

# **LOTTE SHOPPING CO., LTD.**

**Separate 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 separate financial statements of Lotte Shopping Co., Ltd. ("the Company"), which comprise the separate statement of financial position as of December 31, 2021 and 2020, the separate 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 separate financial statements present fairly, in all material respects, the separate financial position of the Company as of December 31, 2021 and 2020, and its separate financial performance and its separate cash flows for the years then ended in accordance with Korean International Financial Reporting Standards ("K-IFRS").

We also have audited, in accordance with Korean Standards on Auditing (KSAs), the Company's Internal Control over Financial Reporting ("ICFR") as of December 31, 2021 based on the criteria established in Conceptual Framework for Designing and Operating Internal Control over Financial Reporting issued by the Operating Committee of Internal Control over Financial Reporting in the Republic of Korea, and our report dated March 15, 2022 expressed an unmodified opinion on the effectiveness of the Company's internal control over financial reporting.

### *Basis for Opinion*

We conducted our audits in accordance with KSAs. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Separate Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the separate 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 2(3) to the separate financial statements, which describes the assumptions and estimates used by the Company 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 separate financial statements of the Company. 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 separate financial statements as of and for the year ended December 31, 2021. These matters were addressed in the context of our audit of the separate financial statements as a whole, 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 stores and discount store segment.

As described in Note 14 to the separate financial statements, the Company recognized the impairment loss of ₩271,691 million and ₩70,583 million for CGUs of department stores and discount store segment respectively.

The Company 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 and discount store segment as a key audit matter.

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

- We have understood the Company's impairment assessment process for each CGU, and assessed the management review control related to impairment assessment;
- 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 Company's accounting policy;
- We tested the mathematical accuracy of valuation model used by the Company;
- We assessed the competence, qualification and objectivity of external institution engaged by the Company to assess recoverable amount of CGUs; and
- We engaged our valuation specialists to assist us in evaluating assumption and estimates including the future cash flows and discount rate used in the valuation of value-in-use.

(2) Assessment of investment in subsidiaries impairment in the LOTTE Himart Co., Ltd

As described in Note 13 to the separate financial statements, as of December 31, 2021, the carrying amount of investment in subsidiaries of LOTTE Himart Co., Ltd in the separate statements of financial position of the Company is ₩1,215,158 million. Also, the impairment loss of ₩32,910 million is recognized during 2021.

The Company reviews at the end of each reporting period on whether there are any indicators of impairment regarding the investment in subsidiaries, and has performed impairment test on investment in subsidiaries for which indicators of impairment were identified by estimating the recoverable amount of the respective investment in subsidiaries. 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 investment in subsidiaries impairment in the LOTTE Himart Co., Ltd as a key audit matter.

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

- We have understood the Company's impairment assessment process for each investment in subsidiary, and assessed the management review control related to impairment assessment;



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

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

- We have understood the Company's impairment assessment process for each CGU, and assessed the management review control related to impairment assessment;
- 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 Company's accounting policy;
- We tested the mathematical accuracy of valuation model used by the Company;
- We assessed the competence, qualification and objectivity of external institution engaged by the Company to assess recoverable amount of CGUs; and
- We engaged our valuation specialists to assist us in evaluating assumption and estimates including the future cash flows and discount rate used in the valuation of value-in-use.

(2) Assessment of investment in subsidiaries impairment in the LOTTE Himart Co., Ltd

As described in Note 13 to the separate financial statements, as of December 31, 2021, the carrying amount of investment in subsidiaries of LOTTE Himart Co., Ltd in the separate statements of financial position of the Company is ₩1,215,158 million. Also, the impairment loss of ₩32,910 million is recognized during 2021.

The Company reviews at the end of each reporting period on whether there are any indicators of impairment regarding the investment in subsidiaries, and has performed impairment test on investment in subsidiaries for which indicators of impairment were identified by estimating the recoverable amount of the respective investment in subsidiaries. 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 investment in subsidiaries impairment in the LOTTE Himart Co., Ltd as a key audit matter.

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

- We have understood the Company's impairment assessment process for each investment in subsidiary, and assessed the management review control related to impairment assessment;



- 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 Company'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 separate 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 Company 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.

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.**  
**Separate Statements of Financial Position**  
**As of December 31, 2021 and 2020**

(In Korean won)	Notes		2021	2020
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents	6,7,35,40	₩	1,574,016,044,561	1,058,444,838,960
Trade and other receivables	5,7,38,40		432,783,918,889	408,933,203,369
Other financial assets	6,7,23,40		612,274,257,156	960,136,008,761
Inventories	8		429,457,320,288	445,949,649,888
Income tax refund receivables	34		138,462,575,535	1,085,144,365
Other non-financial assets	9		23,176,674,714	12,978,345,377
Assets held for sale	10		108,995,085,511	827,847,205,169
			<u>3,319,165,876,654</u>	<u>3,715,374,395,889</u>
<b>Non-current assets</b>				
Other receivables	5		145,556,516,360	231,934,594,679
Investments in subsidiaries, associates and joint ventures	11,12,13,38		4,531,480,306,602	4,201,658,419,615
Other financial assets	6,7,23,40		1,142,996,248,338	1,026,238,955,196
Property, plant and equipment, net	14		9,694,826,706,939	9,762,820,521,625
Right-of-use assets	14,39		4,244,032,050,908	4,500,731,839,479
Investment property, net	15		931,090,437,568	1,237,613,960,043
Goodwill	16		28,300,255,953	60,292,995,459
Intangible assets, net	16		81,914,097,909	106,999,594,382
Other non-financial assets	9		2,123,012,410	8,296,654,447
Defined benefit assets	22		104,864,759,451	72,243,043,111
			<u>20,907,184,392,438</u>	<u>21,208,830,578,036</u>
<b>Total assets</b>		₩	<u><b>24,226,350,269,092</b></u>	<u><b>24,924,204,973,925</b></u>

*See accompanying notes to the separate financial statements.*

**LOTTE SHOPPING CO., LTD.**  
**Separate Statements of Financial Position, continued**  
**As of December 31, 2021 and 2020**

(In Korean won)	Notes	2021	2020
<b>Liabilities</b>			
<b>Current liabilities</b>			
Borrowings and debentures, net of issuance costs	7,18,40 ₩	1,228,169,985,330	1,846,085,501,595
Trade and other payables	7,17,40	1,800,314,117,465	1,532,241,852,994
Other financial liabilities	7,23,40	376,599,841,909	388,525,505,434
Lease liabilities	7,39	578,277,457,572	530,258,247,806
Unearned revenues	19	163,883,305,906	142,790,586,278
Provisions	20	8,479,923,705	13,771,174,479
Other non-financial liabilities	21	1,159,295,467,894	879,242,648,647
		<u>5,315,020,099,781</u>	<u>5,332,915,517,233</u>
<b>Non-current liabilities</b>			
Borrowings and debentures, net of issuance costs	7,18,40	3,498,970,712,086	3,711,796,031,444
Other financial liabilities	7,23,40	83,333,609,626	209,385,464,094
Lease liabilities	7,39	5,299,156,516,443	5,401,988,026,854
Defined benefit liabilities and other long- term employee benefits	22	20,762,654,389	24,015,896,724
Deferred tax liabilities	34	85,838,995,674	479,209,033,045
Unearned revenues	19	7,443,242,317	22,428,463,738
Provisions	20	160,041,868,127	143,508,124,006
		<u>9,155,547,598,662</u>	<u>9,992,331,039,905</u>
<b>Total liabilities</b>		<b><u>14,470,567,698,443</u></b>	<b><u>15,325,246,557,138</u></b>
<b>Equity</b>			
Share capital	1,24	141,443,775,000	141,443,775,000
Capital surplus	24	3,590,535,627,005	3,590,535,627,005
Capital adjustment	25	(2,818,298,047,582)	(2,818,298,047,582)
Retained earnings	26	8,911,185,540,093	8,743,149,333,568
Accumulated other comprehensive loss	27	(69,084,323,867)	(57,872,271,204)
<b>Total equity</b>		<b><u>9,755,782,570,649</u></b>	<b><u>9,598,958,416,787</u></b>
<b>Total equity and liabilities</b>	₩	<b><u>24,226,350,269,092</u></b>	<b><u>24,924,204,973,925</u></b>

*See accompanying notes to the separate financial statements.*



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

(In Korean won)	Notes	2021	2020
Sales	29,38	₩ 8,408,202,994,035	8,708,083,759,301
Cost of sales	8,32,38	(4,173,541,080,865)	(4,553,662,568,228)
<b>Gross profit</b>		<b>4,234,661,913,170</b>	<b>4,154,421,191,073</b>
Selling, general and administrative expenses	30,32,38	(4,147,206,854,812)	(4,019,691,527,654)
Reversal of allowance for bad debts (expense)	30,32,40	(1,361,095,763)	(721,555,229)
<b>Operating profit</b>		<b>86,093,962,595</b>	<b>134,008,108,190</b>
Other income	31	367,289,961,743	192,982,897,706
Other expenses	31	(415,919,485,125)	(863,780,052,093)
Finance income - interest income calculated using the effective interest method	33	50,350,665,869	49,476,343,092
Finance income - others	33	357,873,924,944	338,559,229,674
Finance costs	33	(666,335,966,815)	(962,569,516,003)
Other bad debt expenses	31	(19,326,502)	(6,623,285,523)
<b>Loss before income tax expense</b>		<b>(220,666,263,291)</b>	<b>(1,117,946,274,957)</b>
Income tax revenue (expense)	34	412,501,591,353	85,949,637,602
<b>Income (Loss) for the year</b>		<b>191,835,328,062</b>	<b>(1,031,996,637,355)</b>
<b>Other comprehensive income</b>			
Items that will never be reclassified to profit or loss			
Remeasurements of defined benefit liabilities	22	74,582,762,764	35,460,758,806
Fair value gain(loss) through other comprehensive income on equity instruments	27	(27,682,805,751)	3,840,376,470
Income tax effect		(11,635,456,953)	32,017,696,723
Total items that will never be reclassified to profit or loss		35,264,500,060	71,318,831,999
Items that may be subsequently reclassified to profit or loss			
Loss on valuation of debt instrument at fair value through other comprehensive income	27	(272,776,211)	(7,097,503)
Gain on valuation of derivatives	23,27	11,990,609,641	2,606,042,871
Income tax effect		(2,835,715,690)	(1,176,113,075)
Total items that will be subsequently reclassified to profit or loss		8,882,117,740	1,422,832,293
Other comprehensive income for the year, net of tax		44,146,617,800	72,741,664,292
<b>Total comprehensive income (loss) for the year</b>		<b>235,981,945,862</b>	<b>(959,254,973,063)</b>
Earnings (loss) per share	28		
Basic earnings (loss) per share		₩ 6,786	(36,504)

*See accompanying notes to the separate financial statements.*

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

(In Korean won)	Share capital	Capital surplus	Capital adjustment	Retained earnings	Accumulated other comprehensive income (loss)	Total equity
<b>Balance at January 1, 2020</b>	₩ 141,443,775,000	3,590,535,627,005	(2,818,298,047,582)	9,688,039,289,185	63,921,178,242	10,665,641,821,850
<b>Comprehensive income (loss) for the year:</b>						
Loss for the year	-	-	-	(1,031,996,637,355)	-	(1,031,996,637,355)
<b>Other comprehensive income (loss):</b>						
Net change in equity instruments at fair value through other comprehensive income	-	-	-	170,956,824,587	(123,216,281,739)	47,740,542,848
Net change in debt instruments at fair value through other comprehensive income	-	-	-	-	(1,255,697)	(1,255,697)
Profit on valuation of derivatives	-	-	-	-	1,424,087,990	1,424,087,990
Remeasurements of defined benefit liabilities	-	-	-	23,578,289,151	-	23,578,289,151
Subtotal	-	-	-	194,535,113,738	(121,793,449,446)	72,741,664,292
<b>Total comprehensive income (loss) for the year</b>	-	-	-	(837,461,523,617)	(121,793,449,446)	(959,254,973,063)
<b>Transactions with owners of the Company recognized directly in equity</b>						
Dividends	-	-	-	(107,428,432,000)	-	(107,428,432,000)
<b>Balance at December 31, 2020</b>	₩ 141,443,775,000	3,590,535,627,005	(2,818,298,047,582)	8,743,149,333,568	(57,872,271,204)	9,598,958,416,787

See accompanying notes to the separate financial statements.

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

(In Korean won)	Share capital	Capital surplus	Capital adjustment	Retained earnings	Accumulated other comprehensive income (loss)	Total equity
<b>Balance at January 1, 2021</b>	₩ 141,443,775,000	3,590,535,627,005	(2,818,298,047,582)	8,743,149,333,568	(57,872,271,204)	9,598,958,416,787
<b>Comprehensive income (loss) for the year:</b>						
Profit for the year	-	-	-	191,835,328,062	-	191,835,328,062
<b>Other comprehensive income (loss):</b>						
Net change in equity instruments at fair value through other comprehensive income	-	-	-	(1,175,063,712)	(20,094,170,403)	(21,269,234,115)
Net change in debt instruments at fair value through other comprehensive income	-	-	-	-	(206,764,368)	(206,764,368)
Loss on valuation of derivatives	-	-	-	-	9,088,882,108	9,088,882,108
Remeasurements of defined benefit liabilities	-	-	-	56,533,734,175	-	56,533,734,175
Subtotal	-	-	-	55,358,670,463	(11,212,052,663)	44,146,617,800
<b>Total comprehensive income (loss) for the year</b>	-	-	-	247,193,998,525	(11,212,052,663)	235,981,945,862
<b>Transactions with owners of the Company recognized directly in equity:</b>						
Dividends	-	-	-	(79,157,792,000)	-	(79,157,792,000)
<b>Balance at December 31, 2021</b>	₩ 141,443,775,000	3,590,535,627,005	(2,818,298,047,582)	8,911,185,540,093	(69,084,323,867)	9,755,782,570,649

See accompanying notes to the separate financial statements.

**LOTTE SHOPPING CO., LTD.**  
**Separate Statements of Cash Flows**  
**For the years ended December 31, 2021 and 2020**

(In Korean won)	Notes	2021	2020
<b>Cash flows from operating activities</b>			
Income (Loss) for the year	₩	191,835,328,062	(1,031,996,637,355)
Adjustments	35	910,298,224,220	2,163,888,065,471
Changes in operating assets and liabilities	35	480,077,524,531	(169,147,604,739)
Income taxes paid		(132,717,049,831)	(82,347,932,806)
<b>Net cash provided by operating activities</b>		<b>1,449,494,026,982</b>	<b>880,395,890,571</b>
<b>Cash flows from investing activities</b>			
Decrease of lease deposit		68,774,230,771	-
Decrease of short-term financial instruments		1,238,327,500,000	825,059,823,031
Decrease in short-term loans		6,269,502,705	6,164,556,000
Proceeds from sale of equity instruments at fair value through other comprehensive income		1,559,742,684	-
Proceeds from sale of debt instruments at fair value through other comprehensive income		8,254,490,000	120,500,000
Proceeds from sale of investment in subsidiaries, associates and joint ventures		45,904,610,768	-
Proceeds from disposal of property, plant and equipment		855,236,420,893	321,178,419,848
Proceeds from disposal of intangible assets		585,272,727	223,083,327
Proceeds from disposal of assets held for sale		797,693,504,116	217,190,143,233
Collection of financial lease receivables		35,572,420,914	25,209,055,154
Cash inflows from settlement of derivatives		6,683,699,000	11,025,964,994
Cash inflow from business transfer		10,026,319,483	-
Increase of lease deposit		(52,170,210,015)	-
Increase of short-term financial instruments		(865,599,113,857)	(735,010,000,000)
Increase in short-term loans		(50,090,790,000)	-
Increase in long-term loans		(991,300,000)	-
Purchase of long-term financial instruments		(1,811,000,000)	-
Purchase of debt instrument at fair value through profit or loss		(1,500,044,000)	-
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)
Purchase of investments in subsidiaries, associates and joint ventures		(538,444,802,886)	(292,018,893,523)
Acquisition of property, plant, and equipment		(611,718,105,728)	(508,736,183,075)
Acquisition of intangible assets		(5,235,400,577)	(956,877,950)
Interests received		22,956,885,954	27,746,519,216
Dividends received		145,547,010,711	75,306,601,831
<b>Net cash provided by (used in) investing activities</b>	₩	<b>1,052,528,664,663</b>	<b>(31,726,597,914)</b>

*See accompanying notes to the separate financial statements.*

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

(In Korean won)	Notes	2021	2020
<b>Cash flows from financing activities</b>			
Increase in rental deposits	₩	19,920,820,697	-
Proceeds from short-term borrowings		-	100,000,000,000
Proceeds from long-term borrowings		100,000,000,000	400,000,000,000
Proceeds from issuance of debentures		819,998,125,487	829,136,375,179
Decrease in rental deposits		(140,343,360,143)	-
Repayment of short-term borrowings		(200,000,000,000)	-
Repayment of current portion of long-term borrowings		(748,424,220,695)	(150,000,000,000)
Repayment of debentures		(912,080,000,000)	(750,000,000,000)
Repayment of lease liabilities		(573,696,482,889)	(540,172,824,761)
Interest paid		(277,777,553,078)	(286,096,435,430)
Dividends paid		(79,157,792,000)	(107,428,432,000)
<b>Net cash used in financing activities</b>		<b>(1,991,560,462,621)</b>	<b>(504,561,317,012)</b>
Net increase in cash and cash equivalents		510,462,229,024	344,107,975,645
Cash and cash equivalents at the beginning of the year		1,058,444,838,960	726,809,053,877
Effect of exchange rate fluctuation on cash and cash equivalents		5,108,976,577	(12,472,190,562)
<b>Cash and cash equivalents at the end of the year</b>	₩	<b>1,574,016,044,561</b>	<b>1,058,444,838,960</b>

*See accompanying notes to separate financial statements.*

# LOTTE SHOPPING CO., LTD.

## Notes to the Separate Financial Statements

### As of December 31, 2021 and 2020

#### 1. Organization and description of the Company

Lotte Shopping Co., Ltd. (the “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 Company’s stock was listed on the Korea Exchange through an initial public offering on February 9, 2006.

The shareholders of the Company as of December 31, 2021 are as follows:

<i>(in millions of Korean won, except number of shares)</i>	<b>Number of shares (in shares)</b>		<b>Amount</b>	<b>Percentage of ownership (%)</b>
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
<b>Total</b>	<b>28,288,755</b>	₩	<b>141,444</b>	<b>100.00</b>

#### 2. Basis of Accounting

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

The separate 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”).

These financial statements are separate financial statements prepared in accordance with K-IFRS No.1027 ‘Separate Financial Statements’ presented by a parent, an investor in an associate or a venturers in a joint venture in which the investments are accounted for on the basis of the direct equity interest rather than on the basis of the reported results and net assets of the investees.

##### (a) Basis of measurement

The separate 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 Company are prepared in functional currency of the operation. These separate financial statements are presented in Korean won, which is the Company’s functional and presentation currency.

