,997	1,800

(*) Although the entities are not related parties under K-IFRS No.1024, the entities are considered to be part of the Large Enterprise Group in accordance with the Monopoly Regulation and Fair Trade Act and overseas affiliates.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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40. Related Party Transactions, continued

(d) Account balances with related companies as of December 31, 2021 and 2020 are summarized as follows:

(in millions of Korean won)

Name of related parties	2021						
	Receivables			Payables			
	Trade receivables	Financial lease receivables	Other receivables	Trade payables	Borrowings	Lease liabilities	Other payables
Shareholders:							
Lotte Corporation	₩ 14	-	14,263	-	-	93,688	2,715
Hotel Lotte Co., Ltd.	1,624	-	57,204	1	-	246,093	12,252
Hotel Lotte Pusan Co., Ltd.	-	-	17,575	-	-	31,426	5,027
Subtotal	1,638	-	89,042	1	-	371,207	19,994
Associates:							
FRL Korea Co., Ltd.	735	-	-	-	-	-	20,268
Zara Retail Korea Co., Ltd.	-	-	-	-	-	-	5,321
LOTTE CARD Co., Ltd. (*2)	87,992	-	4,256	-	-	-	16,210
Others	282	6,179	1,156	63	-	23,879	1,343
Subtotal	89,009	6,179	5,412	63	-	23,879	43,142
Others (*1):							
Lotte Engineering & Construction Co., Ltd.	340	-	4,003	-	-	1,100	25,863
Lotte Confectionery Co., Ltd.	12	-	1,353	4,800	-	4,312	1,065
Lotte Chilsung Beverage Co., Ltd.	1,406	-	3,810	5,591	-	208	11,768
Lotte Data Communication Company	-	169	1,901	650	-	1,851	25,861
Daehong Communications Co., Ltd.	984	-	22	-	-	-	8,402
Lotte Station B/D Co., Ltd.	3,407	-	10,621	-	-	10,172	7,938
Lotte GRS Co., Ltd.	11	884	808	113	-	-	5,967
Lotte International Co., Ltd.	1	-	0	5,138	-	-	166
LOTTE FOOD CO., LTD.	2	1,099	2,309	5,238	-	705	12,535
LOTTE ALUMINIUM CO., LTD.	0	-	11	578	-	-	1,901
Lotte Global Logistics Co., Ltd.	409	-	1,373	-	-	19,216	31,131
Korea Fuji Film Co., Ltd.	1	75	2	39	-	-	529
LOTTE Property & Development	2,887	1,168	8,746	-	59,668	433,630	5,996
LOTTE ASSET DEVELOPMENT CO., LTD	-	-	7	-	-	-	633
Others	6,659	83	8,025	1,525	85,000	9,544	13,947
Subtotal	16,119	3,478	42,991	23,672	144,668	480,738	153,702
Total	₩ 106,766	9,657	137,445	23,736	144,668	875,824	216,838

(*1) Although the entities are not related parties under K-IFRS No.1024, the entities are considered to be part of the Large Enterprise Group in accordance with the Monopoly Regulation and Fair Trade Act and overseas affiliates.

(*2) The receivable amount from consumer sales in trade receivables is included.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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40. Related Party Transactions, continued

(d) Account balances with related companies as of December 31, 2021 and 2020 are summarized as follows:, continued
(in millions of Korean won)

