

LG Energy Solution, Ltd.

Separate financial statements
for the year ended December 31, 2021
and one-month period ended December 31, 2020

“The accompanying separate financial statements, including all footnotes and disclosures, have been prepared by, and are the responsibility of, the Company.”

Young Soo Kwon
Chief Executive Officer
LG Energy Solution, Ltd.

LG Energy Solution, Ltd.
Separate statements of financial position
as of December 31, 2021 and December 31, 2020

(Korean won in millions)

	Notes		December 31, 2021	December 31, 2020
Assets				
Current assets				
Cash and cash equivalents	3,5,6	₩	257,032 ₩	536,731
Trade receivables	3,5,7,30		1,309,544	1,547,136
Other receivables	3,5,7,30		1,159,572	1,072,733
Other current financial assets	3,5,8		274	23,821
Prepaid income taxes			142,491	22
Other current assets	13		37,336	58,243
Inventories	9		1,087,690	949,749
			<u>3,993,939</u>	<u>4,188,435</u>
Non-current assets				
Trade receivables	3,5,7		67,055	26,291
Other receivables	3,5,7,30		145,476	454,026
Other non-current financial assets	3,5,8		182,993	-
Investments in subsidiaries	10,30		5,255,911	4,444,021
Investments in associates and joint ventures	10,30		236,270	43,084
Deferred tax assets	27		1,336,696	1,088,093
Property, plant and equipment	11,18		1,878,942	1,528,296
Intangible assets	12		360,119	273,133
Investment properties	32		224,472	255,086
Other non-current assets	13		27,763	42,252
			<u>9,715,697</u>	<u>8,154,282</u>
Total assets		₩	<u>13,709,636 ₩</u>	<u>12,342,717</u>
Liabilities				
Current liabilities				
Trade payables	3,5,30	₩	1,351,115 ₩	1,272,958
Other payables	3,5,30		666,760	378,665
Borrowings	3,5,11,14,31		9,149	2,273
Current provisions	15		1,460,427	984,235
Other current financial liabilities	3,5,8		60,763	62,544
Other current liabilities	17,32		401,536	206,176
			<u>3,949,750</u>	<u>2,906,851</u>
Non-current liabilities				
Other payables	3,5,30	₩	3,272 ₩	1,563
Borrowings	3,5,11,14,31		2,081,067	1,947,264
Other non-current financial liabilities	3,5,8		-	41,768
Non-current provisions	15		427,197	110,325
Net defined benefit liabilities	16		-	42,786
Other non-current liabilities	17,32		114,394	40,062
			<u>2,625,930</u>	<u>2,183,768</u>
Total liabilities		₩	<u>6,575,680 ₩</u>	<u>5,090,619</u>
Equity				
Share capital	19	₩	100,000 ₩	100,000
Capital surplus	19		7,510,351	7,510,351
Accumulated other comprehensive income			3,943	17,270
Accumulated deficit	20		(480,338)	(375,523)
Total equity		₩	<u>7,133,956 ₩</u>	<u>7,252,098</u>
Total liabilities and equity		₩	<u>13,709,636 ₩</u>	<u>12,342,717</u>

The accompanying notes are an integral part of the separate financial statements.

LG Energy Solution, Ltd.

Separate statements of loss

for the year ended December 31, 2021 and one-month period ended December 31, 2020

(Korean won in millions)

	Notes	For the year ended December 31, 2021	For one-month period ended December 31, 2020
Revenue	30,32,34	₩ 8,387,463	₩ 632,954
Cost of sales	22,23,30	<u>(5,978,109)</u>	<u>(482,826)</u>
Gross profit		2,409,354	150,128
Selling and administrative expenses	21,22,23,30	<u>(2,763,693)</u>	<u>(659,258)</u>
Operating loss		(354,339)	(509,130)
Finance income	5,24	286,320	24,978
Finance costs	5,24,30	(260,343)	(37,549)
Other non-operating income	25	269,824	24,462
Other non-operating expenses	26	<u>(173,002)</u>	<u>(32,919)</u>
Loss before income tax		(231,540)	(530,158)
Income tax benefit	27	<u>128,578</u>	<u>152,178</u>
Loss for the period		<u>₩ (102,962)</u>	<u>₩ (377,980)</u>
Loss per share attributable to the equity holders (in Korean won)	28		
Basic and diluted losses per share		<u>₩ (515)</u>	<u>₩ (1,890)</u>

The accompanying notes are an integral part of the separate financial statements.