K-IFRS permit the use of significant accounting estimates in preparing separate 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 and significant assumptions and estimates.

# **LOTTE SHOPPING CO., LTD.**

## **Notes to the Separate Financial Statements**

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

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## **2. Basis of Accounting, continued**

### **(c) 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 Company. 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 Company.

Significant accounting estimates and assumptions applied in the preparation of the separate financial statements can be adjusted depending on changes in the uncertainty from COVID-19. Also, the ultimate effect of COVID-19 to the Company'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.

## **3. Significant Accounting Policies and Changes in Disclosure**

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

### **3.1 Enacted, amended standards adopted by the Company**

The Company 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 (2<sup>nd</sup> 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.

# LOTTE SHOPPING CO., LTD.

## Notes to the Separate Financial Statements

### As of December 31, 2021 and 2020

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### 3. Significant Accounting Policies and Changes in Disclosure, continued

#### 3.2 Amendments and Enactments of standards and interpretations not applied by the Company

##### (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 Company considering that these amendments impact 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.

##### (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 includes 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.



# LOTTE SHOPPING CO., LTD.

## Notes to the Separate Financial Statements

### As of December 31, 2021 and 2020

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### 3. Significant Accounting Policies and Changes in Disclosure, continued

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

(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

#### 3.3 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 Company 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.

#### 3.4 Foreign currency translation

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 other than functional currency 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 shall be recognized in other comprehensive income.

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

# LOTTE SHOPPING CO., LTD.

## Notes to the Separate Financial Statements

### As of December 31, 2021 and 2020

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#### 3. Significant Accounting Policies and Changes in Disclosure, continued

##### 3.5 Financial assets

###### (a) Classification

The Company classifies 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 Company's business model for managing the financial assets and the contractual cash flows characteristics of financial assets.

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 Company 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 Company 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.

###### (b) Measurement

At initial recognition, the Company 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 Company's business model for managing the asset and the cash flow characteristics of the asset. The Company 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.

# LOTTE SHOPPING CO., LTD.

## Notes to the Separate Financial Statements

### As of December 31, 2021 and 2020

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### 3. Significant Accounting Policies and Changes in Disclosure, continued

#### 3.5 Financial assets, continued

- 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.

##### (ii) Equity instrument

The Company subsequently measures all equity investments at fair value. Where the Company'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.

##### (c) Impairment

The Company 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 Company applies the simplified approach, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

##### (d) Recognition and derecognition

Regular way purchases and sales of financial assets are recognized or derecognized on trade-date, the date on which the Company 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 Company has transferred substantially all the risks and rewards of ownership.

If a transfer does not result in derecognition because the Company has retained substantially all the risks and rewards of ownership of the transferred asset, the Company continues to recognize the transferred asset in its entirety and recognizes a financial liability for the consideration received.

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

Financial assets and liabilities are offset and the net amount reported in the statements of financial position where there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the assets and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

#### 3.6 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.

# LOTTE SHOPPING CO., LTD.

## Notes to the Separate Financial Statements

### As of December 31, 2021 and 2020

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### 3. Significant Accounting Policies and Changes in Disclosure, continued

#### 3.6 Derivatives, continued

##### (a) Hedge accounting

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

On initial designation of the hedge, the Company 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 statement of comprehensive income. The Company 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 derivative 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 derivative 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) Embedded derivatives

Embedded derivatives are separated from the host contract and accounted for separately only if the following criteria have been met: (i) the economic characteristics and risks of the host contract and the embedded derivatives are not clearly and closely related to a separate instrument with the same terms as the embedded derivative that would meet the definition of a derivative, and (ii) the hybrid (combined) instrument is not measured at fair value through profit or loss. Changes in the fair value of separable embedded derivatives from the host contract are recognized immediately in profit or loss.

##### (c) 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.

#### 3.7 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.**  
**Notes to the Separate Financial Statements**  
**As of December 31, 2021 and 2020**

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**3. Significant Accounting Policies and Changes in Disclosure, continued**

**3.8 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 following methods:

Classification	Department store	Discount store	Supermarket	E-commerce
Merchandise	Retail method	Moving average method	Moving average method	Total weighted average method
Finished goods	-	Moving average method	Moving average method	-
Others	Specific identification method	Specific identification method	Specific identification method	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.

**3.9 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.

**3.10 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 Company's property, plant and equipment are as follows:

	Useful lives (years)
Buildings	10 – 50
Structures	7 – 40
Machinery	5 – 30
Vehicles	5
Display fixtures	5
Furniture and fixtures	5

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.

# LOTTE SHOPPING CO., LTD.

## Notes to the Separate Financial Statements

### As of December 31, 2021 and 2020

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### 3. Significant Accounting Policies and Changes in Disclosure, continued

#### 3.10 Property, plant and equipment, continued

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.

#### 3.11 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.

#### 3.12 Intangible assets

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.

The goodwill is measured in the manner described in K-IFRS No.1110 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.

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

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.

#### 3.13 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 Company 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 10 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.**

## **Notes to the Separate Financial Statements**

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

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### **3. Significant Accounting Policies and Changes in Disclosure, continued**

#### **3.14 Impairment of non-financial assets**

The carrying amounts of the Company'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"). 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.

#### **3.15 Trade payables and other payables**

Trade payables and other payables are liabilities that the Company 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.

#### **3.16 Financial liabilities**

##### **(a) Classification and measurement**

The financial liabilities of the Company 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.

The Company 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.**  
**Notes to the Separate Financial Statements**  
**As of December 31, 2021 and 2020**

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**3. Significant Accounting Policies and Changes in Disclosure, continued**

**3.16 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.

**3.17 Provisions**

When the Company 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.

**3.18 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 Company when reporting taxes in situations in which applicable tax code regulations may vary depending on the interpretation. The Company 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.

Deferred tax assets and liabilities are offset when the Company 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 Company 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.



# **LOTTE SHOPPING CO., LTD.**

## **Notes to the Separate Financial Statements**

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

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### **3. Significant Accounting Policies and Changes in Disclosure, continued**

#### **3.19 Employee benefits**

##### **(a) Retirement benefits**

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

Defined contribution plan is a retirement pension plan in which the Company 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 Company during an accounting period, the Company 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 Company'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.

#### **3.20 Revenue recognition**

##### **(a) Sales of goods and rendering of services**

The Company operates department stores, outlet stores, supermarkets, H&B stores, E-Commerce. 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:

- 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 Company acts as an agent, the Company recognizes net sales, after deducting the cost of specific sales, as revenue upon delivery to customers.

# LOTTE SHOPPING CO., LTD.

## Notes to the Separate Financial Statements

### As of December 31, 2021 and 2020

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### 3. Significant Accounting Policies and Changes in Disclosure, continued

#### 3.20 Revenue recognition, Continued

##### (b) Customer loyalty program

The Company 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 Company 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 Company.

##### (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.

#### 3.21 Leases

##### (a) Lessor

If the Company 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.

##### (b) Lessee

The Company 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 Company 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 Company (lessor) according to the guaranteed residual value

**LOTTE SHOPPING CO., LTD.**  
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**3. Significant Accounting Policies and Changes in Disclosure, continued**

**3.21 Leases, continued**

(b) Lessee, continued

- The exercise price of the purchase option if it is reasonably certain that the Company (lessee) will exercise the purchase option
- If the lease period reflects the exercise of the option to terminate the lease by the Company (lessee), 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 Company calculates the incremental borrowing rate as follows:

- Reflects interest rates based on market-observed credit ratings

The Company 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.

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 Company 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.

**LOTTE SHOPPING CO., LTD.**  
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**3. Significant Accounting Policies and Changes in Disclosure, continued**

**3.21 Leases, continued**

(b) Lessee, continued

(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 Company which include extension options and termination options. These conditions are used to maximize operational flexibility in terms of contract management.

**3.22 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, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets 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 Company'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, losses on hedging instruments that are recognized in profit or loss, and impairment losses regarding subsidiaries, associates and joint venture investment. 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.

**3.23 Emission rights**

The Company 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 Company 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.

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**3. Significant Accounting Policies and Changes in Disclosure, continued**

**3.23 Emission rights, continued**

(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.

**3.24 Authorization of financial statements**

The separate financial statements were authorized by the Board of Directors meeting on March 8, 2022, and is subject to modification 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 Company. 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.

(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 14 and 16).

(b) Income taxes

The Company 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 Company 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 Company 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).

(d) Impairment of financial assets

The loss allowance for financial assets is measured based on assumptions about default risks and expected loss rates. The Company makes judgement for the setting of these assumptions and the selection of input variables used for impairment model by considering the Company's past experience, current market conditions and future forecast information as of financial reporting date (see Note 7).

**LOTTE SHOPPING CO., LTD.**  
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**4. Significant Accounting Estimates and Assumptions, continued**

(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 22).

(f) Revenue recognition

The Company 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 Company's revenue is affected by the estimated change in the expected return rate.

(g) 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 Company 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 Company exercises the extension option (not exercising the termination option).
- Other than the above, the Company 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 Company bears 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 Company changes its judgement whether the exercise of extension option (or not) is reasonably certain.

(h) Provision for restoration costs

The Company 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.

(i) Provision for restructuring costs

The Company recognizes restructuring provision when there is a detailed formal plan for the restructuring and the Company 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.

**LOTTE SHOPPING CO., LTD.**  
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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)*

		<b>Trade receivables</b>	<b>Other receivables</b>	<b>Lease payments receivables</b>	<b>Total</b>
Current:					
Total carrying amount	₩	247,058	177,379	28,474	452,911
Reduction: Allowance for bad debts		(1,939)	(18,167)	(22)	(20,128)
Net carrying amount		<u>245,119</u>	<u>159,212</u>	<u>28,452</u>	<u>432,783</u>
Non-current:					
Total carrying amount		-	20,771	124,967	145,738
Reduction: Allowance for bad debts		-	(66)	(115)	(181)
Net carrying amount	₩	<u>-</u>	<u>20,705</u>	<u>124,852</u>	<u>145,557</u>

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

*(in millions of Korean won)*

		<b>Trade receivables</b>	<b>Other receivables</b>	<b>Lease payments receivables</b>	<b>Total</b>
Current:					
Total carrying amount	₩	210,522	215,563	30,596	456,681
Reduction: Allowance for bad debts		(1,249)	(46,423)	(76)	(47,748)
Net carrying amount		<u>209,273</u>	<u>169,140</u>	<u>30,520</u>	<u>408,933</u>
Non-current:					
Total carrying amount		-	22,891	209,805	232,696
Reduction: Allowance for bad debts		-	(195)	(566)	(761)
Net carrying amount	₩	<u>-</u>	<u>22,696</u>	<u>209,239</u>	<u>231,935</u>

**LOTTE SHOPPING CO., LTD.**  
**Notes to the Separate Financial Statements**  
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**6. Restricted Deposits**

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

*(in millions of Korean won)*

<b>Account</b>	<b>Description</b>	<b>Depository</b>	<b>2021</b>	<b>2020</b>	<b>Remarks</b>
Cash and cash equivalents	account	Shinhan Bank	₩ 300	-	Deposits for e-finance business
Other financial assets (current)	account	Industrial Bank of Korea	6,000	-	Pledge
Other financial assets (current)	Short-term financial instrument	Industrial Bank of Korea and others	113,000	113,000	Deposits for Mutually Beneficial Cooperation Fund
Other financial assets (non-current)	account	Shinhan Bank	1,811	-	Pledge
Other financial assets (non-current)	Long-term financial instrument	Shinhan Bank and others	15	15	Deposits for current account
Other financial assets (non-current)	Other comprehensive income - Fair value	Busan city hall			Payment guarantee
			12,782	7,700	
	Total		₩ 133,908	120,715	



**LOTTE SHOPPING CO., LTD.**  
**Notes to the Separate Financial Statements**  
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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 2020 are summarized as follows:

(in millions of Korean won)

		<u>2021</u>	<u>2020</u>
Financial assets measured at fair value (*1):			
	Current assets:		
	Short-term financial instruments	₩ 113,000	113,000
	Current derivatives assets held for trading	2,992	-
Fair value through profit or loss			
	Non-current assets:		
	Non-current debt instruments	3,937	2,221
	Non-current derivatives assets held for trading	38,077	9,724
	Subtotal	<u>158,006</u>	<u>124,945</u>
	Current assets:		
	Current debt instruments	702	8,753
	Non-current assets:		
Fair value through other comprehensive income	Non-current equity instruments	94,644	60,625
	Non-current debt instruments	5,164	5,890
	Subtotal	<u>100,510</u>	<u>75,268</u>
	Current derivatives assets held for hedging	5,230	1,086
Derivatives assets	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>280,778</u>	<u>201,299</u>
Financial assets not being measured at fair value:			
	Current assets:		
	Cash and cash equivalents	1,574,016	1,058,445
	Trade and other receivables	432,784	408,933
	Short-term financial instruments	326,372	692,600
	Short-term loans	56,217	6,165
	Accrued income	2,575	2,160
Financial assets at amortized cost (*2)	Current portion of security deposits	105,185	136,372
	Non-current assets:		
	Long-term financial instruments	1,811	-
	Deposits for current account	15	15
	Long-term loans	7,089	12,329
	Long-term account receivables	145,557	231,935
	Security deposit	975,227	935,436
	Subtotal	<u>3,626,848</u>	<u>3,484,390</u>
	Total financial assets not being measured at fair value:	<u>3,626,848</u>	<u>3,484,390</u>
	Total financial assets	<u>₩ 3,907,626</u>	<u>3,685,689</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.**  
**Notes to the Separate Financial Statements**  
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**7. Fair value of Financial Instruments, continued**

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

<i>(in millions of Korean won)</i>		2021	2020
Current:			
Short-term financial instruments	₩	439,372	805,600
Short-term loans		56,217	6,165
Accrued income		2,575	2,160
Current portion of security deposits		105,186	136,372
Current debt instruments		702	8,753
Current derivatives assets held for hedging		5,230	1,086
Current derivatives assets held for trading		2,992	-
Total		612,274	960,136
Non-current:			
Long-term financial instruments		1,811	-
Deposits for current account		15	15
Long-term loans		7,089	12,329
Security deposits		975,227	935,436
Non-current equity instruments		94,644	60,625
Non-current debt instruments		9,101	8,110
Non-current derivatives assets held for hedging		17,032	-
Non-current derivatives assets held for trading		38,077	9,724
Total	₩	1,142,996	1,026,239

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

(i) Equity instruments

<i>(in millions of Korean won, except number of shares)</i>		2021		2020	
	Number of shares (in shares)	Percentage of ownership	Acquisition cost	Carrying amount	Carrying amount
<b>Marketable equity instruments measured at fair value through other comprehensive income:</b>					
BNK Financial Group Inc.	8,543,826	2.62%	₩ 56,179	71,768	48,529
Shinhan Financial Group Co., Ltd.	311,118	0.07%	2,247	11,449	9,971
Others	-	-	-	-	1,240
Subtotal			58,426	83,217	59,740
<b>Non-marketable equity instruments measured at fair value through other comprehensive income:</b>					
Lotte Properties (Shenyang) Limited	101,648,756	17.93%	124,516	9,652	-
Others	-	-	677	1,775	885
Subtotal			125,193	11,427	885
Total			₩ 183,619	94,644	60,625

**LOTTE SHOPPING CO., LTD.**  
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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 2020 are summarized as follows:, continued

(ii) Debt instruments  
*(in millions of Korean won)*

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

(d) Carrying amount and fair value of financial liabilities as of December 31, 2021 and 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	₩ -	19,967
	Subtotal	-	19,967
Derivatives liabilities	Current derivatives liabilities held for hedging	288	24,808
	Non-current derivatives liabilities held for hedging	903	41,837
	Subtotal	1,191	66,645
Total financial liabilities measured at fair value:		1,191	86,612
Financial liabilities not being measured at fair value:			
	Current:		
	Trade payables and other payables	1,800,314	1,532,242
	Short-term borrowings	-	200,000
	Current portion of long-term borrowings	200,000	444,426
	Current debentures	1,028,170	1,201,660
	Lease liabilities	578,277	530,258
Financial liabilities at amortized cost (*)	Accrued expenses	90,951	88,142
	Current portion of security deposits	195,546	163,991
	Non-current:		
	Long-term borrowings	293,194	388,715
	Long-term debentures	3,205,777	3,323,081
	Security deposits received	77,811	160,910
	Lease liabilities	5,299,157	5,401,988
	Others	4,620	6,638
	Subtotal	12,773,817	13,442,051
Other financial liabilities	Financial guarantee liabilities	89,815	91,618
Total financial liabilities not being measured at fair value:		12,863,632	13,533,669
Total financial liabilities		₩ 12,864,823	13,620,281

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

**LOTTE SHOPPING CO., LTD.**  
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**7. Fair value of Financial Instruments, continued**

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

<i>(in millions of Korean won)</i>		<b>2021</b>	<b>2020</b>
Current:			
Current derivatives liabilities held for trading	₩	-	19,967
Current derivatives liabilities held for hedging		288	24,808
Financial guarantee liabilities		89,815	91,618
Accrued expense		90,951	88,142
Current portion of security deposits		195,546	163,991
Total		<u>376,600</u>	<u>388,526</u>
Non-current:			
Non-current derivatives liabilities held for hedging		903	41,837
Security deposits		77,811	160,910
Others		4,620	6,638
Total	₩	<u>83,334</u>	<u>209,385</u>

(f) Fair value hierarchy

When measuring the fair value of an asset or a liability, the Company 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)

**LOTTE SHOPPING CO., LTD.**  
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**7. Fair value of Financial Instruments, continued**

(f) Fair value hierarchy, continued

The fair value measurements of financial instruments that are measured at fair value, classified by fair value hierarchy as of December 31, 2021 and 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	₩	-	-	158,006	158,006
Financial assets at fair value through other comprehensive income		83,217	5,867	11,427	100,511
Derivatives assets held for hedging		-	22,262	-	22,262
Total		83,217	28,129	169,433	280,779
Derivatives liabilities held for hedging		-	1,191	-	1,191
Total	₩	-	1,191	-	1,191

(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	₩	-	-	124,945	124,945
Financial assets at fair value through other comprehensive income		59,740	14,643	885	75,268
Derivatives assets held for hedging		-	1,086	-	1,086
Total		59,740	15,729	125,830	201,299
Financial liabilities at fair value through profit or loss		-	13,566	6,400	19,967
Derivatives liabilities held for hedging		-	66,645	-	66,645
Total	₩	-	80,211	6,400	86,612

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

In measuring Level 3 fair values, the Company used discounted cash flows model and net asset valuation model and the Company 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.