Name of related parties	2020						
	Receivables			Payables			
	Trade receivables	Financial lease receivables	Other receivables	Trade payables	Borrowings	Lease liabilities	Other payables
Shareholders:							
Lotte Corporation	₩ 6	-	14,026	-	-	100,802	877
Hotel Lotte Co., Ltd.	1,662	-	51,936	3	-	338,248	33,242
Hotel Lotte Pusan Co., Ltd.	-	-	20,035	-	-	28,127	1,586
Subtotal	1,668	-	85,997	3	-	467,177	35,705
Associates:							
FRL Korea Co., Ltd.	852	-	-	-	-	-	12,449
Zara Retail Korea Co.,Ltd	-	-	-	-	-	-	3,504
LOTTE CARD Co.,Ltd. (*2)	29,929	96	212	1	-	-	23,050
Others	69	-	-	-	-	-	110
Subtotal	30,850	96	212	1	-	-	39,113
Others (*1):							
Lotte Engineering & Construction Co., Ltd.	31	-	7,620	-	-	1,176	51,006
Lotte Confectionery Co., Ltd.	240	-	1,099	5,848	-	4,741	1,671
Lotte Chilsung Beverage Co., Ltd.	729	-	3,952	4,631	-	476	9,871
Lotte Data Communication Company	-	-	18,830	-	-	4,797	22,505
Daehong Communications Co., Ltd.	189	-	12	-	-	-	8,237
Lotte Station B/D Co., Ltd.	2,888	-	10,958	-	-	12,345	7,894
Lotte GRS Co., Ltd.	26	927	698	14	-	-	6,421
Lotte International Co., Ltd.	-	-	752	8,915	-	-	546
LOTTE FOOD CO., LTD.	-	169	1,280	7,198	-	854	12,446
LOTTE ALUMINIUM CO., LTD.	-	-	6	1,035	-	-	2,615
Lotte Global Logistics Co., Ltd.	79	-	1,458	76	-	1,415	30,377
Korea Fuji Film Co., Ltd.	5	102	0	4	-	-	635
LOTTE Property & Development	-	-	4,882	-	54,554	514,586	4,887
LOTTE ASSET DEVELOPMENT CO., LTD	408	135,028	15,424	-	-	11,393	22,020
Others (*3)	8,907	5,997	8,558	1,142	105,426	33,360	12,694
Subtotal	13,502	142,223	75,529	28,863	159,980	585,143	193,825
Total	₩ 46,020	142,319	161,738	28,867	159,980	1,052,320	268,643

(*1) Although the entities are not related parties under K-IFRS No.1024, the entities are considered to be part of the Large Enterprise Group in accordance with the Monopoly Regulation and Fair Trade Act and overseas affiliates.

(*2) The receivable amount from consumer sales in trade receivables is included.

(*3) Borrowings from LOTTE Holdings in the amount of ₩105,426 million is included.

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40. Related Party Transactions, continued

(e) The amount of lease payments receivable collection and lease liability payment for the year ended December 31, 2021 and 2020 are as follows:

(in millions of Korean won)

Name of related parties	2021	
	Collection of lease payments receivable (*2)	Payment of lease liabilities (*3)
Shareholders:		
Lotte Corporation	₩ -	10,954
Hotel Lotte Co., Ltd.	-	80,480
Hotel Lotte Pusan Co., Ltd.	-	13,664
Subtotal	-	105,098
Associates:		
Lotte Card Co, Ltd.	67	-
Others	15	3,408
Subtotal	82	3,408
Others (*1):		
LOTTE Property & Development	-	48,463
Lotte Station B/D Co., Ltd.	-	2,471
Korea Seven Co.,Ltd.	-	2,192
Korea Fuji Film Co., Ltd.	29	-
Lotte Engineering & Construction Co., Ltd.	-	106
Lotte Data Communication Company	-	1,158
LOTTE ASSET DEVELOPMENT CO., LTD	1,180	123
Others	477	5,943
Subtotal	1,686	60,456
Total	₩ 1,768	168,962

(*1) Although the entities are not related parties under K-IFRS No.1024, the entities are considered to be part of the Large Enterprise Group in accordance with the Monopoly Regulation and Fair Trade Act and overseas affiliates.

(*2) Interest income received for lease payments receivable is included.

(*3) Interest expense paid for lease liabilities is included.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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40. Related Party Transactions, continued

- (e) The amount of lease payments receivable collection and lease liability payment for the year ended December 31, 2021 and 2020 are as follows:, continued

(in millions of Korean won)