LG Energy Solution, Ltd.

Separate statements of comprehensive loss

for the year ended December 31, 2021 and one-month period ended December 31, 2020

(Korean won in millions)

	Notes	For the year ended December 31, 2021	For one-month period ended December 31, 2020
Loss for the period		₩ (102,962)	₩ (377,980)
Other comprehensive income (loss):			
Items that will not be subsequently reclassified to profit or loss			
Remeasurements of net defined benefit liabilities	16	(2,556)	3,389
Gain (loss) on valuation of financial assets at FVOCI	5	5,104	-
Income tax effect of other comprehensive income(loss)	5	(700)	(932)
		1,848	2,457
Items that may be subsequently reclassified to profit or loss			
Cash flow hedge	5	(23,487)	1,883
Income tax effect of other comprehensive income (loss)	5	6,459	(518)
		(17,028)	1,365
Other comprehensive income (loss) for the period, net of tax		(15,180)	3,822
Total comprehensive loss for the period		<u>₩ (118,142)</u>	<u>₩ (374,158)</u>

The accompanying notes are an integral part of the separate financial statements.

LG Energy Solution, Ltd
Separate statements of changes in equity
for the year ended December 31, 2021 and one-month period ended December 31, 2020
(Korean won in millions)

	<u>Notes</u>	<u>Share capital</u>	<u>Capital surplus</u>	<u>Accumulated other comprehensive income</u>	<u>Accumulated deficit</u>	<u>Total</u>
As of December 1, 2020		₩ 100,000	₩ 7,510,831	₩ 15,905	₩ -	₩ 7,626,736
Total comprehensive loss for the period:						
Loss for the period		-	-	-	(377,980)	(377,980)
Remeasurements of net defined benefit liabilities	16	-	-	-	2,457	2,457
Cash flow hedge	5	-	-	1,365	-	1,365
Total comprehensive loss for the period		-	-	1,365	(375,523)	(374,158)
Others		-	(480)	-	-	(480)
As of December 31, 2020		₩ 100,000	₩ 7,510,351	₩ 17,270	₩ (375,523)	₩ 7,252,098
As of January 1, 2021		₩ 100,000	₩ 7,510,351	₩ 17,270	₩ (375,523)	₩ 7,252,098
Total comprehensive income(loss) for the period:						
Loss for the period		-	-	-	(102,962)	(102,962)
Remeasurements of net defined benefit liabilities	16	-	-	-	(1,853)	(1,853)
Gain on valuation of financial assets at FVOCI	5	-	-	3,701	-	3,701
Cash flow hedge	5	-	-	(17,028)	-	(17,028)
Total comprehensive loss for the period		-	-	(13,327)	(104,815)	(118,142)
As of December 31, 2021		₩ 100,000	₩ 7,510,351	₩ 3,943	₩ (480,338)	₩ 7,133,956

The accompanying notes are an integral part of the separate financial statements.

LG Energy Solution, Ltd.