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**7. Fair value of Financial Instruments, continued**

(g) Level 3 Fair values

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

<i>(in millions of Korean won)</i>		<u>2021</u>	<u>2020</u>
Beginning of the year	₩	119,430	228,576
Total income (loss) for the year		(1,434)	(93,451)
Gain (loss) included in profit and loss		51,326	8,427
Gain (loss) included in OCI		(52,760)	(101,878)
Purchases		64,802	-
Disposal		(13,365)	(15,695)
End of the year	₩	<u>169,433</u>	<u>119,430</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) 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)

(ii) Stock Option

<i>(in millions of Korean won)</i>		<u>Stock price</u>	
		<u>5% Decrease</u>	<u>5% Increase</u>
Stock Option (Assets)	₩	(1,173)	1,173
		<u>Stock price volatility</u>	
		<u>5% Decrease</u>	<u>5% Increase</u>
	₩	(2,209)	2,215

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**8. Inventories**

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

<i>(in millions of Korean won)</i>		<b>2021</b>	<b>2020</b>
Merchandise	₩	380,152	394,079
Valuation allowance		(8,696)	(11,897)
Finished goods		14,852	9,233
Valuation allowance		-	-
Semi-finished goods		5	27
Raw materials		10,629	9,173
Ingredients		68	104
Supplies		436	498
Materials-in-transit		11,287	12,429
Incomplete building		3,605	10,985
Land		16,307	20,328
Packing materials		813	990
Total	₩	<u>429,458</u>	<u>445,949</u>

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

<i>(in millions of Korean won)</i>		<b>2021</b>	<b>2020</b>
Cost of goods sold:			
Amount of inventories recognized as cost of goods sold	₩	4,146,420	4,528,496
Increase (decrease) in valuation allowance of inventories		(3,201)	1,138

**9. Other Non-financial Assets**

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

<i>(in millions of Korean won)</i>		<b>2021</b>	<b>2020</b>
Current:			
Advance payments	₩	12,744	7,299
Prepaid expenses		10,106	5,679
Other non-financial assets		326	-
Total		<u>23,176</u>	<u>12,978</u>
Non-current:			
Long-term advance payments		830	6,545
Long-term prepaid expenses		1,293	1,752
Total	₩	<u>2,123</u>	<u>8,297</u>

**LOTTE SHOPPING CO., LTD.**  
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**10. Assets Held for Sale**

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

<i>(in millions of Korean won)</i>		<u>2021</u>	<u>2020</u>
Equity instruments and etc. (*1)	₩	23,846	-
Land, etc. (*2)		<u>85,149</u>	<u>827,847</u>
Total	₩	<u>108,995</u>	<u>827,847</u>

(\*1) The Company classified LOTTE PROPERTIES HCMC COMPANY LIMITED's 12% equity interests of the 40%, Investments in associates, as assets held for sale during year 2021.

(\*2) The Company classified VIC market-Kintex store (₩ 85,149 million) as assets held for sale as a result of approval of discontinuance of operation and decision of disposal of the store.



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**11. Investments in Associates**

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

<i>(in millions of Korean won)</i>		<b>2021</b>			
<b>Company</b>	<b>Location</b>	<b>Major operation</b>	<b>Percentage of ownership (%)</b>		<b>Book value</b>
FRL Korea Co., Ltd.	Korea	Import and selling of clothing	49.00	₩	24,827
Zara Retail Korea Co., Ltd.	Korea	Import and selling of clothing	20.00		16,106
Coralis S.A. (*1)	Luxembourg	Holding company	45.00		-
LOTTE PROPERTIES HCMC COMPANY LIMITED (*2)	Vietnam	Real estate development	40.00		55,641
Lotte start-up fund No. 1 (*3)	Korea	Investment on new technology	7.35		2,000
Prototype	Korea	Service	20.00		-
Lotte-KDB Open Innovation Fund	Korea	Investment on new technology	25.52		11,200
Lotte Card Co. Ltd.	Korea	Credit finance business, etc.	20.00		325,239
Eujin Unicorn Private investment	Korea	Finance business	47.06		30,000
Total				₩	<u>465,013</u>

<i>(in millions of Korean won)</i>		<b>2020</b>			
<b>Company</b>	<b>Location</b>	<b>Major operation</b>	<b>Percentage of ownership (%)</b>		<b>Book value</b>
FRL Korea Co., Ltd.	Korea	Import and selling of clothing	49.00	₩	24,827
Zara Retail Korea Co., Ltd.	Korea	Import and selling of clothing	20.00		16,106
Coralis S.A. (*1)	Luxembourg	Holding company	45.00		20,804
LOTTE PROPERTIES HCMC COMPANY LIMITED	Vietnam	Real estate development	40.00		79,488
Lotte start-up fund No. 1 (*3)	Korea	Investment on new technology	7.35		2,000
Prototype	Korea	Service	20.00		-
Lotte-KDB Open Innovation Fund	Korea	Investment on new technology	25.52		6,400
Lotte Card Co. Ltd.	Korea	Credit finance business, etc.	20.00		325,239
Total				₩	<u>474,864</u>

(\*1) The Company performed an impairment test for the investee companies based on external valuation agency and, as a result of the impairment test, recognized impairment loss for the years ended December 31, 2021 and 2020 as follows.

Valuation method and assumption used in the impairment test are an equivalent of what is applied to the impairment test for cash generating unit of the Company's subsidiary.

<i>(in millions of Korean won)</i>	<b>2021</b>	<b>2020</b>
Coralis S.A.	₩ 20,804	20,689
	₩ 20,804	20,689

(\*2) The Company 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 Company classified Lotte Startup Fund 1 as investment in associates, as the Company's subsidiaries (Woori Home Shopping and Lotte Himart) hold 7.35% of shares, respectively.

**LOTTE SHOPPING CO., LTD.**  
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**12. Investments in Joint Ventures**

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

<i>(in millions of Korean won)</i>				
<b>2021</b>				
<b>Company</b>	<b>Location</b>	<b>Major operation</b>	<b>Percentage of ownership (%)</b>	<b>Carrying amount</b>
STL Co., Limited	Korea	Import and selling of clothing	50.00	₩ 1,784
LOTTE JTB Co., Ltd. (*1)	Korea	Travel business	50.00	₩ 896
				<u>₩ 2,680</u>

<i>(in millions of Korean won)</i>				
<b>2020</b>				
<b>Company</b>	<b>Location</b>	<b>Major operation</b>	<b>Percentage of ownership (%)</b>	<b>Carrying amount</b>
STL Co., Limited	Korea	Import and selling of clothing	50.00	₩ 1,784
LOTTE JTB Co., Ltd. (*1)	Korea	Travel business	50.00	₩ 896
				<u>₩ 2,680</u>

(\*1) The Company performed an impairment test for the investee companies based on external valuation agency and, as a result of the impairment test, recognized impairment loss for the years ended December 31, 2021 and 2020 as follows. Valuation method and assumption used in the impairment test are an equivalent of what is applied to the impairment test for cash generating unit of the Company's subsidiary.

<i>(in millions of Korean won)</i>		<b>2021</b>	<b>2020</b>
LOTTE JTB Co., Ltd.	₩	-	11,946

**LOTTE SHOPPING CO., LTD.**  
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**13. Investments in Subsidiaries**

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

(in millions of Korean won)	2021				
Name of entity	Location	Major operation	Percentage of ownership (%) (*1)	Book Value	
Woori Home Shopping & Television Co., Ltd.	Korea	TV Home Shopping	53.49	₩	396,883
Lotte Gimhae Development Co., Ltd.	Korea	Building Maintaining Service company	100.00		300
Lotte Suwon Station Shopping Town Co., Ltd. (*2)	Korea	Real estate development	100.00		37,267
Lotte Songdo Shopping Town Co., Ltd.	Korea	Real estate development	100.00		213,564
Lotte GFR Co., Ltd. (*2)	Korea	Apparel manufacturing and selling	99.93		53,314
CS Mart Co., Ltd. (*2)	Korea	Distribution	99.95		111,677
Lotte Himart Co., Ltd. (*2, 3)	Korea	Consumer electronics retail	65.25		1,215,158
Lotte Shopping Holdings (Hong Kong) Co., Ltd. (*2, 7)	Hong Kong	Holding company	100.00		-
LOTTE SHOPPING HOLDINGS (SINGAPORE) PTE. LTD. (*2)	Singapore	Holding company	100.00		402,175
LOTTE PROPERTIES (CHENGDU) HK LIMITED (*2)	Hong Kong	Holding company	73.46		30,698
Lotte (China) Management Co., Ltd.	China	Managing company	70.00		3,495
LOTTE HOTEL & RETAIL VIETNAM PTE. LTD.(*2,5)	Singapore	Holding company	20.00		12,667
Lotte Ulsan Development Co., Limitd	Korea	Real estate development	96.83		24,783
LOTTE PROPERTIES HANOI (SINGAPORE) PTE. LTD.	Singapore	Holding company	90.00		157,582
Lotte Cultureworks Co., Ltd. (*2)	Korea	Cinema	86.37		234,589
Lotte corporate venture fund No. 1 (*4)	Korea	Investment on new technology	18.78		400
Lotte DMC Development Co., Ltd.	Korea	Real estate business, real estate lease	95.00		4,750
LOTTE REIT Co., Ltd.	Korea	Real estate development	50.00		441,366
LOTTE Town DongTan Co., Ltd.	Korea	Real estate development	100.00		116,724
Lotte Incheon Development Co., Ltd.	Korea	Real estate development	100.00		178,707
Lotte Incheon Town Co., Ltd.	Korea	Real estate development	100.00		101,894
Lotte Shopping Town Daegu CO., Ltd	Korea	Distribution	100.00		45,504
LOTTE SHOPPING RUS LTD. (*2, 7)	Russia	Real estate development	100.00		-
Lotte Department Store (Shenyang) Co., Ltd (*2,6)	China	Department Store	100.00		-
Lotte Department Store (Chengdu) Co., Ltd (*2,6)	China	Department Store	100.00		-
Lotte Shopping Innovation fund No.1	Korea	Investments in new technology	99.00		20,790
IMM HIMECO Investment 1	Korea	Assets managements	83.71		259,500
				₩	4,063,787

**LOTTE SHOPPING CO., LTD.**  
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**13. Investments in Subsidiaries, continued**

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

Name of entity	Location	Major operation	2020		Book Value
			Percentage of ownership (%) (*1)		
Woori Home Shopping & Television Co., Ltd.	Korea	TV Home Shopping	53.03	₩	393,213
Lotte Gimhae Development Co., Ltd.	Korea	Building Maintaining Service company	100.00		300
Lotte Suwon Station Shopping Town Co., Ltd. (*2)	Korea	Real estate development	100.00		54,582
Lotte Songdo Shopping Town Co., Ltd.	Korea	Real estate development	100.00		213,564
Lotte GFR Co., Ltd. (*2)	Korea	Apparel manufacturing and selling	99.93		56,385
CS Mart Co., Ltd. (*2)	Korea	Distribution	99.95		111,677
Lotte Himart Co., Ltd. (*3)	Korea	Consumer electronics retail	65.25		1,248,068
Lotte Shopping Holdings (Hong Kong) Co., Ltd. (*2, 7)	Hong Kong	Holding company	100.00		-
LOTTE SHOPPING HOLDINGS (SINGAPORE) PTE. LTD. (*2)	Singapore	Holding company	100.00		441,645
LOTTE PROPERTIES (CHENGDU) HK LIMITED (*2)	Hong Kong	Holding company	73.46		124,314
Lotte (China) Management Co., Ltd.	China	Managing company	70.00		3,495
LOTTE HOTEL & RETAIL VIETNAM PTE. LTD. (*2,5)	Singapore	Holding company	20.00		12,910
Lotte Ulsan Development Co., Limitd	Korea	Real estate development	96.83		24,783
LOTTE PROPERTIES HANOI (SINGAPORE) PTE. LTD.	Singapore	Holding company	80.00		127,421
Lotte Cultureworks Co., Ltd. (*2)	Korea	Cinema	86.37		234,589
Lotte corporate venture fund No. 1 (*4)	Korea	Investment on new technology	18.78		400
Lotte DMC Development Co., Ltd.	Korea	Real estate business, real estate lease	95.00		4,750
LOTTE REIT Co., Ltd.	Korea	Real estate development	50.00		274,694
LOTTE Town DongTan Co., Ltd.	Korea	Real estate development	100.00		116,724
Lotte Incheon Development Co., Ltd.	Korea	Real estate development	100.00		178,707
Lotte Incheon Town Co., Ltd.	Korea	Real estate development	100.00		101,894
LOTTE SHOPPING RUS LTD. (*2, 7)	Russia	Real estate development	100.00		-
Lotte Department Store (Shenyang) Co., Ltd (*2,6)	China	Department Store	100.00		-
Lotte Department Store (Chengdu) Co., Ltd (*2,6)	China	Department Store	100.00		-
					₩ 3,724,115

(\*1) Percentage of ownership represents ownership of the Company. Percentage of ownership described in Note 38 represents an ownership of the Company and its subsidiaries.

(\*2) The Company shall determine each of subsidiaries as a separate cash generating unit during the years ended December 31, 2021 and 2020 and recognize impairment loss. This recognition of impairment loss is caused by worsened profit and loss, net assets reduction, etc. of subsidiaries.

- The Company recognized impairment loss by calculating recoverable amount based on the value in use and net fair value measured by external valuation agency for the impairment test.

# **LOTTE SHOPPING CO., LTD.** **Notes to the Separate Financial Statements** **As of December 31, 2021 and 2020**

## **13. Investments in Subsidiaries, continued**

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

- The calculation of value in use uses estimation of cash flow before tax based on financial budget over a period of time in the future being approved by management. The sales growth rate used for the same period is based on past performance and market prospect and it is an estimation of sales growth rate that is to calculate predictive value of cash flow for a particular period.

- For the calculation of permanent cash flow beyond a particular period, terminal growth rate does not exceed long-term average growth rate of applicable industry of relevant cash generating unit and estimates of certain growth rate like inflation rate are used.

-The fair value of net assets is calculated by reflecting adjusted amounts made to either assets or liabilities whichever the difference of fair value and book value is significant under judgement.

Impairment losses during the years ended December 31, 2021 and 2020 are as follows:

<i>(in millions of Korean won)</i>		2021	2020
Lotte Suwon Station Shopping Town Co., Ltd.	₩	17,315	11,895
Lotte GFR Co., Ltd.		3,071	15,974
CS Mart Co., Ltd.		-	5,992
Lotte Himart Co., Ltd.		32,910	-
Lotte Shopping Holdings (Hong Kong) Co., Ltd.		-	189,491
LOTTE SHOPPING HOLDINGS (SINGAPORE) PTE. LTD.		89,199	18,655
LOTTE HOTEL & RETAIL VIETNAM PTE. LTD.		243	1,275
LOTTE PROPERTIES (CHENGDU) HK LIMITED		93,616	-
Lotte Cultureworks Co., Ltd.		-	252,027
Lotte Shopping Rus LLC.		-	3,342
Lotte Department Store (Shenyang) Co., Ltd.		-	9,617
Lotte Department Store (Chengdu) Co., Ltd.		-	-
Total	₩	236,354	508,268

(\*3) The Company issued an exchangeable bond which are exchangeable for common stocks of Lotte Himart Co., Ltd. described in Note 18. 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 exchange 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, our share in Lotte Hi-Mart 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.

(\*4) Woori Home Shopping & Television Co., Ltd., a subsidiary of the Company, owns 79.81% of common shares.

(\*5) LOTTE SHOPPING HOLDINGS (SINGAPORE) PTE. LTD., a subsidiary of the Company, owns 40.00% of the common shares.

(\*6) The common shares of Lotte Department Store (Shenyang) Co., Ltd and Lotte Department Store (Chengdu) Co., Ltd retained by Lotte Shopping Holdings (Hong Kong) Co., Limited were purchased during the year 2020.

(\*7) Lotte Shopping Holdings (Hong Kong) Co., Ltd and Lotte Shopping Rus LLC. have been liquidated during the current period.

**LOTTE SHOPPING CO., LTD.**  
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**13. Investments in Subsidiaries, continued**

(b) The fair value of marketable shares in subsidiaries as of December 31, 2021 and 2020 are as follows:

<i>(in millions of Korean won)</i>		2021	2020
LOTTE Himart Co., Ltd.	₩	387,392	479,812
LOTTE REIT Co., Ltd.		674,239	460,017

**14. Property, Plant and Equipment**

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

<i>(in millions of Korean won)</i>		2021				2020			
		Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Book value	Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Book value
Land	₩	5,735,429	-	-	5,735,429	5,754,806	-	-	5,754,806
Buildings		4,739,517	(1,967,835)	-	2,771,682	4,682,471	(1,895,439)	(11)	2,787,021
Structures		292,013	(127,942)	(23,817)	140,254	317,231	(140,631)	(28,937)	147,663
Machinery		109,033	(55,724)	(15,202)	38,107	101,379	(50,077)	(15,294)	36,008
Vehicles		4,347	(3,884)	(249)	214	4,467	(3,900)	(274)	293
Display fixtures		50,691	(50,682)	(6)	3	58,613	(58,591)	(7)	15
Tools and equipment		3,834,306	(3,007,353)	(214,254)	612,699	3,530,327	(2,891,492)	(210,589)	428,246
Construction-in-progress		405,285	-	(8,847)	396,438	617,609	-	(8,840)	608,769
Total	₩	15,170,621	(5,213,420)	(262,375)	9,694,826	15,066,903	(5,040,130)	(263,952)	9,762,821

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

<i>(in millions of Korean won)</i>		2021						
		Beginning balance	Acquisitions	Business Transfer	Depreciation	Impairment	Disposals	Ending balance
Land	₩	5,754,806	533	-	-	-	(407,581)	5,735,429
Buildings		2,787,021	12,866	-	(109,197)	-	(381,092)	2,771,682
Structures		147,663	282	-	(9,041)	(3,166)	(0)	140,254
Machinery		36,008	2,663	-	(5,975)	(18)	(236)	38,107
Vehicles		293	52	-	(131)	-	(0)	214
Display fixtures		15	-	-	(12)	-	(0)	3
Tools and equipment		428,246	164,079	7,695	(198,483)	(12,891)	(8,249)	612,699
Construction-in-progress		608,769	440,059	-	-	(7)	-	396,438
Total	₩	9,762,821	620,534	7,695	(322,839)	(16,082)	(797,158)	9,694,826

(\*) Others include reclassification between accounts and etc.

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

**14. Property, Plant and Equipment, continued**

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

(in millions of Korean won)

(in millions of Korean won)

		2020							
		Beginning balance	Acquisitions	Held for sale	Depreciation	Impairment	Disposals	Others (*)	Ending balance
Land	₩	6,317,411	14	(408,789)	-	-	(243,014)	89,184	5,754,806
Buildings		3,394,601	3,325	(408,689)	(126,702)	-	(57,288)	(18,226)	2,787,021
Structures		186,861	608	(10,446)	(10,415)	(19,002)	(296)	353	147,663
Machinery		52,635	2,111	-	(6,465)	(15,197)	(367)	3,291	36,008
Vehicles		419	45	-	(152)	(19)	-	-	293
Display fixtures		200	-	-	(68)	(1)	(116)	-	15
Tools and equipment		581,473	76,973	(19)	(201,942)	(53,835)	(18,568)	44,164	428,246
Construction-in-progress		<u>577,302</u>	<u>401,155</u>	<u>-</u>	<u>-</u>	<u>(9,085)</u>	<u>(837)</u>	<u>(359,766)</u>	<u>608,769</u>
Total	₩	11,110,902	484,231	(827,943)	(345,744)	(97,139)	(320,486)	(241,000)	9,762,821

(\*) Others include reclassification between accounts and etc.