Name of related parties		2020	
		Collection of lease payments receivable (*2)	Payment of lease liabilities (*3)
Shareholders:			
Lotte Corporation	₩	-	10,481
Hotel Lotte Co., Ltd.		-	81,792
Hotel Lotte Pusan Co., Ltd.		-	14,067
Subtotal		-	106,340
Associates:			
Lotte Card Co., Ltd.		68	-
Others (*1):			
LOTTE Property & Development		-	40,179
Lotte Station B/D Co., Ltd.		-	2,488
Korea Seven Co.,Ltd.		66	2,675
Korea Fuji Film Co., Ltd.		82	-
Lotte Engineering & Construction Co., Ltd.		-	78
Lotte Data Communication Company		-	4,164
LOTTE ASSET DEVELOPMENT CO., LTD		14,157	1,012
Others		221	2,427
Subtotal		14,526	53,023
Total	₩	14,594	159,363

(*1) Although the entities are not related parties under K-IFRS No.1024, the entities are considered to be part of the Large Enterprise Group in accordance with the Monopoly Regulation and Fair Trade Act and overseas affiliates.

(*2) Interest income received for lease payments receivable is included.

(*3) Interest expense paid for lease liabilities is included.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
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40. Related Party Transactions, continued

- (f) Details of payment guarantees and collateral provided by the Group for the financial supports to the related parties as of December 31, 2021 are as follows, and no collateral and payment guarantees are provided by the related parties:

(in USD)

<u>Name of company</u>	<u>Guaranteed by</u>	<u>Guaranteed amount</u>	<u>Guarantee period</u>	<u>Remarks</u>
Joint ventures				
International Business Center Company Limited	DBS	USD 6,000,000	April 1, 2021 ~ April 1, 2022	Working capital
	The Export-Import Bank of Korea	USD 6,000,000	April 2, 2021 ~ April 1, 2022	Working capital
Lotte Entertainment Vietnam Co, Ltd.	Shinhan Bank	USD 1,860,000	October 27, 2021 ~ October 27, 2022	Working capital

- (g) The Group entered into and maintain an agreement to receive fund supplements from LOTTE Property & Development if Lincheon the first Co., Ltd. and Lincheon the second Co., Ltd., the issuers, are in default of the principal and interest on the asset backed loan (₩800,000 million of par value maturing on February 23, 2023) of Lotte Incheon Development Co., Ltd.

- (h) Details of purchased card transactions with Lotte Card Co., Ltd. as of December 31, 2021 are as follows:

(in millions of Korean won)

<u>Classification</u>	<u>Name of corporation</u>	<u>Contractual amount</u>	<u>Used amount</u>	<u>Repayment</u>	<u>Unsettled amount</u>
	Lotte Shopping Co., Ltd.	₩ 240,000	1,647,489	1,647,489	-
	Lotte Himart Co., Ltd.	150,000	2,011,831	2,011,831	-
In the perspective of user	Lotte Incheon Development Co., Ltd	30,000	82,380	82,380	-
	Lotte Cultureworks Co., Ltd.	20,000	11,205	12,198	-

41. Risk Management

- (a) Management of financial risks

- (i) Objectives and policies of the Group

Risk management activities of the Group identify credit risk, liquidity risk, market risk and any other potential risk that may affect financial performance and by eliminating, avoiding and abating the possible risk level to an acceptable range and to support to a stable and consistent business performance with the intention to contribute to strengthening the Group's competitiveness by reducing costs of finance through improving the financial structure and enhancing the efficiency of its capital operations.

In order to establish and implement the financial risk management system, the Group has established risk management policies in an integrated perspective and is complying with the risk management policies and procedures by strictly performing controls and reviews by management.

- (ii) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations in an ordinary transaction or investment activity.

Most of the Group's profit is generated from individual clients and carries low credit risk. Also, the Group deposits its cash and cash equivalents and short-term financial instruments with financial institutions. Credit risks from these financial institutions are very limited due to their high solvency.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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41. Risk Management, continued

(a) Management of financial risks, continued

(ii) Credit risk, continued

① Exposure to credit risk

The book value of a financial asset represents the maximum exposure to credit risk. The maximum exposures to credit risk as of December 31, 2021 and 2020 are as follows:

<i>(in millions of Korean won)</i>		2021	2020
Cash equivalent (*1)	₩	2,384,830	1,895,702
Trade and other receivables		721,166	859,816
Other financial assets (current)		2,074,555	2,134,188
Other financial assets (non-current) (*2)		1,273,362	1,221,251
Total	₩	<u>6,453,913</u>	<u>6,110,957</u>

(*1) Cash held by the Group are excluded as there is no exposure to credit risk.