**LOTTE SHOPPING CO., LTD.**  
**Notes to the Separate Financial Statements**  
**As of December 31, 2021 and 2020**

**14. Property, Plant and Equipment, continued**

(d) The Company performed impairment test for cash generating units for the years ended December 31, 2021 and 2020 that have indication of impairment, and the details of impairment losses are summarized as follows. The Company has calculated recoverable amounts for cash generating units that have indication of impairment based on financial plans for a particular period which have been approved by management.

(in millions of Korean won)

(in millions of Korean won)		2021				
		Department stores	Discount stores	Supermarkets	E-Commerce	Total
Impairment loss on property, plant and equipment	₩	6,810	6,261	3,007	4	16,082
Impairment loss on right-of-use assets		228,052	64,322	11,490	-	303,864
Impairment loss on intangible assets (excluding goodwill)		29	-	-	1,213	1,242
Impairment loss on goodwill		36,800	-	53	-	36,853
Total	₩	271,691	70,583	14,550	1,217	358,041

(in millions of Korean won)

(in millions of Korean won)		2020				
		Department stores	Discount stores	Supermarkets	E-Commerce	Total
Impairment loss on property, plant and equipment	₩	27,492	63,466	2,271	3,909	97,138
Impairment loss on right-of-use assets		238,248	276,943	17,034	8,468	540,693
Impairment loss on intangible assets (excluding goodwill)		169	256	-	6,112	6,537
Impairment loss on goodwill		135,872	-	66	28,265	164,203
Impairment loss on other non-current assets		-	360	-	-	360
Total	₩	401,781	341,025	19,371	46,754	808,931

The value in use of each cash-generating unit and fair value less costs to sell were determined by discounting its estimated future cash flows. The calculation of value in use of each cash-generating unit and fair value less costs to sell were based on the following key assumptions:

- Cash flows were estimated based on past experience, actual historical results of operations and business plan. Department stores, discount stores, supermarkets are estimated based on a 5-year business plan and the e-commerce division is estimated based on a 10-year business plan.

- For department stores, discount stores and supermarkets, the annual revenue growth rate for the following 5-years was estimated based on an analysis of average revenue growth rates in the past and objective growth rates estimated by external agencies. The cash flow after the 5-year period is estimated based on an assumption of constant growth rate at 1.0%.

- The e-commerce division's annual revenue growth rate for the following 10-years was estimated based on an analysis of average revenue growth rates in the past and objective growth rates estimated by external agencies. The cash flow after the 10-year period is estimated based on an assumption of constant growth rate at 1.0%.

- Weighted average cost of capital in 2021 for peer industry was applied as the discount rate of 7.34% (2020:5.50%) in determining recoverable amount of each cash-generating units.

The relevant values through major assumption are based on external and internal data (historical data) based on the management's estimation of future trends for the distribution industry.



**LOTTE SHOPPING CO., LTD.**  
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**14. Property, Plant and Equipment, continued**

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

<i>(in millions of Korean won)</i>		<b>2021</b>			
<b>Pledged assets</b>		<b>Book amount</b>	<b>Guaranteed amount</b>	<b>Type of borrowings</b>	<b>Guarantee recipient</b>
Buildings	₩	219,420	53,873	Security deposit for lease	Shinhan Bank and others
Land		86,326	3,570	Provisional attachment on interests	National Health Insurance Service and others

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

<i>(in millions of Korean won)</i>		<b>2021</b>	<b>2020</b>
Capitalized borrowing costs	₩	3,150	5,305
Capitalization interest rates		2.40%	2.43%

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**15. Investment Property**

(a) Investment property 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	₩	472,615	-	-	472,615	637,398	-	-	637,398
Buildings		429,112	(194,498)	-	234,614	685,354	(216,804)	(1)	468,549
Right-of-use assets		309,802	(49,286)	(36,656)	223,860	199,732	(28,068)	(39,997)	131,667
Total	₩	1,211,529	(243,784)	(36,656)	931,089	1,522,484	(244,872)	(39,998)	1,237,614

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

(in millions of Korean won)

		2021			
		Beginning balance	Depreciation	Others (*)	Ending balance
Land	₩	637,398	-	(164,783)	472,615
Buildings		468,549	(11,818)	(222,117)	234,614
Right-of-use assets		131,667	(29,333)	121,526	223,860
Total	₩	1,237,614	(41,151)	(265,374)	931,089

(\*) Others include reclassification between accounts and etc.

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

(in millions of Korean won)

		2020			
		Beginning balance	Depreciation	Others (*)	Ending balance
Land	₩	570,730	-	66,668	637,398
Buildings		428,575	(15,693)	55,667	468,549
Right-of-use assets		117,201	(12,387)	26,853	131,667
Total	₩	1,116,506	(28,080)	149,188	1,237,614

(\*) Others include reclassification between accounts and etc.

(d) Income and expense from investment property

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

(in millions of Korean won)

		2021	2020
Rental income	₩	109,719	124,027
Direct operating expense (including maintenance and repair expenses)		35,549	51,074

**LOTTE SHOPPING CO., LTD.**  
**Notes to the Separate Financial Statements**  
**As of December 31, 2021 and 2020**

**15. Investment Property, continued**

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

<i>(in millions of Korean won)</i>	<b>Location</b>	<b>Book value</b>	<b>Fair value</b>
Land and buildings	40-1 Jamsil-dong, Songpa-gu, Seoul and 123 more.	₩ 931,090	2,582,269

**16. Goodwill and Intangible Assets**

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

<i>(in millions of Korean won)</i>		<b>2021</b>				<b>2020</b>			
		<b>Acquisition cost</b>	<b>Accumulated amortization</b>	<b>Accumulated impairment losses</b>	<b>Book value</b>	<b>Acquisition cost</b>	<b>Accumulated amortization</b>	<b>Accumulated impairment losses</b>	<b>Book value</b>
Goodwill	₩	599,203	-	(570,902)	28,301	597,701	-	(537,407)	60,294
Industrial property rights		8,006	(7,008)	(435)	563	7,708	(6,817)	(435)	456
Rights to use facility		39,394	(38,201)	(608)	585	39,364	(37,628)	(608)	1,128
Membership		15,743	-	(2,006)	13,737	16,297	-	(1,978)	14,319
Other intangible assets		166,249	(91,930)	(7,290)	67,029	161,848	(64,652)	(6,099)	91,097
<b>Total</b>	<b>₩</b>	<b>828,595</b>	<b>(137,139)</b>	<b>(581,241)</b>	<b>110,215</b>	<b>822,918</b>	<b>(109,097)</b>	<b>(546,527)</b>	<b>167,294</b>

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

<i>(in millions of Korean won)</i>		<b>2021</b>							
		<b>Beginning balance</b>	<b>Acquisitions</b>	<b>Business Transfer</b>	<b>Amortization</b>	<b>Impairment</b>	<b>Disposals</b>	<b>Others(*)</b>	<b>Ending balance</b>
Goodwill	₩	60,294	-	4,860	-	(36,853)	-	-	28,301
Industrial Property rights		456	224	-	(187)	-	(3)	73	563
Rights to use facility		1,128	-	-	(543)	-	-	-	585
Membership		14,319	-	-	-	(29)	(553)	-	13,737
Other Intangible assets		91,097	4,842	2,407	(23,738)	(1,213)	(6,366)	-	67,029
<b>Total</b>	<b>₩</b>	<b>167,294</b>	<b>5,066</b>	<b>7,267</b>	<b>(24,468)</b>	<b>(38,095)</b>	<b>(6,922)</b>	<b>73</b>	<b>110,215</b>

(\*) Others include reclassification between accounts and etc.

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**16. Goodwill and Intangible Assets, continued**

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

*(in millions of Korean won)*

		2020					
		Beginning balance	Acquisitions	Amortization	Impairment	Disposals	Ending balance
Goodwill	₩	224,660	-	-	(164,202)	(164)	60,294
Industrial Property rights		829	187	(370)	(213)	-	456
Rights to use facility		1,865	-	(663)	(74)	-	1,128
Membership		14,683	-	-	(169)	(195)	14,319
Other Intangible assets		37,488	639	(19,612)	(6,082)	(344)	91,097
Total	₩	279,525	826	(20,645)	(170,740)	(703)	167,294

(\*) Others include reclassification between accounts and etc.

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

*(in millions of Korean won)*

		2021	2020
Department stores	₩	20,156	56,956
Supermarkets		3,284	3,337
E-commerce		4,860	-
Total	₩	28,300	60,293

The impairment losses on goodwill are recognized because part of book value of cash generating unit exceeded recoverable amount during the year 2021 and 2020.

*(in millions of Korean won)*

		2021	2020
Department Store	₩	36,800	135,872
Supermarkets		53	66
E-commerce		-	28,265
Total	₩	36,853	164,203

The same valuation methods and assumptions used for cash generating units recoverable amount calculation have been used to calculate goodwill impairment above (See Note 14).

**17. Trade and Other Payables**

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

*(in millions of Korean won)*

		2021	2020
Trade payables	₩	309,208	328,302
Other payables		1,491,106	1,203,940
Total	₩	1,800,314	1,532,242

**LOTTE SHOPPING CO., LTD.**  
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**18. Borrowings and Debentures**

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

(in millions of Korean won)

		<b>2021</b>	<b>2020</b>
Current:			
Short-term borrowings	₩	-	200,000
Current portion of long-term borrowings		200,000	444,426
Current portion of long-term debentures		1,028,700	1,215,680
Current portion of discount on long-term debentures		(154)	(1,689)
Current portion of debentures redemption premium		799	7,681
Exchange rights adjustment		(1,176)	(20,013)
Total		<u>1,228,169</u>	<u>1,846,085</u>
Non-current:			
Long-term borrowings		300,000	400,000
Discount on long-term borrowings		(6,806)	(11,285)
Long-term debentures		3,211,663	3,330,200
Discount on debentures		(5,885)	(7,119)
Total	₩	<u>3,498,972</u>	<u>3,711,796</u>

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

(in millions of Korean won)

<b>Lender</b>	<b>Details</b>	<b>Annual interest rate (%)</b>		<b>2021</b>	<b>2020</b>
Shinhan Bank	Financial note	-	₩	-	200,000

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

(in millions of Korean won)

<b>Lender</b>	<b>Details</b>	<b>Annual interest rate(%)</b>		<b>2021</b>	<b>2020</b>
Lotte Co., Ltd. (Japan)	Foreign currency	-	₩	-	105,426
Mizuho Corporate Bank, Ltd.	Local currency	1.95%		100,000	-
Mizuho Corporate Bank, Ltd.	Local currency	-		-	165,000
Mizuho Corporate Bank, Ltd.	Local currency	-		-	174,000
Daishin Securities	Local currency	2.23%		200,000	200,000
Korea Development Bank	Local currency	2.06%		200,000	200,000
	Subtotal			<u>500,000</u>	<u>844,426</u>
	Less: Discount on borrowings			<u>(6,806)</u>	<u>(11,285)</u>
	Subtotal			<u>493,194</u>	<u>833,141</u>
	Less: Current portion of long-term borrowings, net of discount			<u>(200,000)</u>	<u>(444,426)</u>
	Total		₩	<u>293,194</u>	<u>388,715</u>

**LOTTE SHOPPING CO., LTD.**  
**Notes to the Separate Financial Statements**  
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**18. Borrowings and Debentures, continued**

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

*(in millions of Korean won)*

Description	Maturity	Annual interest rate (*1)		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	-		-	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	-		-	108,800
76-2nd placed (foreign currency)	2021-05-21	-		-	190,400
77-1st placed	2021-05-28	-		-	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	-		-	174,080
78-2nd placed (foreign currency)	2021-08-28	-		-	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

**LOTTE SHOPPING CO., LTD.**  
**Notes to the Separate Financial Statements**  
**As of December 31, 2021 and 2020**

**18. Borrowings and Debentures, continued**

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

(in millions of Korean won)

Description	Maturity	Annual interest rate (*1)	2021	2020
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
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 (foreign currency)	2024-05-21	3M USD Libor+0.05%	118,550	-
90-2nd placed (foreign currency)	2024-05-20	0.53%	207,463	-
91th placed (foreign currency)	2024-08-19	0.86%	118,550	-
Exchangeable bonds (*2)	2023-04-04	-	31,600	303,600
Subtotal			4,240,363	4,545,880
Less: Discount on debentures			(6,039)	(8,808)
Debentures redemption premium			799	7,681
Less: Exchange rights adjustment			(1,176)	(20,013)
Total book value			4,233,947	4,524,740
Less: Current portion of debentures			(1,028,170)	(1,201,660)
Total		₩	3,205,777	3,323,080

(\*1) 3M USD Libor at year end of 2021: 0.21%

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## **18. Borrowings and Debentures, continued**

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

(\*2) The Company issued exchangeable bonds which are exchangeable for shares of LOTTE Himart Co., Ltd. and the terms and conditions are as follows: Meanwhile, 272.0 billion won out of a total of 303.6 billion won in exchange bonds was repaid early due to the exercise of the bond creditor's right to claim early repayment during the current period.

- (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:
- 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
2022.01.01 ~ 2022.12.31	₩	200,000	1,028,700	1,228,700
2023.01.01 ~ 2023.12.31		200,000	897,100	1,097,100
2024.01.01 ~ 2024.12.31		100,000	1,114,563	1,214,563
2025.01.01 ~ 2025.12.31		-	305,000	305,000
After 2026.1.1		-	895,000	895,000
Total	₩	500,000	4,240,363	4,740,363



**LOTTE SHOPPING CO., LTD.**  
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**19. Unearned Revenues**

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

<i>(in millions of Korean won)</i>		<b>2021</b>	<b>2020</b>
Current:			
Membership points (*)	₩	12	10
Other points (*)		55,070	49,263
Unearned rental income		2,641	5,249
Deferred income (*)		106,161	88,269
Subtotal		163,884	142,791
Non-current:			
Unearned rental income		7,443	22,428
Subtotal		7,443	22,428
Total	₩	171,327	165,219

(\*) Deferred income for the years 2021 and 2020 include contract liabilities described in Note 29.

**20. Provisions**

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

<i>(in millions of Korean won)</i>		<b>Beginning balance</b>	<b>Increase</b>	<b>Utilization</b>	<b>Ending balance</b>
Current:					
Provision for bonus payable	₩	-	29,634	(29,634)	-
Provision for sales return		891	1,016	(868)	1,039
Provision for restoration		2,761	381	(3)	3,139
Provisions for litigation		2,236	96	(2)	2,330
Other provisions		1,002	88,313	(87,993)	1,322
Provision for restructuring (*)		6,881	1,987	(8,219)	649
Total		13,771	121,427	(126,719)	8,479
Non-current:					
Provision for restoration		143,509	30,873	(14,339)	160,043
Total	₩	143,509	30,873	(14,339)	160,043

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

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**20. Provisions, continued**

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

<i>(in millions of Korean won)</i>		<b>Beginning balance</b>	<b>Increase</b>	<b>Utilization</b>	<b>Ending balance</b>
Current:					
Provision for bonus payable	₩	-	33,901	(33,901)	-
Provision for sales return		1,352	891	(1,352)	891
Provision for restoration		2,885	-	(124)	2,761
Provisions for litigation		2,336	2,000	(2,100)	2,236
Other provisions		195	9,234	(8,427)	1,002
Provision for restructuring (*)		-	27,411	(20,530)	6,881
Total		<u>6,768</u>	<u>73,437</u>	<u>(66,434)</u>	<u>13,771</u>
Non-current:					
Provision for restoration		<u>148,586</u>	<u>34</u>	<u>(5,111)</u>	<u>143,509</u>
Total	₩	<u>148,586</u>	<u>34</u>	<u>(5,111)</u>	<u>143,509</u>

(\*) The company announced the detailed formal plan for the restructuring. The provision amount of ₩6,881 million was recognized in relation to compensation expense for the stores.

**21. Other Non-financial Liabilities**

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

<i>(in millions of Korean won)</i>		<b>2021</b>	<b>2020</b>
Current:			
Withholdings	₩	73,619	13,437
Withholdings of value added tax		48,348	61,880
Advances received		1,026,444	803,926
Advance received for sale(construction)		<u>10,885</u>	-
Total	₩	<u>1,159,296</u>	<u>879,243</u>

**LOTTE SHOPPING CO., LTD.**  
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**22. 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>		<b>2021</b>	<b>2020</b>
Present value of defined benefit obligations	₩	620,293	705,325
Fair value of plan assets		(725,157)	(777,570)
Defined benefit assets	₩	(104,864)	(72,245)

(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>		<b>2021</b>	<b>2020</b>
Present value of other long-term employee benefits	₩	20,763	24,016

(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>		<b>2021</b>	<b>2020</b>
Beginning balance	₩	705,326	689,972
Current service cost		82,201	105,995
Interest costs		17,015	15,557
Remeasurements:			
Actuarial loss from change in demographic assumptions		1,430	(88)
Actuarial loss from change in financial assumptions		(64,968)	(24,929)
Actuarial loss from experience adjustments		(20,001)	(15,414)
Subtotal		(83,539)	(40,431)
Benefit payments		(105,757)	(73,103)
Others		5,047	7,335
Ending balance	₩	620,293	705,325

**LOTTE SHOPPING CO., LTD.**  
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**22. 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>		<b>2021</b>	<b>2020</b>
Beginning balance	₩	777,569	725,076
Return on plan assets		19,462	17,676
Remeasurements		(8,957)	(4,970)
Employer contribution		35,900	95,700
Benefit payments		(99,154)	(58,140)
Others		337	2,228
Ending balance	₩	<u>725,157</u>	<u>777,570</u>

The estimated contributions to the plan for the next annual reporting period are ₩68,873 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>		<b>2021</b>	<b>2020</b>
Principal guaranteed insurance policies	₩	725,136	777,548
Contributions to the National Pension Fund		21	22
Total	₩	<u>725,157</u>	<u>777,570</u>

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

<i>(in millions of Korean won)</i>		<b>2021</b>	<b>2020</b>
Current service costs	₩	82,201	105,995
Interest costs		17,015	15,557
Return on plan assets		(19,462)	(17,676)
Contributions to defined contribution plans (*)		86,546	2,749
Long-term employee benefits		(286)	(34,690)
Total	₩	<u>166,014</u>	<u>71,935</u>

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

**LOTTE SHOPPING CO., LTD.**  
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**22. Employee Benefits, continued**

(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	2.29% ~ 3.42%	1.44%~3.04%
Expected rate of promotion	1.33% ~ 2.63%	1.25%~2.54%
Expected rate of increase in salaries	0.52% ~ 10.07%	0.21%~10.07%

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) ₩	(42,991)	48,811
Expected rate of promotion (1%p movement)	40,584	(35,252)
Expected rate of increase in salaries(1%p movement)	48,874	(43,806)

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) Maturity profile of defined benefit obligation

Information about the maturity profile of the defined benefit obligation as of December 31, 2020, 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 ₩		61,100	68,406	211,796	401,536	933,384

The weighted average duration of the defined benefit obligation is 7.30 years.

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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 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	Embedded derivatives	The right of exchange for exchangeable bonds issued by the Company.
	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 Company 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
TRS	Lotte Shopping Co., Ltd.	LEP No. 1 Co., Ltd.,			₩ 30,000							
		LEP No. 2 Co., Ltd.	2021-04-29	2026-04-29	70,000						KB Securities	
		LEP No. 3 Co., Ltd.			50,000			1. Settlement of differences between the selling price of underlying assets and the principal of investment			KB Securities	
		LEP No. 4 Co., Ltd.			73,000							
		LOG No. 1 Co., Ltd.	2017-02-17	2022-02-17	40,000						KB Securities	
		LOG No. 3 Co., Ltd.			24,300	Real estate investment trust related beneficiary certificates	Settlement of disposal of underlying assets	2. Settlement of differences between the actual dividends and standard dividends on each dividend payment date (every 3 months)	None	None	Daiwa Securities	-
		Portobello No. 1 Co., Ltd.	2017-03-24	2022-03-24	4,700							
		Portobello No. 2 Co., Ltd.			40,000							
		LOY No. 1 Co., Ltd.			57,000						KB Securities and others	
		LOY No. 2 Co., Ltd.	2017-07-19	2022-07-20	65,000							
		LOY No. 3 Co., Ltd.			41,000							
		Kimpo Hangang Park No. 1 Co., Ltd.	2017-09-08	2022-09-16	29,800						Mirae Asset Daewoo	
		Kimpo Hangang Park No. 2 Co., Ltd.			120							

**LOTTE SHOPPING CO., LTD.**  
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**23. Derivatives, continued**

(b) Hedge accounting

As of December 31, 2021, the Company 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 issued in foreign currency can be hedged through the currency swap.

Meanwhile, the Company entered into interest swap contracts for the purpose of hedging changes in interest rate of certain debentures 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 millions of Korean won, full foreign currency)*

Type	Description	Principal amount	Fixed exchange rate (in Korean won)	Variable rate	Swap rate	Maturity	Remark
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
Interest rate swap	Short term borrowings	KRW 200,000	Not applicable	91 days CD rate +0.50%	1.62%	2023.03.17	Shinhan Bank

**LOTTE SHOPPING CO., LTD.**  
**Notes to the Separate Financial Statements**  
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**23. Derivatives, continued**

(c) Gain or loss on valuation of derivatives

Changes in the fair value of derivatives for the year ended December 31, 2021 are as follows:

*(in millions of Korean won)*

<b>Purpose</b>	<b>Type</b>	<b>Amount</b>	<b>Remarks</b>
Risk hedge	Currency swaps	₩ 57,050	Profit or loss (*1)
		9,791	Other comprehensive income (*2)
	Interest swaps	2,199	Other comprehensive income (*2)
Trade	Embedded derivatives	529	Profit or loss
	Total return swap	32,464	Profit or loss
	Stock options	8,929	Profit or loss

(\*1) Fair value hedging is applied to currency rate swap portion of currency swaps.

(\*2) The aggregate amounts of loss on valuation of derivatives incurred as of December 31, 2021 are ₩11,991 million. The Company recognized accumulated other comprehensive loss of ₩9,089 million (less tax effects of ₩2,902 million).



**LOTTE SHOPPING CO., LTD.**  
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**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)*

		<b>2021</b>	<b>2020</b>
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	₩	<u>141,444</u>	<u>141,444</u>

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

*(in millions of Korean won)*

		<b>2021</b>	<b>2020</b>
Additional paid-in capital	₩	3,414,873	3,414,873
Others		175,663	175,663
Total	₩	<u>3,590,536</u>	<u>3,590,536</u>

**25. Capital Adjustments**

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

*(in millions of Korean won)*

		<b>2021</b>	<b>2020</b>
Treasury stocks	₩	3,803	3,803
Changes due to merger		14,423	14,423
Other capital adjustments		2,800,072	2,800,072
Total	₩	<u>2,818,298</u>	<u>2,818,298</u>

**LOTTE SHOPPING CO., LTD.**  
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**26. Retained Earnings**

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

<i>(in millions of Korean won)</i>		<b>2021</b>	<b>2020</b>
Legal reserves	₩	249,801	241,885
Voluntary reserves		8,370,052	9,320,052
Unappropriated deficit		291,333	(818,788)
	₩	<u>8,911,186</u>	<u>8,743,149</u>

(b) The appropriation of retained earnings for the years ended December 31, 2021 and 2020 are as follows:

<i>(in millions of Korean won)</i>		<b>2021</b>	<b>2020</b>
Unappropriated retained earnings carried over from prior year	₩	44,139	18,674
Remeasurements of net defined benefit liabilities		56,534	23,578
Gain/Loss from sale of equity instruments at fair value through other comprehensive income		(1,175)	170,957
Gain (Loss) for the year		191,835	(1,031,997)
		<u>291,333</u>	<u>(818,788)</u>
Transfers such as voluntary reserves		-	950,000
Appropriation of retained earnings			
Legal reserve		7,916	7,916
Dividends (Cash dividend %):			
Common stock: ₩2,800(56%) in 2021 and ₩2,800(56%) in 2020		79,158	79,158
Voluntary reserve		150,000	-
		<u>237,074</u>	<u>87,074</u>
Unappropriated retained earnings to be carried forward	₩	<u>54,259</u>	<u>44,138</u>

**LOTTE SHOPPING CO., LTD.**  
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**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:

(in millions of Korean won)

(in millions of Korean won)

		2021				
		Beginning balance	Changes for the year	Reclassification adjustments	Tax effects for the year	Ending balance
Fair value gain (loss) through other comprehensive income	₩	(47,185)	(27,956)	1,175	6,480	(67,486)
Cash flow hedge		(10,688)	11,991	-	(2,902)	(1,599)
	₩	(57,873)	(15,965)	1,175	3,578	(69,085)

(in millions of Korean won)

(in millions of Korean won)		2020				
		Beginning balance	Changes for the year	Reclassification adjustments	Tax effects for the year	Ending balance
Fair value gain (loss) through other comprehensive income	₩	76,033	3,833	(170,957)	43,906	(47,185)
Cash flow hedge		(12,112)	2,606	-	(1,182)	(10,688)
	₩	63,921	6,439	(170,957)	42,724	(57,873)

**28. Earnings (losses) per Share**

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

(in Korean won, except for number of shares)

		2021	2020
Profit (loss) for the year	₩	191,835,328,062	(1,031,996,637,355)
Weighted average number of common shares outstanding (in shares)		28,270,640	28,270,640
Basic Earnings (loss)	₩	<u>6,786</u>	<u>(36,504)</u>

(b) Diluted earnings (losses) per share

Basic and diluted earnings (losses) per share are the same since any potential common shares have not issued.

**LOTTE SHOPPING CO., LTD.**  
**Notes to the Separate Financial Statements**  
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**29. Sales**

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

<i>(in millions of Korean won)</i>			<b>2021</b>	<b>2020</b>
Revenue from contracts with customers	Sales of merchandise	₩	12,530,817	12,720,518
	Sales of products		656,220	627,945
	Other sales (*)		283,304	227,081
	Total sales		<u>13,470,341</u>	<u>13,575,544</u>
	Sales discounts and sales returns		(943,877)	(963,779)
	Provision for sales return and deferred sales		(229,222)	(157,880)
	Cost of specific sales		<u>(5,193,052)</u>	<u>(4,889,035)</u>
	Total sales deduction		<u>(6,366,151)</u>	<u>(6,010,694)</u>
	Revenue from other sources: rental revenue		<u>1,304,014</u>	<u>1,143,235</u>
	Total	₩	<u>8,408,204</u>	<u>8,708,085</u>

(\*) Due to COVID-19, other sales include government grant of ₩24,154 million received from Korea Argo-Fisheries & Food Trade Corporation and Korea Fisheries Association to promote agricultural consumption.

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

<i>(in millions of Korean won)</i>			<b>2021</b>	<b>2020</b>
Contract liabilities				
Customer loyalty program	₩		103,944	86,098
Gift vouchers			988,935	815,358
Advance payment for sale(Construction)			10,885	-
Other			<u>36,012</u>	<u>24,486</u>
Total	₩		<u>1,139,776</u>	<u>925,942</u>

(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>			<b>2021</b>	<b>2020</b>
Revenue				
Customer loyalty programs	₩		85,043	89,700
Others			<u>23,166</u>	<u>42,655</u>
Total			<u>108,209</u>	<u>132,355</u>
Collected				
Gift vouchers			<u>422,338</u>	<u>405,035</u>
Total	₩		<u>422,338</u>	<u>405,035</u>

**LOTTE SHOPPING CO., LTD.**  
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**29. Sales, continued**

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

*(in millions of Korean won)*

	<b>Book amount</b>	<b>1 year</b>	<b>Between 1-5 years</b>	<b>Over 5 years</b>
₩	988,935	515,330	469,151	4,454

**LOTTE SHOPPING CO., LTD.**  
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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>		<b>2021</b>	<b>2020</b>
Salaries and bonuses	₩	825,828	856,632
Retirement benefits		164,996	106,941
Long-term employee benefits		(276)	(34,158)
Employee benefits		160,870	159,966
Training expenses		6,584	4,839
Travel expenses		8,183	9,608
Vehicles maintenance expenses		1,221	1,323
Insurance premium		6,777	8,556
Taxes and dues		164,955	150,163
Entertainment expenses		852	1,303
Supplies expenses		40,339	35,652
Publication expenses		712	828
Communication expenses		8,891	9,319
Utility expenses		201,737	204,824
Repairs and maintenance		37,343	29,956
Paid rents		123,607	111,920
Depreciation		882,215	881,304
Amortization		24,453	20,627
Commission expenses		475,557	448,309
Service commission expenses		682,321	713,216
Advertising expenses		95,124	89,699
Samples expenses		184	190
Sales commissions		101,126	98,798
Sales promotion expenses		61,616	62,099
Decoration expenses		19,486	8,125
Bad debt expense		1,361	722
Transportation expenses		34,397	28,932
Research and development expenses		250	219
Compensation expenses		20,213	12,859
Provisions		(3,066)	(3,213)
Others		710	855
Total	₩	<u>4,148,566</u>	<u>4,020,413</u>

**LOTTE SHOPPING CO., LTD.**  
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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>
<b>Other income:</b>			
Gain on foreign currency transactions	₩	1,256	2,191
Gain on foreign currency translation		914	84
Gain on disposal of property, plant and equipment		51,409	16,451
Gain on disposal of intangible assets		360	-
Gain on termination of financial lease		83,121	110,309
Gain on disposal of right-of-use assets		53,836	25,500
Gain on bargain purchase		18,172	-
Gain on disposal of assets held for sale		121,728	3,351
Miscellaneous gains		36,492	35,096
Total	₩	<u>367,288</u>	<u>192,982</u>
<b>Other expenses:</b>			
Loss on foreign currency transactions	₩	1,303	2,054
Loss on foreign currency translation		-	627
Loss on disposal of property, plant and equipment		5,339	15,842
Impairment loss on right-of-use assets		303,864	540,693
Impairment loss on property, plant and equipment		16,082	97,139
Loss on disposal of intangible assets		6,675	503
Impairment loss on intangible assets and goodwill		38,094	170,740
Loss on termination of lease		22,012	3,178
Loss on disposal of right-of-use assets		13,110	16,356
Loss on disposal of assets held for sale		32	295
Impairment loss on other non-current assets		-	360
Donations		7,188	6,829
Other bad debt expenses		19	6,623
Miscellaneous losses		2,219	9,163
Total	₩	<u>415,937</u>	<u>870,402</u>

**LOTTE SHOPPING CO., LTD.**  
**Notes to the Separate Financial Statements**  
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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>		<b>2021</b>	<b>2020</b>
Purchase of inventories	₩	4,123,756	4,450,655
Changes in inventories		15,288	41,470
Employee benefits		1,164,782	1,101,606
Paid rents		126,124	114,656
Depreciation and amortization		913,391	910,220
Sales commissions		101,126	98,798
Sales promotion expenses		61,616	62,099
Commission expenses		475,896	448,458
Service expenses		700,056	731,011
Advertising expenses		95,124	89,699
Utility expenses		204,132	207,311
Taxes and dues		165,138	150,363
Others		175,680	167,730
Total of cost of goods sold and selling, general and administrative expenses	₩	<u>8,322,109</u>	<u>8,574,076</u>



**LOTTE SHOPPING CO., LTD.**  
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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>
<b>Finance income:</b>			
Interest income according to the effective interest rate method	₩	50,351	49,476
Dividend income		145,547	75,853
Gain on foreign currency transactions		6,057	-
Gain on foreign currency translation		6,158	80,583
Gain on valuation of debt instrument at fair value through profit or loss		467	68
Gain on disposal of debt instrument at fair value through profit or loss		287	4
Gain on valuation of derivatives held for hedging		57,050	-
Gain on valuation of derivatives held for trading		41,921	9,679
Gain on transaction of derivatives held for hedging		33,603	-
Gain on transaction of derivatives held for trading		18,084	817
Gain on disposal of investments in subsidiaries, associates and joint ventures		47,012	-
Reversal of financial guarantee liabilities		1,688	171,554
Total	₩	<u>408,225</u>	<u>388,034</u>
<b>Finance costs:</b>			
Interest expense according to the effective interest rate method	₩	303,215	304,674
Loss on foreign currency transactions		34,209	-
Loss on foreign currency translation		57,050	19,861
Loss on valuation of debt instrument at fair value through profit or loss		290	1,284
Loss on valuation of derivatives held for hedging		-	81,395
Loss on valuation of derivatives held for trading		-	13,682
Loss on transaction of derivatives held for trading		5	82
Loss on repayment of bonds		14,409	-
Impairment loss on investments in subsidiaries, associates, and joint ventures		257,158	540,903
Impairment loss on assets held for sale		-	689
Total	₩	<u>666,336</u>	<u>962,570</u>

**LOTTE SHOPPING CO., LTD.**  
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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 assets at fair value through profit or loss	Financial assets 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	Other financial liabilities	Total
Recognized in profit or loss										
Interest income	₩	22,401	27,950	-	-	-	-	-	-	50,351
Interest expense		-	-	-	-	-	-	(303,215)	-	(303,215)
Dividend income		-	-	174	3,404	-	-	-	-	3,578
Valuation/ Disposal		-	-	177	287	60,000	90,653	(14,409)	-	136,708
Impairment		-	(1,380)	-	-	-	-	-	-	(1,380)
Exchange differences		12,641	902	-	-	-	-	(91,540)	-	(77,997)
Reversal of financial guarantee liabilities		-	-	-	-	-	-	-	1,688	1,688
Subtotal		35,042	27,472	351	3,691	60,000	90,653	(409,164)	1,688	(190,267)
Recognized in other comprehensive income (loss)										
Fair value gain through other comprehensive income (*)		-	-	-	(27,956)	-	-	-	-	(27,956)
Gain on valuation of derivatives (*)		-	-	-	-	-	11,991	-	-	11,991
Subtotal		-	-	-	(27,956)	-	11,991	-	-	(15,965)
Total	₩	35,042	27,472	351	(24,265)	60,000	102,644	(409,164)	1,688	(206,232)

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

(in millions of Korean won)

in millions of Korean won)

		2020								
		Cash and cash equivalents	Financial assets at amortized cost	Financial assets at fair value through profit or loss	Financial assets 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	Other financial liabilities	Total
Recognized in profit or loss										
Interest income	₩	15,839	33,637	-	-	-	-	-	-	49,476
Interest expense		-	-	-	-	-	-	(304,674)	-	(304,674)
Dividend income		-	-	-	6,236	-	-	-	-	6,236
Valuation/ Disposal		-	-	(1,211)	-	(3,268)	(81,395)	-	-	(85,874)
Impairment		-	(7,345)	-	-	-	-	-	-	(7,345)
Exchange differences		-	61	(1,646)	72,220	-	-	(10,319)	-	60,316
Reversal of financial guarantee liabilities		-	-	-	-	-	-	-	171,554	171,554
Subtotal		15,839	26,353	(2,857)	78,456	(3,268)	(81,395)	(314,993)	171,554	(110,311)
Recognized in other comprehensive income (loss)										
Fair value gain through other comprehensive income (*)		-	-	-	(167,124)	-	-	-	-	(167,124)
Gain on valuation of derivatives (*)		-	-	-	-	-	2,606	-	-	2,606
Subtotal		-	-	-	(167,124)	-	2,606	-	-	(164,518)
Total	₩	15,839	26,353	(2,857)	(88,668)	(3,268)	(78,789)	(314,993)	171,554	(274,829)

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

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

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**34. Income Taxes**

(a) Income tax expense 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	₩	(4,660)	(10,498)
Deferred tax due to temporary differences		<u>(393,370)</u>	<u>(106,293)</u>
Total income tax effect		(398,030)	(116,791)
Income tax charged directly to equity		<u>(14,471)</u>	30,842
Income tax revenue (expense)	₩	<u>(412,501)</u>	<u>(85,949)</u>

(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 through other comprehensive income	₩	6,480	43,906
Gain (loss) on valuation of derivatives		(2,902)	(1,182)
Remeasurements of defined benefit liabilities		<u>(18,049)</u>	<u>(11,882)</u>
Income tax charged directly to equity	₩	<u>(14,471)</u>	<u>30,842</u>

Income tax related to fair value loss through other comprehensive income, gain (loss) on valuation of derivatives, remeasurements of defined benefit liabilities and effects of changes in accounting policy are recognized in other comprehensive income.