(*2) Equity instruments at fair value through other comprehensive income are excluded as there is no exposure to credit risk.

② Credit risk exposure for past due and impairment loss of financial assets

Trade and other receivables before deducting the allowance for doubtful accounts as of December 31, 2021 and 2020 are as follows:

<i>(in millions of Korean won)</i>		2021			2020		
		Total carrying amount	Probability of default	Allowance for doubtful accounts	Total carrying amount	Probability of default	Allowance for doubtful accounts
Not past due	₩	708,592	0.13%	904	879,578	4.30%	37,784
0 ~ 3 months past due		10,001	26.12%	2,612	11,401	5.06%	577
3 ~ 6 months past due		4,323	46.94%	2,029	4,325	14.14%	612
6 ~ 9 months past due		4,017	50.96%	2,047	3,009	37.05%	1,115
9 ~ 12 months past due		1,811	61.69%	1,117	1,120	47.12%	528
12 ~ 15 months past due		1,182	43.39%	513	1,545	60.31%	931
15 months past due		25,310	98.17%	24,847	19,761	98.05%	19,376
Total	₩	<u>755,236</u>	-	<u>34,069</u>	<u>920,739</u>	-	<u>60,923</u>

Other financial assets (current) before deducting the allowance for doubtful accounts as of December 31, 2021 and 2020 are as follows:

<i>(in millions of Korean won)</i>		2021			2020		
		Total carrying amount	Probability of default	Allowance for doubtful accounts	Total carrying amount	Probability of default	Allowance for doubtful accounts
Not past due	₩	2,074,555	-	-	2,134,188	-	-
15 months past due		34	100%	34	34	100%	34
Total	₩	<u>2,074,589</u>	-	<u>34</u>	<u>2,134,222</u>	-	<u>34</u>

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
As of December 31, 2021 and 2020

42. Risk Management, continued

(a) Management of financial risks, continued

(ii) Credit risk, continued

② Credit risk exposure for past due and impairment loss of financial assets, continued

Other financial assets (non- current) before deducting the allowance for doubtful accounts as of December 31, 2021 and 2020 are as follows:

(in millions of Korean won)

	2021			2020		
	Total carrying amount	Probability of default	Allowance for doubtful accounts	Total carrying amount	Probability of default	Allowance for doubtful accounts
Not past due	₩ 1,273,363	0.09%	1,111	1,222,287	0.08%	1,036
9~12 months past due	1,000	100.00%	1,000	-	-	-
15 months past due	1,678	33.80%	567	2,567	100.00%	2,567
Total	₩ 1,276,041	-	2,678	1,224,854	-	3,603

Movements in the allowance for doubtful trade and other receivables for the years ended December 31, 2021 and 2020 are as follows:

(in millions of Korean won)

	2021	2020
Beginning Balance	₩ 60,922	91,444
Provision	11,441	9,536
Reversal of impairment loss	(5,876)	(14,324)
Write-offs	(10,160)	(26,496)
Collections	(25,734)	-
Others	3,475	762
Ending balance	₩ 34,068	60,922

Movements in the allowance for doubtful other financial assets (current) for the years ended December 31, 2021 and 2020 are as follows:

(in millions of Korean won)

	2021	2020
Beginning Balance	₩ 34	34
Provision	-	-
Write-offs	-	-
Ending balance	₩ 34	34

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41. Risk Management, continued

(a) Management of financial risks, continued

(ii) Credit risk, continued

② Credit risk exposure for past due and impairment loss of financial assets, continued

Movements in the allowance for doubtful other financial assets (non-current) for the years ended December 31, 2021 and 2020 are as follows:

(in millions of Korean won)

		<u>2021</u>	<u>2020</u>
Beginning Balance	₩	3,604	6,504
Provision		1,075	36
Write-offs		(2,000)	-
Others		-	(2,936)
Ending balance	₩	<u>2,679</u>	<u>3,604</u>

③ Payment guarantees

As of December 31, 2021, the Group has provided financial guarantees to associates and joint ventures amounting to ₩16,431 million

(iii) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset due to an adverse managerial or external environment.

In order to systematically manage liquidity risk, the Group predicts and corresponds to potential risks through consistently analyzing the schedule of cash flow and establishing short-term and long-term capital management plans.

Also, the Group currently deposits a considerable amount with financial institutions with superior credit ratings to make proper provisions for potential liquidity risks. The Group maintains a credit line for overdraft and general loans with various financial institutions and can raise funds through the domestic and foreign financial markets based on high credit ratings. The management of the Group believes that it is possible to redeem liabilities using cash flows from operating activities and cash in-flow from financial assets.

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41. Risk Management, continued

(a) Management of financial risks, continued

(iii) Liquidity risk, continued

Aggregate maturities of financial liabilities, including estimated interest, as of December 31, 2021 are as follows:

(in millions of Korean won)

		2021					Contractual Cash Flow
		Book Value	3 months or less	3 ~ 6 months	6 months ~ 1 year	More than 1 year	
Trade payables and other payables	₩	2,419,870	2,414,037	4,647	1,186	-	2,419,870
Borrowings and debentures (current) (*1,2)		3,564,742	1,375,968	1,231,684	1,220,381	-	3,828,033
Other financial liabilities (current) (*3)		1,081,572	569,507	247,314	465,059	-	1,281,880
Borrowings and debentures (non- current) (*1, 2)		6,388,234	36,840	37,218	75,241	7,394,416	7,543,715
Other financial liabilities (non- current) (*3)		5,434,630	2,020	848	1,526	6,799,705	6,804,099
Financial guarantee contract		804	16,431	-	-	-	16,431
Total	₩	18,889,852	4,414,803	1,521,711	1,763,393	14,194,121	21,894,028

(*1) Interest expenses are included.

(*2) It is possible to be forfeited the benefit of time when the Group fails to meet the clause in agreement regarding borrowings and debentures (maintenance of financial ratio and credit rating, etc.).

(*3) Lease liabilities are included.

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

(iv) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the Group's return.

The Group buys and sells derivatives, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out under strict supervision of the internal risk management, and generally, the Group seeks to apply hedge accounting in order to manage volatility in profit or loss.

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41. Risk Management, continued

(a) Management of financial risks, continued

(iv) Market risk, continued

① Currency risk

The Group is exposed to currency risk on assets and liabilities that are denominated in currencies other than Korean won, the respective functional currency of the Group. Currencies that generate exchange positions include USD, JPY and others. The objective of exchange risk management is to continue stable financial activities by minimizing uncertainty and profit and loss fluctuations. Foreign currency trade for speculation is strictly prohibited.

The Group enters into currency swap transactions with financial institutions to hedge currency risks of foreign currency denominated borrowings and debentures. When the Group needs foreign currencies, the Group enters into a forward exchange contract with major financial institutions to avoid the risks of exchange rate fluctuations.

Assets and liabilities denominated in foreign currencies other than the Group's functional currency as of December 31, 2021 and 2020 are as follows:

(in millions of Korean won)

		2021		2020	
		Assets	Liabilities	Assets	Liabilities
USD	₩	488,976	1,314,031	358,317	1,388,073
EUR		89	2,079	(0)	31
JPY		-	-	-	105,426
HKD		-	-	357	-
CNY		6,698	-	4,921	-
TWD		-	-	1,694	-
AUD		-	3	-	-
Total	₩	495,763	1,316,113	365,289	1,493,530

The average rates for the years ended December 31, 2021 and 2020, and the closing rates as of December 31, 2021 and 2020 are as follows:

(in Korean won)

		Average rate		Closing rate	
		2021	2020	2021	2020
USD	₩	1,144.42	1,180.05	1,185.50	1,088.00
EUR		1,352.79	1,345.99	1,342.34	1,338.24
JPY		10.4145	11.0507	10.3024	10.5426
HKD		147.23	152.14	152.03	140.35
CNY		177.43	170.88	186.26	166.96
TWD		41.00	40.07	42.84	38.67
AUD		859.42	813.48	858.89	836.56

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41. Risk Management, continued

(a) Management of financial risks, continued

(iv) Market risk, continued

① Currency risk, continued

The Group regularly measures exchange risks on Korean won against foreign currency fluctuations. The Group assumes that foreign currency exchange rates fluctuate 10% at the end of reporting period with all other variables held constant. Sensitivity analysis of income before taxes from changes of foreign currency exchange rate are as follows. Borrowings and debentures with currency swaps are not included.