**LOTTE SHOPPING CO., LTD.**  
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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>		<b>2021</b>	<b>2020</b>
Net loss before income tax expense	₩	(220,666)	(1,117,946)
Income tax using statutory tax rate		(53,401)	(270,543)
Adjustment:		(359,101)	184,594
Tax effects on non-taxable income		(9,517)	(4,412)
Tax effects on non-deductible expense		1,938	15,490
Adjustment for prior periods		804	(12,374)
Changes in impracticable contemporary difference		(574,580)	130,939
Changes in deferred income tax due to change in tax rate		-	50,054
Deferred tax assets not recognized because of loss carried forward		246,331	-
Others		(24,077)	4,897
Income tax revenue (expense)	₩	<u>(412,501)</u>	<u>(85,949)</u>
Effective tax rate (*)		-	-

(\*) The Company has not present 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.**  
**Notes to the Separate Financial Statements**  
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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
Investments in subsidiaries and associates	₩	(3,954)	-	-	(3,954)
Depreciation		42,451	(13,133)	-	29,317
Allowance for bad debt		9,423	(6,794)	-	2,629
Accrued income		(523)	(100)	-	(623)
Losses on valuation of inventories		2,305	(201)	-	2,104
Provision for sales return		142	30	-	173
Property, plant and equipment (capitalization of borrowing costs)		(9,922)	(436)	-	(10,358)
Land		36,987	-	-	36,987
Land (asset revaluation)		(1,035,755)	109,692	-	(926,063)
Accrued expense		8,202	(3,184)	-	5,018
Gain (loss) on foreign currency translation		1,555	-	-	1,555
Construction-in-progress		1,371	(1,008)	-	363
Impairment loss on intangible assets		29,740	(2,741)	-	26,999
Security deposits for leases		56,739	(1,552)	-	55,187
Goodwill		(14,507)	16,857	-	2,350
Exchangeable bonds		(4,843)	4,559	-	(285)
Fair value loss through other comprehensive income		15,066	-	6,480	21,546
Gain(loss) on valuation of derivatives		4,479	(10,813)	(2,902)	(9,235)
Salaries and retirement benefits		3,930	10,450	(18,049)	(3,669)
Right-of-use assets and lease liabilities		288,405	69,779	-	358,184
Loss carried forward		19,639	243,124	-	262,763
Others		69,860	(6,689)	-	63,172
Total	₩	(479,210)	407,840	(14,471)	(85,840)

**LOTTE SHOPPING CO., LTD.**  
**Notes to the Separate Financial Statements**  
**As of December 31, 2021 and 2020**

**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
Investments in subsidiaries and associates	₩	(3,954)	-	-	(3,954)
Depreciation		52,435	(9,984)	-	42,451
Allowance for bad debt		(128)	9,552	-	9,423
Accrued income		(1,399)	876	-	(523)
Losses on valuation of inventories		2,939	(634)	-	2,305
Provision for sales return		243	(100)	-	142
Property, plant and equipment (capitalization of borrowing costs)		(10,899)	977	-	(9,922)
Land		36,987	-	-	36,987
Land (asset revaluation)		(1,044,981)	9,225	-	(1,035,755)
Accrued expense		11,529	(3,327)	-	8,202
Gain (loss) on foreign currency translation		1,767	(212)	-	1,555
Construction-in-progress		1,634	(263)	-	1,371
Impairment loss on intangible assets		36,148	(6,408)	-	29,740
Security deposits for leases		13,026	43,714	-	56,739
Goodwill		(47,496)	32,989	-	(14,507)
Exchangeable bonds		(7,837)	2,994	-	(4,843)
Fair value loss through other comprehensive income		(28,840)	-	43,906	15,066
Gain(loss) on valuation of derivatives		5,339	322	(1,182)	4,479
Salaries and retirement benefits		20,580	(4,767)	(11,882)	3,930
Right-of-use assets and lease liabilities		324,635	(36,230)	-	288,405
Loss carried forward		-	19,639	-	19,639
Others		52,772	17,088	-	69,860
Total	₩	(585,500)	75,451	30,842	(479,210)

- (f) Temporary differences not recognized as deferred tax assets related to investments in associates and subsidiaries as of December 31, 2021 and 2020 are ₩ 1,590,623 million and ₩3,945,842 million, respectively.

Temporary differences not recognized as deferred tax assets related to tax loss as of December 31, 2021 is ₩1,017,896 million. (extinguished in 2036)

- (g) As of December 31, 2021 and 2020, the amounts of deferred and current tax assets and liabilities using gross amounts before off-setting are as follows:

(in millions of Korean won)

	2021	2020
Deferred tax assets	₩ 2,241,466	2,094,521
Deferred tax liabilities	2,327,305	2,573,730
Current tax assets	138,510	2,961
Current tax liabilities	47	1,876

**LOTTE SHOPPING CO., LTD.**  
**Notes to the Separate Financial Statements**  
**As of December 31, 2021 and 2020**

**35. Separate 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>		<u>2021</u>	<u>2020</u>
Cash	₩	10,208	9,472
Deposits		40,368	25,609
Other cash equivalents		<u>1,523,440</u>	<u>1,023,363</u>
Total	₩	<u>1,574,016</u>	<u>1,058,444</u>

(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>		<u>2021</u>	<u>2020</u>
Income tax revenue	₩	(412,502)	(85,950)
Retirement benefits		79,754	103,876
Long-term employee benefits		(286)	(34,690)
Depreciation		888,923	889,575
Amortization		24,468	20,645
Impairment loss on property, plant and equipment		16,082	97,139
Impairment loss on intangible assets and goodwill		38,094	170,740
Impairment loss on asset held for sale		-	689
Impairment loss on right-of-use assets		303,864	540,693
Loss on foreign currency translation		57,050	20,488
Loss on foreign currency transactions		34,209	-
Loss on disposal of property, plant and equipment		5,339	15,842
Loss on disposal of intangible assets		6,675	503
Loss on disposal of right-of-use assets		13,110	16,356
Loss on disposal of assets held for sale		32	295
Loss on valuation of debt instrument at fair value through profit or loss		290	1,284
Bad debt expenses		1,361	722
Other bad debt expenses		19	6,623
Impairment loss on other non-current assets		-	360
Loss on valuation of derivatives		-	95,076
Loss on transactions of derivatives		5	82
Loss on repayment of bonds		14,409	-
Rental expenses (amortization of discount on deposit, etc.)		32	265
Loss on lease termination		22,012	3,178
Impairment loss on investments in subsidiaries, associates and joint ventures		257,158	540,903
Interest expense		303,215	304,674
Miscellaneous losses		2,612	3,249
Transfer of other provision		-	8,650

**LOTTE SHOPPING CO., LTD.**  
**Notes to the Separate Financial Statements**  
**As of December 31, 2021 and 2020**

**35. Separate 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)

		2021	2020
Other expenses without cash outflows	₩	160	-
Reversal of other provision		-	(26)
Reversal of provision for restoration		(3,066)	(3,187)
Reversal of financial guarantee costs		(1,688)	(171,554)
Gain on foreign currency translation		(7,073)	(80,667)
Gain on foreign currency transactions		(6,057)	-
Gain on disposal of property, plant and equipment		(51,409)	(16,451)
Gain on valuation of debt instrument at fair value through profit or loss		(467)	(68)
Gain on valuation of derivatives		(98,971)	(9,679)
Gain on transactions of derivatives		(51,687)	(817)
Gain on lease termination		(83,121)	(110,309)
Gain on disposal of right-of-use assets		(53,836)	(25,500)
Gain on disposal of investments in subsidiaries, associates and joint ventures		(47,012)	-
Gain on disposal of debt instrument at fair value through profit or loss		(287)	(4)
Gain on disposal of assets held for sale		(121,728)	(3,351)
Gain on disposal of intangible assets		(360)	-
Gain on bargain purchase		(18,172)	-
Rental income		(4,955)	(5,829)
Interest income		(50,351)	(49,476)
Dividends income		(145,547)	(75,853)
Miscellaneous gains		-	(4,607)
Total	₩	910,298	2,163,889



**LOTTE SHOPPING CO., LTD.**  
**Notes to the Separate Financial Statements**  
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**35. Separate 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>		<b>2021</b>	<b>2020</b>
Decrease (increase) of trade receivables	₩	(31,956)	153,856
Decrease of other receivables		90,660	59,777
Decrease in other financial assets		3,327	66,931
Decrease of inventories		33,222	70,017
Increase in other non-financial assets		(12,838)	(2,462)
Decrease of trade payables		(19,820)	(4,449)
Decrease (increase) of other payables		151,086	(343,752)
Decrease of other financial liabilities		(6,696)	(57,660)
Increase in other non-financial liabilities		279,372	6,854
Increase (decrease) of deferred income		33,061	(3,813)
Decrease of provisions		(5,576)	(1,397)
Payment of other long-term employee benefits		(3,383)	(6,339)
Payment of defined benefit assets		(91,440)	(68,555)
Decrease (Increase) in plan assets		61,058	(38,156)
Total	₩	<u>480,077</u>	<u>(169,148)</u>

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

<i>(in millions of Korean won)</i>		<b>2021</b>	<b>2020</b>
Other payables for acquisition of property, plant and equipment	₩	5,666	(32,507)
Acquisition of right-of-use assets		1,632,998	69,083
Acquisition of lease liabilities		1,596,444	49,301

**LOTTE SHOPPING CO., LTD.**  
**Notes to the Separate Financial Statements**  
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**35. Separate Statements of Cash Flows, continued**

(d) Adjustment in liabilities arising from financial activities for the years ended December 31, 2021 and 2020 are as follows:

(in millions of Korean won)

		2021						
		Other assets		Liabilities from financial activities				Total
		Current derivatives assets held for hedging	Non-Current derivatives assets held for hedging	Leasehold deposit received	Short-term borrowings and debentures	Long-term borrowings and debentures	Lease liabilities	
Beginning balance	₩	1,086	-	324,901	1,846,086	3,711,796	5,932,246	11,816,115
Net cash flow from financing activities		-	-	(120,423)	(1,860,504)	919,998	(745,580)	(1,806,509)
Non-cash flows								
Transfer to current portion		4,144	-	-	1,177,207	(1,177,207)	-	4,144
Foreign currency translation		-	-	-	53,103	37,550	-	90,653
Change in lease liabilities		-	-	-	-	-	544,360	544,360
Others		-	17,032	68,878	12,279	6,833	146,408	251,430
Ending balance	₩	5,230	17,032	273,356	1,228,171	3,498,970	5,877,434	10,900,193

(in millions of Korean won)

		2020				
		Other assets	Liabilities from financing activities			Total
		Current derivatives liabilities (assets) held for hedging	Short-term borrowings and debentures	Long-term borrowings and debentures	Lease liabilities	
Beginning balance	₩	-	1,280,453	3,921,375	6,440,741	11,642,569
Net cash flow from financing activities (*)		-	(50,000)	479,136	(540,173)	(111,037)
Non-cash flows						
Transfer to current portion		1,086	652,550	(663,471)	30,875	21,040
Foreign currency translation		-	(46,465)	(26,730)	-	(73,195)
Others		-	9,548	1,485	803	11,836
Ending balance	₩	1,086	1,846,086	3,711,795	5,932,246	11,491,213

(\*) Cash outflows due to interest expenses are not included.

(e) 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 ₩ 50,701 million, investing cash flows increased ₩ 66,446 million, financial cash flows decreased ₩ 15,745 million and there is no effect on agreed net assets, net income, net cash flow, and earnings (loss) per share.

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**36. Greenhouse Gases Emission Rights**

(a) Emission Right

The Company participates in the allocation and trading system of emissions from 2015. The 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>
2021	770,535
2022	770,535
2023	770,535
2024	748,998
2025	748,998

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

(b) Emission liabilities

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

**37. Contingencies and Commitments**

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

*(in millions of Korean won, full foreign currency)*

	<u>Currency</u>	<u>Credit line</u>	<u>Amount used under credit facility</u>
General loan	KRW	300,000	300,000
Discount of bill	KRW	600,000	200,000
Buyer's credit	KRW	240,000	-
Bank overdraft	KRW	42,000	-
Letter of credit and others	USD	23,000,000	12,547,234

(b) 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, marts, shopping malls and supermarkets. In return, the Company receives 10% of operating profits (before depreciation expenses) for department stores, marts and supermarkets and 9% of operating profits (before depreciation expenses) for shopping malls as management fees which is recorded as other sales.

(c) As of December 31, 2021, the Company is involved in 21 lawsuits as a plaintiff with damage claims totaling ₩ 47,567 million and is involved in 31 lawsuits as a defendant with damage claims totaling ₩ 44,664 million. The management believes that the ultimate resolutions of other legal actions will not have a material impact on the financial position or results of operations of the Company.

Also, the Company is involved in 10 lawsuits as a defendant with damage related to victims of humidifier disinfectant totaling of ₩24,007 million and the Company recognized other liabilities of ₩2,234 million in regard to the claim on victims of humidifier disinfectant as of December 31, 2021.

**LOTTE SHOPPING CO., LTD.**  
**Notes to the Separate Financial Statements**  
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**37. Contingencies and Commitments, continued**

- (d) As of December 31, 2021, the Company has entered into loan agreements securing trade receivables with Industrial Bank of Korea and others amounting to ₩330,000 million.
- (e) As of December 31, 2021, the Company is provided performance guarantees totaling ₩49,986 million (117 cases) from Seoul Guarantee Insurance and others for its business.
- (f) Brand usage contract, etc.

The Company has 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 Company 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.

- (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 24<sup>th</sup>, 2022) of KORAMCO Specialty Investment Private Property Investment Trust No. 57.
- (h) The Company 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 Company has been leasing back the assets. The Company has the preemptive options to purchase the land and the building at a fair value at the end of the lease. The operation of Hangdong store was discontinued during the year 2020.

The Company 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 Company has the preemptive options to purchase the land and the building at a fair value at the end of the lease. The operation of Lotte Mart Guro store and Dobong store were discontinued during the year 2020.

The Company 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 Company has the preferential right of negotiation to purchase the building.

In 2014, the Company 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 Company has been leasing back the assets. The Company 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 Company has been leasing back the assets. The Company has the preferential right of negotiation to purchase the land and the building at the end of the lease.

In 2015, the Company 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 Company has been leasing the assets. And the Company 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 Company has been leasing back the assets. The Company has the preferential right of negotiation to purchase the land and the building at the end of the lease.

**LOTTE SHOPPING CO., LTD.**  
**Notes to the Separate Financial Statements**  
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**37. Contingencies and Commitments, continued**

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

Starting 2019, the Company has been leasing the land and buildings of Lotte department store Gangnam of LOTTE REIT Co., Ltd. for ₩269.7 billion. The Company disposed the land and buildings of 5 branches including Lotte department store Changwon and 4 branches including Lotte mart Euiwang for ₩1,062.3 billion and the Company has been leasing back the assets. The Company has the preferential right of negotiation to purchase the land and the building at the end of the lease.

During 2021, the Company has sold 3 branches including Lotte department store Jung-dong and 2 branches including Lotte Mart Gye-yang for ₩ 682.7 billion to LOTTE REIT Co., Ltd. and has been leasing back the assets. The Company has the preferential right of negotiation to purchase the land and the building at the end of the lease.

- (i) 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.
- (j) 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 agreed to purchase all shares issued to the new owner with cash if the Company didn't disclose the company information within a certain period of time based on agreement with the new owner. The Company didn't oppose performance of such obligation unless it violated the law.
- (k) During 2019, the Company granted LOTTE REIT Co., Ltd. the preferential right of negotiation to purchase 17 branches including Lotte department store Myeongdong and 67 branches including Lotte Mart Gangbyeon.
- (l) The Company has call options that can be exercised until the third year from the date of initial acquisition of 70.26% shares in Joonggo-nara owned by Eugene Unicorn Private Equity Limited Company and other investors.

**LOTTE SHOPPING CO., LTD.**  
**Notes to the Separate Financial Statements**  
**As of December 31, 2021 and 2020**

**38. Related Party Transactions**

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

<b>Related company</b>	<b>Percentage of ownership (%)</b>
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>Subsidiaries</b>	<b>Percentage of ownership (%)</b>		
	<b>Company</b>	<b>Subsidiaries</b>	<b>Total</b>
Woori Home Shopping & Television Co., Ltd.	53.49	-	53.49
Lotte GFR	99.93	-	99.93
Lotte Gimhae Development Co., Ltd.	100.00	-	100.00
Lotte Suwon Station Shopping Town Co., Ltd.	100.00	-	100.00
Lotte Songdo Shopping Town Co., Ltd.	100.00	-	100.00
CS Mart Co., Ltd.	99.95	-	99.95
Lotte Himart Co., Ltd.	65.25	-	65.25
Lotte Ulsan Development Co., Ltd.	96.83	-	96.83
Lotte Cultureworks Co., Ltd.	86.37	-	86.37
LOTTE CINEMA VIETNAM CO., LTD.	-	90.00	90.00
Lotte corporate venture fund No. 1	18.78	79.81	98.59
Lotte Home-shopping Innovation fund No. 1	-	98.52	98.52
Lotte Shopping Innovation fund No. 1	99.00	-	99.00
IMM HIMECO Investment 1	83.71	16.13	99.84
Heim II Limited	-	100.00	100.00
Lotte DMC Development Co., Ltd.	95.00	-	95.00
LOTTE REIT Co., Ltd.	50.00	-	50.00
Lotte Incheon Development Co., Ltd.	100.00	-	100.00
Lotte Incheon Town Co., Ltd.	100.00	-	100.00
LOTTE Town Dongtan Co., Ltd.	100.00	-	100.00
Lotte Shopping Town Daegu Co., Ltd.	100.00	-	100.00
Lotte (China) Management Co., Ltd.	70.00	-	70.00
Lotte Department Store (Shenyang) Co., Ltd.	100.00	-	100.00
Lotte Department Store (Chengdu) Co., Ltd.	100.00	-	100.00
LOTTE PROPERTIES (CHENGDU) HK LIMITED	73.46	-	73.46
Lotte Properties (Chengdu) Limited	-	100.00	100.00
LOTTE SHOPPING HOLDINGS (SINGAPORE) PTE. LTD.	100.00	-	100.00
LOTTE VIETNAM SHOPPING JOINT STOCK COMPANY	-	99.99	99.99
PT. LOTTE SHOPPING INDONESIA	-	80.00	80.00
PT. LOTTE MART INDONESIA	-	100.00	100.00
PT. LOTTE Shopping Avenue Indonesia	-	100.00	100.00

**LOTTE SHOPPING CO., LTD.**  
**Notes to the Separate Financial Statements**  
**As of December 31, 2021 and 2020**

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**38. Related Party Transactions, continued**

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

Subsidiaries	Percentage of ownership (%)		
	Company	Subsidiaries	Total
Lotte Shopping India Private Limited	-	100.00	100.00
LOTTEMART C&C INDIA PRIVATE LIMITED	-	100.00	100.00
Lotte Shopping Plaza Vietnam Co., Ltd.	-	100.00	100.00
LOTTE HOTEL & RETAIL VIETNAM PTE. LTD.	20.00	40.00	60.00
Lotte Holdings Hong Kong Ltd.	-	100.00	100.00
HAI THAHN - LOTTE COMPANY LIMITED	-	70.00	70.00
LOTTE E-COMMERCE VIETNAM CO., LTD	-	100.00	100.00
LOTTE PROPERTIES (HANOI) SINGAPORE PTE. LTD.	90.00	-	90.00
LOTTE PROPERTIES HANOI CO., LTD.	-	100.00	100.00

**LOTTE SHOPPING CO., LTD.**  
**Notes to the Separate Financial Statements**  
**As of December 31, 2021 and 2020**

**38. 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:

(in millions of Korean won)		2021				
Name of related parties		Sales	Purchase	Acquisition of property, plant and equipment and intangible assets	Other income (*1,7)	Other expenses (*7)
<b>Shareholders:</b>						
Lotte Corporation	₩	2,231	-	-	-	19,589
Hotel Lotte Co., Ltd.		61,492	534	-	103	35,272
Hotel Lotte Pusan Co., Ltd.		3,457	-	2,003	-	7,807
Subtotal		67,180	534	2,003	103	62,668
<b>Subsidiaries:</b>						
Woori Home Shopping & Television Co., Ltd.		3,065	-	-	21,214	31,655
Lotte Himart Co., Ltd. (*2)		59,200	-	12	18,722	150
Lotte Cultureworks Co., Ltd.		43,967	-	-	1,555	56
Lotte Suwon Station Shopping Town Co., Ltd.		6,976	-	-	-	24,750
CS Mart Co., Ltd.		8,145	-	-	-	470
Lotte Incheon Development Co., Ltd.		25,801	4	-	4,056	137
LOTTE REIT Co., Ltd. (*3)		99	-	28	765,053	22,935
Others		17,517	-	-	3,687	16,845
Subtotal		164,770	4	40	814,287	96,998
<b>Associates:</b>						
FRL Korea Co., Ltd.		26,690	-	-	49,000	-
Zara Retail Korea		10,567	-	-	12,000	-
LOTTE CARD Co., Ltd.		3,344	-	-	10,682	119,042
Subtotal		40,601	-	-	71,682	119,042
<b>Others (*4):</b>						
Lotte Confectionery Co., Ltd.		2,380	50,944	-	-	10,897
Lotte Chilsung Beverage Co., Ltd.		10,376	42,621	-	40	97
Lotte Data Communication Company (*5)		1,042	-	29,625	-	124,768
Korea Seven Co., Ltd.		4,554	39	-	236	819
Lotte GRS Co., Ltd.		8,958	-	-	23	3,035
LOTTE ASSET DEVELOPMENT CO., LTD. (*6)		1,716	-	542	320	43,757
LOTTE Property&Development (*8)		15,552	-	-	831,365	30,399
LOTTE STATION B/D. Co. Ltd.		8,663	-	-	508	249
LOTTE INTERNATIONAL CO., LTD.		862	117,524	-	-	2
Lotte Engineering & Construction Co., Ltd.		344	-	217,779	-	975
LOTTE FOOD CO., LTD.		3,376	75,661	-	2	6,050
LOTTE ALUMINIUM CO., LTD.		72	5,393	1,167	-	5,979
LOTTE Global Logistics Co., Ltd.		1,298	36	-	-	228,115
Others		7,179	2,985	870	1,092	90,543
Subtotal		66,372	295,203	249,983	833,586	545,685
Total	₩	338,923	295,741	252,026	1,719,658	824,393

(\*1) Other income includes disposals of property, plant and equipment.