<i>(in millions of Korean won)</i>		2021		2020	
		10% increase	10% decrease	10% increase	10% decrease
USD	₩	45,886	(45,886)	14,781	(14,781)
EUR		(199)	199	(3)	3
HKD		-	-	36	(36)
CNY		670	(670)	492	(492)
TWD		-	-	169	(169)
AUD		(0)	(0)	-	-
Total	₩	46,357	(46,357)	15,475	(15,475)

The sensitivity analysis above is related to the monetary assets and liabilities, denominated in a currency other than the Group's functional currency, as of December 31, 2021 of the Group entities in Korea.

② Interest rate risk

Interest rate risk is the risk of changes in interest income and expense from deposits and borrowings due to fluctuations in the market interest rate. Interest rate risk of the Group arises on variable interest rate financial instruments and borrowings. The purpose of interest rate risk management is to minimize value fluctuation of financial assets and liabilities that occur from uncertainty caused by changes in interest rates.

The Group makes interest swap transactions with financial institutions for hedging interest rate risk of variable borrowings and debentures.

The book value of the Group's variable interest-bearing financial instruments as of December 31, 2021 and 2020 are as follows:

<i>(in millions of Korean won)</i>		2021	2020
Financial assets	₩	78,884	272,200
Financial liabilities		1,287,452	2,075,621

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41. Risk Management, continued

(a) Management of financial risks, continued

(iv) Market risk, continued

② Interest rate risk, continued

The table below summarizes the impact of increases or decreases of interest rates in deposits and borrowings with floating interest rate on the Group's interest income and expense that would incur in relation to the deposits and borrowings for the years ended December 31, 2021 and 2020. The analysis is based on the assumption that the interest rate has increased or decreased by 100 basis points with all other variables held constant. Borrowings and debentures for which the Group has entered into interest rate swap transactions are not included.

(in millions of Korean won)

		2021		2020	
		100bps increase	100bps decrease	100bps increase	100bps decrease
Interest income	₩	789	(789)	2,703	(2,703)
Interest expenses		4,017	(4,017)	5,819	(5,819)

③ Price risk

The Group is exposed to fluctuations of price in equity instrument at fair value through other comprehensive income. The book value of the marketable equity instrument at fair value through other comprehensive income as of December 31, 2021 and 2020 are ₩1,092,717 million and ₩408,532 million, respectively. Assuming that other variables remain the same and the prices of the equity instruments fluctuate by 10%, the effects of the fluctuation to the other comprehensive income in 2021 and 2020 are ₩109,272 million and ₩40,853 million, respectively.

(b) Capital Management

The objective of the Group's capital management is maximizing shareholders' profit through maintaining a sound capital structure. The Group makes necessary improvements to the capital structure through monthly monitoring of financial ratios such as liabilities to equity ratios and net borrowings to equity ratios in order to achieve an optimal capital structure.

The liabilities to equity ratios and net borrowings to equity ratios as of December 31, 2021 and 2020 are as follows:

(in millions of Korean won)

		2021	2020
Liabilities (A)	₩	21,629,527	21,740,642
Equity (B)		11,797,007	11,088,763
Financial instruments (C)		4,321,126	3,859,797
Borrowings (D)		9,952,977	10,182,249
Liabilities to equity ratio (A/B)		183.35%	196.06%
Net borrowings to equity ratio ((D-C)/B)		47.74%	57.02%

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42. Discontinued Operations

(a) Sales of discount stores in China

The Group completed the sale and liquidation of the discount stores in China during the previous year. Profit or loss incurred from the segment of discount stores in China is presented as discontinued operations.