(\*2) The Company sold gift vouchers to the LOTTE Himart Co., Ltd. for a total of ₩622 million for the year ended December 31, 2020.

(\*3) The Company signed a Sale and leaseback contract with LOTTE REIT Co., Ltd. during 2021.

(\*4) 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.

(\*5) Other expenses include ₩ 6,800 million in the mobile gift certificate business transferred from Lotte Data Communication Company. (Note 41)

(\*6) Other expenses include ₩ 42,670 million in the Shopping-mall business transferred from LOTTE ASSET DEVELOPMENT CO., LTD. (Note 41)

(\*7) The Company has entered into lease agreements with related parties. As a result, interest income received in



# **LOTTE SHOPPING CO., LTD.** **Notes to the Separate Financial Statements** **As of December 31, 2021 and 2020**

## **38. Related Party Transactions, continued**

accordance with amortization of financial 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.

(\*8) 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.

(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

(in millions of Korean won)		2020				
Name of related parties		Sales	Purchase	Acquisition of property, plant and equipment and intangible assets	Other income (*1,4)	Other expenses (*4)
<b>Shareholders:</b>						
Lotte Corporation	₩	2,318	-	-	-	21,162
Hotel Lotte Co., Ltd.		57,392	8,900	42	38	39,318
Hotel Lotte Pusan Co., Ltd.		4,695	-	189	92	8,554
Subtotal		64,405	8,900	231	130	69,034
<b>Subsidiaries:</b>						
Woori Home Shopping & Television Co., Ltd.		5,385	-	-	-	32,665
Lotte Himart Co., Ltd. (*2)		58,360	-	33	858	25
Lotte Cultureworks Co., Ltd.		40,194	-	-	1,379	179
Lotte Suwon Station Shopping Town Co., Ltd.		7,234	-	-	5	17,159
CS Mart Co., Ltd.		5,766	155	-	38	656
Lotte Incheon Development Co., Ltd.		24,109	13	-	1,256	420
LOTTE REIT Co., Ltd.		-	-	15	-	17,521
Others		25,966	-	3,747	4,889	6,258
Subtotal		167,014	168	3,795	8,425	74,883
<b>Associates:</b>						
FRL Korea Co., Ltd.		24,248	-	-	-	13
Zara Retail Korea		9,548	-	-	-	-
LOTTE CARD Co., Ltd.		3,050	-	-	409	114,103
Subtotal		36,846	-	-	409	114,116
<b>Others (*3):</b>						
Lotte Confectionery Co., Ltd.		4,225	58,910	-	-	6,156
Lotte Chilsung Beverage Co., Ltd.		7,381	44,932	-	42	175
Lotte Data Communication Company		1,084	11	25,694	93	101,872
Korea Seven Co., Ltd.		2,530	82	-	656	547
Lotte GRS Co., Ltd.		9,348	-	-	22	2,876
LOTTE ASSET DEVELOPMENT CO., LTD.		21,897	-	1,033	3,999	12,066
LOTTE Property&Development		23,439	-	-	66	31,468
LOTTE STATION B/D. Co. Ltd.		11,311	-	-	-	305
LOTTE INTERNATIONAL CO., LTD.		240	117,096	-	9	11
Lotte Engineering & Construction Co., Ltd.		296	-	64,349	-	522
LOTTE FOOD CO., LTD.		3,258	93,748	-	-	7,334
LOTTE ALUMINIUM CO., LTD.		26	5,238	836	-	6,199
LOTTE Global Logistics Co., Ltd.		1,516	1,038	177	328	235,863
Others		7,218	4,238	431	101	62,939
Subtotal		93,769	325,293	92,520	5,316	468,333
Total	₩	362,034	334,361	96,546	14,280	726,366

(\*1) Other income includes disposals of property, plant and equipment.

(\*2) The Company sold the LOTTE Himart Co., Ltd. gift voucher for a total of ₩622 million for the year ended December 31, 2020.

(\*3) 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.

(\*4) The Company has entered into lease agreements with related parties. As a result, interest income received in accordance with amortization of financial lease receivables and interest expense paid in accordance with amortization of lease liabilities for the year ended December 31, 2020 are included in other income and expenses.

**LOTTE SHOPPING CO., LTD.**  
**Notes to the Separate Financial Statements**  
**As of December 31, 2021 and 2020**

**38. Related Party Transactions, continued**

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

<i>(in millions of Korean won)</i>		<b>2021</b>			<b>2020</b>	
<b>Name of</b>		<b>Cash contribution</b>	<b>Stock purchase (*)</b>	<b>Loan</b>	<b>Cash contribution</b>	<b>Stock purchase</b>
<b>related parties</b>						
<b>Subsidiaries:</b>						
Lotte Shopping Holdings (Hong Kong) Co., Limited	₩	-	-		189,491	9,617
LOTTE SHOPPING RUS.LTD		-	-		3,262	-
LOTTE REIT Co., Ltd		166,673	-		-	-
Lotte Shopping Innovation fund No.1		20,790	-		-	-
Lotte Shopping Holdings (Singapore)		49,728	-		-	-
IMM HIMECO Investment 1		259,500	-		-	-
Lotte Cultureworks Co., Ltd.		-	-	50,000	-	-
Subtotal		496,691	-	50,000	192,753	9,617
<b>Associates:</b>						
Lotte start-up fund No. 1		-	-	-	600	-
Lotte-KDB Open innovation fund		4,800	-	-	-	-
Eugene Unicorn Private Equity Investment Co., Ltd.		30,000	-	-	-	-
Subtotal		34,800	-	-	600	-
<b>Others:</b>						
LOTTE Property & Development		-	72,381	-	-	-
Subtotal		-	72,381	-	-	-
Total	₩	531,491	72,381	50,000	193,353	9,617

(\*) 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 from LOTTE Property & Development.

**LOTTE SHOPPING CO., LTD.**  
**Notes to the Separate Financial Statements**  
**As of December 31, 2021 and 2020**

**38. 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	Other receivables	Financial lease receivables	Trade payables	Other payables	Lease liabilities
<b>Shareholders:</b>						
Lotte Corporation	₩ 6	312	-	-	1,594	32,316
Hotel Lotte Co., Ltd.	1,463	54,235	-	-	12,205	233,297
Hotel Lotte Pusan Co., Ltd.	-	17,575	-	-	5,027	31,426
Subtotal	1,469	72,122	-	-	18,826	297,039
<b>Subsidiaries:</b>						
Woori Home Shopping & Television Co., Ltd. (*2)	30,132	142	-	-	3,150	-
Lotte Himart Co., Ltd.	1,801	2,782	7,121	-	13,596	-
Lotte Cultureworks Co., Ltd. (*3)	1,033	50,467	63,033	-	31,664	-
Lotte Suwon Station Shopping Town Co., Ltd.	-	654	-	-	1,037	347,034
CS Mart	10,234	4,710	-	-	1,147	2,128
Lotte Incheon Development	6,868	3,152	-	-	5,169	2
LOTTE REIT Co., Ltd.	-	105,279	-	-	9,797	840,275
Others	468	12,529	-	-	9,038	2,957
Subtotal	50,536	179,715	70,154	-	74,598	1,192,396
<b>Associates:</b>						
FRL Korea Co., Ltd.	735	-	-	-	19,921	-
Zara Retail Korea Co., Ltd.	-	-	-	-	5,321	-
Lotte Card Co., Ltd. (*2)	18,923	3,297	-	-	8,557	-
Subtotal	19,658	3,297	-	-	33,799	-
<b>Others (*1):</b>						
Lotte Confectionery Co., Ltd.	-	487	-	4,628	799	-
Lotte Chilsung Beverage Co., Ltd.	1,385	3,810	-	4,540	11,703	208
Lotte Data Communication Company	-	87	-	-	18,065	1,708
Korea Seven Co., Ltd.	21	315	-	-	2,712	5,697
Lotte GRS Co., Ltd.	11	446	884	-	5,793	-
LOTTE ASSET DEVELOPMENT CO., LTD.	-	7	-	-	23	-
LOTTE Property & Development	2,884	5,914	-	-	5,946	428,342
Lotte Station B/D Co., Ltd.	3,364	8,053	-	-	6,111	7,576
Lotte International Co., Ltd.	-	-	-	4,903	82	-
Lotte Engineering & Construction Co., Ltd.	-	4,003	-	-	20,680	1,100
LOTTE FOOD CO., LTD.	-	1,198	87	4,887	12,376	705
LOTTE ALUMINIUM CO., LTD.	-	11	-	494	1,533	-
Lotte Global Logistics Co., Ltd.	-	130	-	-	21,133	18,825
Others	172	7,435	209	351	12,853	2,420
Subtotal	7,837	31,896	1,180	19,803	119,809	466,581
Total	₩ 79,500	287,030	71,334	19,803	247,032	1,956,016

(\*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) Other receivable include ₩ 50,000 million in loans, and other payable include ₩ 31,632 million in rental deposits.

**LOTTE SHOPPING CO., LTD.**  
**Notes to the Separate Financial Statements**  
**As of December 31, 2021 and 2020**

**38. Related Party Transactions, continued**

- (d) Account balances with related parties as of December 31, 2021 and 2020 are summarized as follows;  
continued

(in millions of Korean won)		2020					
		Receivables			Payables		
		Trade receivables	Other receivables	Financial lease receivables	Trade payables	Other payables(*3)	Lease liabilities
<b>Name of related parties</b>							
<b>Shareholders:</b>							
Lotte Corporation	₩	5	171	-	-	37	33,584
Hotel Lotte Co., Ltd.		1,660	48,966	-	-	33,207	323,613
Hotel Lotte Pusan Co., Ltd.		-	20,035	-	-	1,585	28,127
Subtotal		1,665	69,172	-	-	34,829	385,324
<b>Subsidiaries:</b>							
Woori Home Shopping & Television Co., Ltd. (*2)		31,310	170	-	-	3,796	-
Lotte Himart Co., Ltd.		1,823	1,490	9,716	-	12,331	-
Lotte Cultureworks Co., Ltd.		1,068	335	48,342	-	123,789	-
Lotte Suwon Station Shopping Town Co., Ltd.		-	720	-	-	777	278,134
CS Mart		10,612	4,292	-	-	1,370	2,895
Lotte Incheon Development		5,741	2,114	-	-	4,367	46
LOTTE REIT Co., Ltd.		-	74,390	-	-	6,921	685,770
Others		1	11,944	-	-	10,873	81,214
Subtotal		50,555	95,455	58,058	-	164,224	1,048,059
<b>Associates:</b>							
FRL Korea Co., Ltd.		852	-	-	-	12,159	-
Zara Retail Korea Co., Ltd.		-	-	-	-	3,504	-
Lotte Card Co., Ltd. (*2)		16,835	125	96	-	13,837	-
Subtotal		17,687	125	96	-	29,500	-
<b>Others (*1):</b>							
Lotte Confectionery Co., Ltd.		237	236	-	5,690	1,025	-
Lotte Chilsung Beverage Co., Ltd.		725	3,951	-	3,602	9,832	476
Lotte Data Communication Company		-	18,071	-	-	12,570	1,630
Korea Seven Co., Ltd.		10	109	5	25	2,693	4,623
Lotte GRS Co., Ltd.		21	310	927	-	6,189	-
LOTTE ASSET DEVELOPMENT CO., LTD		-	14,391	135,028	-	15,890	1,771
LOTTE Property&Development		-	2,074	-	-	4,887	497,068
Lotte Station B/D Co., Ltd.		2,518	8,390	-	-	6,243	8,875
Lotte International Co., Ltd.		-	752	-	8,202	136	-
Lotte Engineering & Construction Co., Ltd.		1	4,011	-	-	11,202	1,176
LOTTE FOOD CO., LTD.		-	1,217	-	7,112	12,209	854
LOTTE ALUMINIUM CO., LTD.		-	6	-	550	1,815	-
Lotte Global Logistics Co., Ltd.		22	288	-	76	24,798	13
Others (*3)		173	5,978	170	381	113,607	2,495
Subtotal		3,707	59,784	136,130	25,638	223,096	518,981
Total	₩	73,614	224,536	194,284	25,638	451,649	1,952,364

(\*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 in foreign currency from Lotte Co., Ltd. (Japan) amounting ₩105,426 million is included.

**LOTTE SHOPPING CO., LTD.**  
**Notes to the Separate Financial Statements**  
**As of December 31, 2021 and 2020**

**38. Related Party Transactions, continued**

- (e) The amount of lease payments receivable collection and lease liability payment for the years 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)
<b>Shareholders:</b>		
Lotte Corporation	₩ -	2,258
Hotel Lotte Co., Ltd.	-	78,220
Hotel Lotte Pusan Co., LTD	-	13,664
Subtotal	-	94,142
<b>Subsidiaries:</b>		
Lotte Cultureworks Co., Ltd.	7,776	-
Lotte Himart Co., Ltd.	3,065	-
Lotte Suwon Station Shopping Town Co., Ltd.	-	29,261
Lotte Songdo Shopping Town Co., Ltd.	-	6,597
Lotte REIT Co., Ltd.	-	104,269
Others	-	4,278
Subtotal	10,841	144,405
<b>Associates:</b>		
LOTTE CARD Co.,ltd	67	-
Subtotal	67	-
<b>Others (*1):</b>		
LOTTE ASSET DEVELOPMENT CO.,LTD	1,180	24
Lotte Data Communication Company	-	1,158
LOTTE Property & Development	-	46,165
LOTTE STATION B/D. CO.	-	1,579
LOTTE Rental Co., Ltd.	-	1,251
Others	354	4,612
Subtotal	1,534	54,789
Total	₩ 12,442	293,336

(\*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 financial lease liabilities is included.

**LOTTE SHOPPING CO., LTD.**  
**Notes to the Separate Financial Statements**  
**As of December 31, 2021 and 2020**

**38. Related Party Transactions, continued**

(e) The amount of lease payments receivable collection and lease liability payment as of 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)
<b>Shareholders:</b>		
Lotte Corporation	₩ -	2,207
Hotel Lotte Co., Ltd.	-	79,605
Hotel Lotte Pusan Co., LTD	-	14,066
Subtotal	-	95,878
<b>Subsidiaries:</b>		
Lotte Cultureworks Co., Ltd.	5,873	100
Lotte Himart Co., Ltd.	2,976	6
Lotte Suwon Station Shopping Town Co., Ltd.	-	23,859
Lotte Songdo Shopping Town Co., Ltd.	-	6,612
Lotte REIT Co., Ltd.	-	78,616
Others	-	524
Subtotal	8,849	109,717
<b>Associates:</b>		
LOTTE CARD Co.,ltd	68	-
Subtotal	68	-
<b>Others (*1):</b>		
LOTTE ASSET DEVELOPMENT CO.,LTD	14,157	366
Lotte Data Communication Company	-	4,164
LOTTE Property & Development	-	37,932
LOTTE STATION B/D. CO.	-	1,578
LOTTE Rental Co., Ltd.	6	1,325
Others	362	3,417
Subtotal	14,525	48,782
Total	₩ 23,442	254,377

(\*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 financial lease liabilities is included.