Details of profit (loss) from discontinued operation for the year ended December 31, 2020 is as follows:

<i>(in millions of Korean won)</i>	<u>2020</u>
Sales	₩ -
Cost of sales	-
Gross profit (loss) on sales	-
Selling, general and administrative expenses	1,676
Bad debt expense	-
Operating profit (loss)	1,676
Other income	4,998
Other expenses	-
Financial income - interest income calculated using the effective interest method	34
Financial income - others	492
Financial expenses	-
Reversal of other allowance for doubtful accounts	13,745
Profit in disposal of discontinued operation	<u>2,734</u>
Profit before income tax	<u>23,679</u>
Tax expense	-
Net income from discontinued operation	₩ <u><u>23,679</u></u>

(b) Cash flows related to the discontinued operation for the year ended December 31, 2020 is as follows:

<i>(in millions of Korean won)</i>	<u>2020</u>
Cash flows from operating activities	₩ 2,466
Cash flows from investing activities	13,780
Cash flows from financial activities	(14,137)
Exchange difference on translating foreign operations	<u>281</u>
Total	₩ <u><u>2,390</u></u>

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43. Lease

(a) Amount recognized in the consolidated statement of financial position

Details recognized in the consolidated statement of financial position related to leases as of December 31, 2021 and 2020 are as follows:

<i>(in millions of Korean won)</i>		<u>2021</u>	<u>2020</u>
Right-of-use assets			
Land	₩	859,442	712,688
Buildings		3,802,502	4,349,589
Vehicles		2,765	3,053
Others		35,491	98,641
Total		<u>4,700,200</u>	<u>5,163,971</u>
Investment property		454,533	212,994
Lease receivables:			
Current		25,302	30,699
Non-current		74,347	171,562
Total		<u>99,649</u>	<u>202,261</u>
Lease liabilities			
Current		628,014	607,479
Non-current		5,318,115	5,620,804
Total	₩	<u>5,946,129</u>	<u>6,228,283</u>

(b) Amount recognized in the consolidated statement of comprehensive income (loss)

Details recognized in the consolidated statement of comprehensive income related to leases during 2021 and 2020 are as follows:

<i>(in millions of Korean won)</i>		<u>2021</u>	<u>2020</u>
Depreciation expense on right-of-use assets			
Land and building	₩	564,824	597,771
Vehicles		1,830	2,050
Others		11,906	22,219
Total	₩	<u>578,560</u>	<u>622,040</u>
Depreciation expense on investment properties	₩	33,161	19,164
Interest expenses on lease liabilities		240,682	223,747
Interest income on lease receivables		3,044	7,667
Leases of low-value assets and short-term leases		79,909	87,917
Impairment loss on right-of-use assets		336,162	504,318

Total cash outflow for the lease for the year ended December 31, 2021 and 2020 are ₩831,683 million and ₩767,645 million.

The Group uses a practical expedient that does not assess whether a rent concession occurring as a direct consequence of the COVID-19 pandemic is a lease modification. Accordingly, the Group recognized ₩16,710 million in profit during the year ended December 31, 2021, to reflect changes in lease payments that arise from a rent concession to which the lessee has applied the practical expedient.

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43. Lease, continued

(c) Changes in right-of-use assets for the years 2021 and 2020 are as follows:
(in millions of Korean won)

		2021	2020
Beginning balance	₩	5,163,972	6,126,877
Acquisition of right-of-use assets		492,128	194,051
Depreciation expenses		(578,560)	(622,040)
Impairment loss on right-of-use assets		(336,162)	(504,318)
Others		(41,177)	(30,598)
Ending balance	₩	<u>4,700,201</u>	<u>5,163,972</u>

(d) The contractual maturity of lease liabilities as of December 31, 2021 and 2020 are as follows:

(in millions of Korean won)

		2021					
		Less than 6 months	6 months~ 1 year	1 ~ 2 years	2 ~ 5 years	More than 5 years	Total
Total minimum lease payments	₩	394,389	387,146	749,652	1,907,941	3,887,243	7,326,371
Net minimum lease payments		317,453	310,561	644,295	1,604,842	3,068,978	5,946,129

(in millions of Korean won)