(f) The contents of compensation of major management during the years ended December 31, 2021 and 2020 are as follows:

(in millions of Korean won)

Classification	2021	2020
Short-term salary	₩ 26,860	26,559
Retirement benefits	3,856	4,347
Other long-term benefits	6	(249)
Total	₩ 30,722	30,657

**LOTTE SHOPPING CO., LTD.**  
**Notes to the Separate Financial Statements**  
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**38. Related Party Transactions, continued**

- (g) Details of payment guarantees and collateral provided by the Company 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 full foreign currency)

Name of company	Guaranteed by	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	Payment Guarantee
		CNY 20,000,000	May 28, 2021 ~ May 27, 2022	
PT. Lotte Mart Indonesia	SC Bank	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	May 25, 2021 ~ May 25, 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	Nov 16, 2021~ Nov 15, 2022	
	Woori Bank	USD 30,000,000	Nov 16, 2021~ Nov 15, 2022	
	Kookmin Bank	USD 30,000,000	Nov 16, 2021~ Nov 15, 2022	
Joint ventures:				
International Business Center Company Limited	DBS	USD 6,000,000	April 1, 2021 ~ April 1, 2022	
	The Export-Import Bank of Korea	USD 6,000,000	April 2, 2021 ~ April 1, 2022	

- (h) The Company entered into and maintain an agreement to jointly provide financial support for Suwon Landmark 4<sup>th</sup> Co., Ltd., Suwon Landmark 5<sup>th</sup> Co., Ltd., LIT 1st Co., Ltd., KS 1st Co., Ltd., LD1Q 1<sup>st</sup>, NHLD 1<sup>st</sup>, S Bright Dongtan, Woori Lotte Dongtan 1<sup>st</sup>, Sincheon Development 1<sup>st</sup> Co., Ltd, LST 2<sup>nd</sup> and StownDaegu 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.**  
**Notes to the Separate Financial Statements**  
**As of December 31, 2021 and 2020**

**38. Related Party Transactions, continued**

- (i) The Company has provided guarantees for Lotte Suwon Station Shopping Town Co., Ltd. to pay the rent during the term of the lease (20 years) from the beginning of the lease contract in 2014.
- (j) Dividends recognized from related parties during the year ended December 31, 2021 are as follows:

*(in millions of Korean won)*

<b>Name of related parties</b>		<b>Contractual amount</b>
<b>Subsidiaries :</b>		
Woori Home Shopping & Television Co., Ltd.	₩	21,214
Lotte Himart Co., Ltd.		18,484
LOTTE REIT Co., Ltd.		30,898
Subtotal		70,596
<b>Associates :</b>		
Lotte Card		10,374
Zara Retail Korea Co.,Ltd.		12,000
FRL Korea		49,000
Subtotal		71,374
<b>Total</b>	₩	141,970

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

*(in millions of Korean won)*

<b>Classification</b>		<b>Contractual amount</b>	<b>Used amount</b>	<b>Repayment</b>	<b>Unsettled amount</b>
In the perspective of user	₩	240,000	2,263,995	2,263,995	-



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

**39. Lease**

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

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

<i>(in millions of Korean won)</i>		2021	2020
Right-of-use assets			
Land	₩	365,005	387,117
Buildings		3,865,695	4,107,416
Vehicles		1,612	2,013
Others		11,720	4,186
Total		<u>4,244,032</u>	<u>4,500,732</u>
Investment property		223,862	131,668
Financial lease receivables:			
Current		28,452	30,520
Non-current		124,852	209,239
Total		<u>153,304</u>	<u>239,759</u>
Financial lease liabilities			
Current		578,277	530,258
Non-current		5,299,157	5,401,988
Total	₩	<u>5,877,434</u>	<u>5,932,246</u>

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

Details recognized in the separate statement of comprehensive income (loss) related to lease during 2021 and 2020 are as follows:

<i>(in millions of Korean won)</i>		2021	2020
Depreciation expense on right-of-use assets			
Land and buildings	₩	518,218	508,837
Vehicles		1,105	1,233
Others		5,611	5,681
Total	₩	<u>524,934</u>	<u>515,751</u>
Bad debt expenses on financial lease payments receivables		137	617
Depreciation expense on investment in properties		29,333	12,387
Impairment loss on right-of-use assets		303,864	540,693
Interest expense on lease liabilities		171,907	168,967
Interest income on financial lease receivables		3,900	6,448
Gain on lease termination		83,121	110,309
Gain on disposal of right-of-use assets		53,836	25,500
Loss on lease termination		22,012	3,178
Loss on disposal of right-of-use assets		13,110	16,356
Leases of low-value assets and short-term leases		77,809	65,885

**LOTTE SHOPPING CO., LTD.**  
**Notes to the Separate Financial Statements**  
**As of December 31, 2021 and 2020**

**39. Lease, continued**

The Company 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 Company recognized ₩821 million in profit or loss 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.

(c) Details of right-of-use assets as of January 1, 2021 and December 31, 2021 are as follows:

(in millions of Korean won)

		Property	Vehicles	Others	Total
January 1, 2021	₩	4,494,535	2,013	4,186	4,500,734
Depreciation expenses		(518,218)	(1,105)	(5,611)	(524,934)
Acquisition of right-of-use assets		1,615,983	1,213	15,770	1,632,966
Impairment loss on right-of-use assets		(302,082)	(90)	(1,693)	(303,865)
Others		(1,059,516)	(419)	(932)	(1,060,867)
December 31, 2021	₩	<u>4,230,702</u>	<u>1,612</u>	<u>11,720</u>	<u>4,244,034</u>

(d) Details of right-of-use assets as of January 1, 2020 and December 31, 2020 are as follows:

(in millions of Korean won)

		Property	Vehicles	Others	Total
January 1, 2020	₩	5,425,284	1,175	11,051	5,437,510
Depreciation expenses		(508,837)	(1,233)	(5,681)	(515,751)
Acquisition of right-of-use assets		65,215	3,027	842	69,084
Impairment loss on right-of-use assets		(528,047)	(291)	(12,354)	(540,692)
Others		40,920	(665)	10,328	50,583
December 31, 2020	₩	<u>4,494,535</u>	<u>2,013</u>	<u>4,186</u>	<u>4,500,734</u>

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

(in millions of Korean won)

		Less than 6 months	6 months~ 1 year	1 ~ 2 years	2 ~ 5 years	More than 5 years	Total
Total minimum lease payments	₩	370,843	362,835	728,040	1,941,635	3,460,085	6,863,438
Net minimum lease payments		292,668	285,610	649,898	1,710,389	2,938,870	5,877,435

Total cash outflow of lease liabilities during the year of 2021 is ₩745,603 million.

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

(in millions of Korean won)

		Less than 6 months	6 months~ 1 year	1 ~ 2 years	2 ~ 5 years	More than 5 years	Total
Total minimum lease payments	₩	15,580	13,188	32,758	69,568	35,326	166,420
Net minimum lease payments		15,488	12,964	31,624	64,151	29,077	153,304

**LOTTE SHOPPING CO., LTD.**  
**Notes to the Separate Financial Statements**  
**As of December 31, 2021 and 2020**

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**39. Lease, continued**

(g) Operating lease

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

(in millions of Korean won)

		2021	2020
Within 1 year	₩	98,771	80,626
Within 1 ~ 5 years		189,660	157,839
Over 5 years		66,856	33,405
Total	₩	355,287	271,870

The lease income related to the operating lease consisting of variable lease payment amounting to ₩1,015,435 million and fixed lease payment amounting to ₩126,872 million are recognized during 2021 and variable lease payment amounting to ₩825,667 million and fixed lease payment amounting to ₩164,836 million are recognized during 2020 by the Company.

**40. Risk Management**

(a) Management of financial risks

(i) Objectives and policies of the Company

Risk management activities of the Company 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 Company'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 Company 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 Company 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 Company's profit is generated from individual clients and carries low credit risk. Also, the Company 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.**  
**Notes to the Separate Financial Statements**  
**As of December 31, 2021 and 2020**

**40. 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 and cash equivalent (*1)	₩	1,563,808	1,048,973
Trade and other receivables		578,340	640,868
Other financial assets (current)		612,274	960,136
Other financial assets (non-current) (*2)		1,048,352	965,614
Total	₩	3,802,774	3,615,591

(\*1) Cash held by the Company 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 are as follows:

<i>(in millions of Korean won)</i>		2021		
		Total carrying amount	Probability of default	Allowance for doubtful accounts
Not past due	₩	575,317	0.00%~6.14%	640
0 ~ 3 months past due		4,169	0.00%~67.08%	2,425
3 ~ 6 months past due		3,231	0.00%~93.24%	1,974
6 ~ 9 months past due		2,013	0.00%~93.18%	1,843
9 ~ 12 months past due		1,415	0.00%~85.94%	989
12 ~ 15 months past due		227	0.00%~100.00%	160
15 months past due		12,279	100.00%	12,279
Total	₩	598,651		20,310

There is no impairment loss on other financial assets (current) as of December 31, 2021.

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

<i>(in millions of Korean won)</i>		2021		
		Total carrying amount	Probability of default	Allowance for doubtful accounts
Not past due	₩	1,048,352	0.00%	-
15 months past due		1,111	100.00%	1,111
Total	₩	1,049,463		1,111

**LOTTE SHOPPING CO., LTD.**  
**Notes to the Separate Financial Statements**  
**As of December 31, 2021 and 2020**

**40. 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

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

(in millions of Korean won)

		2020		
		Total carrying amount	Probability of default	Allowance for doubtful accounts
Not past due	₩	671,677	0.00%~0.62%	35,022
0 ~ 3 months past due		2,121	0.00%~25.57%	83
3 ~ 6 months past due		1,749	0.00%~43.38%	192
6 ~ 9 months past due		640	0.00%~87.97%	207
9 ~ 12 months past due		213	0.00%~92.11%	80
12 ~ 15 months past due		594	0.00%~100.00%	543
15 months past due		12,383	100.00%	12,383
Total	₩	689,377		48,510

There is no impairment loss on other financial assets (current) as of December 31, 2020.

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

(in millions of Korean won)

		2020		
		Total carrying amount	Probability of default	Allowance for doubtful accounts
Not past due	₩	966,650	0.00% ~ 100.00%	1,036

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	₩	48,510	9,703
Provision		4,053	39,044
Reversal of impairment loss		(2,748)	-
Write-offs		(6,693)	(237)
Collection		(25,734)	-
Others		2,921	-
Ending balance	₩	20,309	48,510

Movements in the allowance for doubtful other financial assets (current) for the years ended December 31, 2021 and 2020 have not occurred.

**LOTTE SHOPPING CO., LTD.**  
**Notes to the Separate Financial Statements**  
**As of December 31, 2021 and 2020**

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**40. 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	₩	1,036	1,000
Provision		<u>75</u>	<u>36</u>
Ending balance	₩	<u>1,111</u>	<u>1,036</u>

③ Payment guarantees

As of December 31, 2021, the Company has provided financial guarantees to subsidiaries, associates and joint ventures, amounting to ₩512,445 million.

(iii) Liquidity risks

Liquidity risk is the risk that the Company 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 Company 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 Company currently deposits a considerable amount with financial institutions with superior credit ratings to make proper provisions for potential liquidity risks. The Company 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 superior credit ratings (Domestic: AA0). The management of the Company believes that it is possible to redeem liabilities using cash flows from operating activities and cash in-flow from financial assets.

**LOTTE SHOPPING CO., LTD.**  
**Notes to the Separate Financial Statements**  
**As of December 31, 2021 and 2020**

**40. Risk Management, continued**

(a) Management of financial risks, continued

(iii) Liquidity risks, continued

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

(in millions of Korean won)

		2021					
		Book value	3 months or less	3 ~ 6 months	6 months ~ 1 year	More than 1 year	contractual cash flow
Borrowings and debentures (current) (*1, 2)	₩	1,228,170	784,381	452,709	237,499	-	1,474,589
Trade payables and other payables		1,800,314	1,800,314	-	-	-	1,800,314
Other financial liabilities (current) (*3)		954,877	415,814	214,389	391,364	-	1,021,567
Borrowings and debentures (non-current) (*1, 2)		3,498,971	18,430	18,528	37,722	4,410,646	4,485,326
Other financial liabilities(non-current) (*3)		5,382,490	721	656	1,141	6,202,680	6,205,198
Financial guarantee contracts (*2)		89,815	512,445	-	-	-	512,445
Total	₩	12,954,637	3,532,105	686,282	667,726	10,613,326	15,499,439

(\*1) Interest expenses are included.

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

(\*3) It includes lease liabilities.

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

**LOTTE SHOPPING CO., LTD.**  
**Notes to the Separate Financial Statements**  
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**40. Risk Management, continued**

(a) Management of financial risks, continued

(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 Company'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 Company's return.

The Company 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 Company seeks to apply hedge accounting in order to manage volatility in profit or loss.

① Currency risk

The Company is exposed to currency risk on borrowings that are denominated in currencies other than Korean won, the respective functional currency of the Company. 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 Company enters into currency swap transactions with financial institutions to hedge currency risks of foreign currency denominated borrowings and debentures. When the Company needs foreign currencies, the Company 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 Company'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	₩	187,167	923,370	332,116	1,019,613
EUR		-	160	-	31
JPY		-	-	-	105,426
IDR		629	-	105	-
CNY		3,082	-	107	-
AUD		-	3	-	-
Total	₩	190,878	923,533	332,328	1,125,070



**LOTTE SHOPPING CO., LTD.**  
**Notes to the Separate Financial Statements**  
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**40. Risk Management, continued**

(a) Management of financial risks, continued

(iv) Market risk, continued

① Currency risk, continued

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:

		Average rate		Closing rate	
		2021	2020	2021	2020
<i>(in Korean won)</i>					
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
IDR		0.0800	0.0813	0.0831	0.0774
CNY		177.43	170.88	186.26	166.96
AUD		859.42	813.48	858.89	836.56

The Company regularly measures exchange risks on Korean won against foreign currency fluctuations. The Company 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 for which the Company has entered into exchange rate swap transactions are not included.

		2021		2020	
		10% increase	10% decrease	10% increase	10% decrease
<i>(in millions of Korean won)</i>					
USD	₩	18,256	(18,256)	16,658	(16,658)
EUR		(16)	16	(3)	3
IDR		63	(63)	10	(10)
CNY		308	(308)	11	(11)
AUD		(0)	0	-	-
Total	₩	18,611	(18,611)	16,676	(16,676)

The above sensitivity analysis was based on monetary assets and liabilities denominated in foreign currencies other than functional currencies as the end of the reporting period.

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

**LOTTE SHOPPING CO., LTD.**  
**Notes to the Separate Financial Statements**  
**As of December 31, 2021 and 2020**

**40. Risk Management, continued**

(a) Management of financial risks, continued

(iv) Market risk, continued

② Interest rate risk, continued

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

<i>(in millions of Korean won)</i>		<u>2021</u>	<u>2020</u>
Financial assets	₩	14,140	18,494
Financial liabilities		591,250	1,120,213

The table below summarizes the impact of increases/decreases of interest rates in loans and borrowings with floating interest rate on the Company's interest income and expense that would incur in relation to the loans and borrowings for the years ended December 31, 2021 and 2020. The analysis is based on the assumption that the interest rate has increased/decreased by 100 basis points with all other variables held constant. Borrowings and debentures for which the Company 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	₩	141	(141)	185	(185)

③ Price risk

The Company 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 ₩83,217 million and ₩59,740 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 ₩8,322 million and ₩5,974 million, respectively.

(b) Capital Management

The objective of the Company's capital management is maximizing shareholders' profit through maintaining a sound capital structure. The Company 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:

<i>(in millions of Korean won)</i>		<u>2021</u>	<u>2020</u>
Liabilities (A)	₩	14,470,568	15,325,247
Equity (B)		9,755,783	9,598,958
Financial instruments (C)		2,004,990	852,700
Borrowings (D)		4,727,141	5,557,882
Liabilities to equity ratio (A/B)		148.33%	159.66%
Net borrowings to equity ratio ((D-C)/B)		27.90%	49.02%

# **LOTTE SHOPPING CO., LTD.** **Notes to the Separate Financial Statements** **As of December 31, 2021 and 2020**

## **41. Business Combination**

(a) The company 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

(in millions of Korean won)

		<b>2021</b>
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

(in millions of Korean won)

		<b>2021</b>
Total transfer fee	₩	6,800
Fair value, net assets		1,940
Goodwill		4,860

(b) The company signed a business transfer 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)

		<b>2021</b>
Cash and cash equivalents	₩	29
Tangible and intangible assets		8,162
Investments in subsidiary		72,381
Right-of-Use assets and lease receivable		647,059
Other assets		18,517
Lease payable		(603,430)
Other liabilities		(81,877)
Net assets		60,841

② Gain on bargain purchase

(in millions of Korean won)

		<b>2021</b>
Total transfer fee	₩	42,670
Fair value, net assets		60,842
Gain on bargain purchase		(18,172)

## **42. 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 as of January 31, 2022.

#### Notice to Readers

This report is annexed in relation to the audit of the separate financial statements as of December 31, 2021 and the audit of internal accounting control system pursuant to Article 8-7 of the Act on External Audit for Joint-stock Companies of the Republic of Korea.

## **Independent Auditors' Report on Internal Control over Financial Reporting** **English Translation of a report originally issued in Korean**

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

### *Opinion on Internal Control over Financial Reporting*

We have audited Lotte Shopping Co., Ltd.'s (the Company) internal control over financial reporting ("ICFR") as of December 31, 2021 based on the criteria established in the Conceptual Framework for Designing and Operating ICFR ("ICFR Design and Operation Framework") issued by the Operating Committee of Internal Control over Financial Reporting in the Republic of Korea (the "ICFR Committee").

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on ICFR Design and Operation Framework.

We also have audited, in accordance with Korean Standards on Auditing (KSAs), the separate financial statements of the Company, which comprise the separate statements of financial position as of December 31, 2021 and 2020, the separate 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, and our report dated March 15, 2022 expressed an unmodified opinion on those separate financial statements.

### *Basis for Opinion*

We conducted our audit in accordance with KSAs. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Internal Control over Financial Reporting section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the internal control over financial reporting 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.

### *Responsibilities of Management and Those Charged with Governance for the Internal Control over Financial Reporting*

The Company's management is responsible for designing, operating and maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Report on Operating Status of Internal Control over Financial Reporting.

Those charged with governance are responsible for overseeing the Company's internal control over financial reporting.

### *Auditors' Responsibilities for the Audit of the Internal Control over Financial Reporting*

Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We conducted our audit in accordance with KSAs. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk.



### *Definition and Limitations of Internal Control over Financial Reporting*

A Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Korean International Financial Reporting Standards ("K-IFRS"). A Company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with K-IFRS, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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 internal control over financial reporting. 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.

## ICFR Operating Status Report by CEO

To the Shareholders, Board of Directors, and Auditor (Audit Committee) of LOTTE SHOPPING CO., LTD

We, as the Chief Executive Officer (or President, etc which means the representative director of the Company) and the Internal Accounting Manager of LOTTE SHOPPING CO., LTD (“the Company”), assessed operating status of the Company’s Internal Control over Financial Reporting (“ICFR” ) for the year ending December 31, 2021.

Design and operation of ICFR is the responsibility of the Company’s management, including the Chief Executive Officer and the Internal Accounting Manager (collectively, “We”, “Our” or “Us”).

We evaluated whether the Company effectively designed and operated its ICFR to prevent and detect errors or frauds which may cause a misstatement in financial statements to ensure preparation and disclosure of reliable financial information.

We used the ‘Conceptual Framework for Designing and Operating Internal Control over Financial Reporting’ issued by the Operating Committee of Internal Control over Financial Reporting in Korea (the “ICFR Committee”) as the criteria for design and operation of the Company’s ICFR. And we conducted an evaluation of ICFR based on the ‘Management Guideline for Evaluating and Reporting Effectiveness of Internal Control over Financial Reporting’ issued by the ICFR Committee.

Based on our assessment, we concluded that the Company’s ICFR is designed and operated effectively as of December 31, 2021, in all material respects, in accordance with the ‘Conceptual Framework for Designing and Operating Internal Control over Financial Reporting.

We certify that this report does not contain any untrue statement of a fact, or omit to state a fact necessary to be presented herein. We also certify that this report does not contain or present any statements which might cause material misunderstandings of the readers, and we have reviewed and verified this report with sufficient care.

*January 26<sup>th</sup> 2022*

*Kang Sung hyun* (Signature)

Chief Executive Officer

*Choi Young Joon* (Signature)

Chief Financial Officer

English Translation of Report Originally Issued in Korean