		2020					
		Less than 6 months	6 months~ 1 year	1 ~ 2 years	2 ~ 5 years	More than 5 years	Total
Total minimum lease payments	₩	389,434	384,235	734,296	1,879,768	4,409,925	7,797,658
Net minimum lease payments		307,423	300,056	626,311	1,562,515	3,431,977	6,228,282

(e) The contractual maturity of lease receivables as of December 31, 2021 and 2020 are as follows:

(in millions of Korean won)

		2021					
		Less than 6 months	6 months~ 1 year	1 ~ 2 years	2 ~ 5 years	More than 5 years	Total
Total minimum lease payments	₩	13,920	12,986	31,820	46,131	18,145	123,002
Net minimum lease payments		13,197	12,106	28,534	37,438	8,374	99,649

(in millions of Korean won)

		2020					
		Less than 6 months	6 months~ 1 year	1 ~ 2 years	2 ~ 5 years	More than 5 years	Total
Total minimum lease payments	₩	16,966	16,154	24,455	61,540	95,587	214,702
Net minimum lease payments		15,786	14,913	23,397	57,940	90,225	202,261

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43. Lease, continued

(f) Operating lease

The Group entered into and maintains an operating lease agreement to lease property, plant and equipment. The collection plan of lease receivables related to the operating lease contract as of December 31, 2021 and 2020 are as follows:

<i>(in millions of Korean won)</i>	<u>2021</u>	<u>2020</u>
Within 1 year	₩ 71,156	75,639
Within 1 ~ 5 years	71,261	75,086
Over 5 years	25,003	19,981
Total	₩ <u>167,420</u>	<u>170,706</u>

The lease income related to the operating lease recognized by the Group during 2021 and 2020 are ₩1,324,402 million and ₩1,165,199 million respectively.

44. Business transfer and business combination

(a) The Group signed a business transfer contract of the mobile voucher business of LOTTE DATA COMMUNICATION COMPANY on December 11, 2020 and transferred it as of January 1, 2021. Details are as follows:

① Identifiable net assets

<i>(in millions of Korean won)</i>	<u>2021</u>
Cash and cash equivalents	₩ 59,467
Tangible and intangible assets	1,940
Other assets	2,756
Trade and other payables	(60,304)
Other liabilities	(1,919)
Net assets	1,940

② Goodwill

<i>(in millions of Korean won)</i>	<u>2021</u>
Total transfer fee	₩ 6,800
Fair value, net assets	1,940
Goodwill	4,860

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44. Business transfer and business combination, continued

(b) The Group signed a transfer of business contract with LOTTE ASSET DEVELOPMENT CO.,LTD on December 29, 2020 and transferred it as of February 1, 2021. Details are as follows:

① Identifiable net assets

(in millions of Korean won)

	<u>2021</u>
Cash and cash equivalents	₩ 30
Tangible and intangible assets	8,162
Investments in subsidiary (*)	30,100
Right-of-use assets and lease receivable	556,634
Other assets	17,175
Lease payable	(512,826)
Other liabilities	(79,044)
Net assets	20,231

(*) 10% shares in LOTTE PROPERTIES (HANOI) SINGAPORE PTE. LTD., a subsidiary of the consolidated organization.

② Gain on bargain purchase

(in millions of Korean won)

	<u>2021</u>
Total transfer fee	₩ 389
Fair value, net assets	20,232
Gain on bargain purchase	(19,843)

(c) The Group acquired 100% shares of Lotte Shopping Town Daegu Co., LTD as of February 1, 2021.

① Identifiable net assets

(in millions of Korean won)

	<u>2021</u>
Tangible and intangible assets	₩ 208,702
Other assets	5,570
Borrowings	(167,000)
Other liabilities	(14,253)
Net assets	33,019

② Goodwill

(in millions of Korean won)

	<u>2021</u>
Total transfer fee	₩ 42,282
Fair value, net assets	33,019
Goodwill	9,262

45. Events after reporting date

According to the resolution of the board of directors on November 11, 2021, the Company merged its subsidiaries, Lotte Incheon Development, Lotte Town Dongtan, Lotte Songdo Shopping Town, and Lotte Shopping Town Daegu Co., LTD as of January 31, 2022.