Separate statements of cash flows

for the year ended December 31, 2021 and one-month period ended December 31, 2020

(Korean won in millions)

		For the year ended December 31, 2021	For one-month period ended December 31, 2020
	Notes		
Cash flows from operating activities:			
Cash generated from operations	31	₩ 579,261	₩ (60,756)
Interest received		27,041	143
Interest paid		(48,644)	(1,114)
Income tax refund		(221,785)	(76)
Net cash flows provided by (used in) operating activities		335,873	(61,803)
Cash flows from investing activities:			
Cash inflow from investing activities			
Decrease in other receivables		600,000	-
Decrease in other non-current receivables		368,318	728
Proceeds from disposal of investments in associates and joint ventures		28,377	-
Proceeds from disposal of property, plant and equipment		21,119	6,032
Proceeds from disposal of intangible assets		2	-
		1,017,816	6,760
Cash outflow from investing activities			
Increase in other non-current receivables		(8,663)	(463)
Increase in other receivables		-	(600,000)
Acquisition of investments in subsidiaries		(811,890)	(34,729)
Acquisition of investments in associates and joint ventures		(209,132)	-
Acquisition of financial instrument		(106,750)	-
Acquisition of property, plant and equipment		(438,589)	(14,694)
Acquisition of intangible assets		(51,776)	(4,120)
		(1,626,800)	(654,006)
Net cash flows used in investing activities		(608,984)	(647,246)
Cash flows from financing activities:			
Repayments of borrowings		(9,541)	(197)
Cost of stock issuing		-	(480)
		(9,541)	(677)
Net cash flows used in financing activities		(9,541)	(677)
Net decrease in cash and cash equivalents		(282,652)	(709,726)
Cash and cash equivalents at the beginning of the period		536,731	1,251,298
Effects of exchange rate changes on cash and cash equivalents		2,953	(4,841)
Cash and cash equivalents at the end of the period		₩ 257,032	₩ 536,731

The accompanying notes are an integral part of the separate financial statements.

LG Energy Solution, Ltd.
Notes to the separate financial statements
December 31, 2021 and 2020

1. General

LG Energy Solution, Ltd. (the “Company”) was newly established on December 1, 2020, through the split-off of Energy solution business of LG Chem, Ltd.

As of December 31, 2021, the Company has its manufacturing facilities in Ochang.

As of December 31, 2021, the Company has issued and outstanding 200 million ordinary shares (₩100,000 million). The largest shareholder of the Parent Company is LG Chem, Ltd., which owns 100% of the Company.

The Company is authorized to issue 800 million shares of ordinary shares with par value of ₩500 per share, and 200 million shares of ordinary shares are issued.

2. Summary of Significant Accounting Policies

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

2.1 Basis of Preparation

The separate financial statements of the Company have been prepared in accordance with Korean IFRS (“KIFRS”). These are the standards, subsequent amendments and related interpretations issued by the International Accounting Standards Board (IASB) that have been adopted by the Republic of Korea. The accompanying separate financial statements have been translated into English from Korean financial statements. In the event of any differences in interpreting the financial statements or the independent auditor’s report thereon, Korean version, which is used for regulatory reporting purposes, shall prevail.

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

- Certain financial assets and liabilities (including derivative instruments), and
- Defined benefit pension plans plan assets measured at fair value

The preparation of separate financial statements requires the use of critical accounting estimates.

Management also needs to exercise judgement in applying the Company’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the separate financial statements are disclosed in Note 4.

Additionally, the Company reclassified some of line items as of December 31, 2020 as those of classification as of December 31, 2021 in order to enhance ease of comparison. This reclassification does not affect on the amount of net assets and profit or loss for one-month period ended December 31, 2020.

2.2 Changes in Accounting Policies and Disclosures

(1) New standard and interpretations not yet adopted by the Company

The Company applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after January 1, 2021. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Interest Rate Benchmark Reform – Phase 2: Amendments to KIFRS 1109, KIFRS 1039, KIFRS 1107, KIFRS 1104 and KIFRS 1116

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments include the following practical expedients:

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest
- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued
- Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component

These amendments had no impact on the separate financial statements of the Company. The Company intends to use the practical expedients in future periods if they become applicable.

Amendments to KIFRS 1116 Covid-19 Related Rent Concessions beyond 30 June 2021

On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to KIFRS 1116 *Leases*. The amendments provide relief to lessees from applying KIFRS 1016 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under KIFRS 1116 if the change were not a lease modification.

The amendment was intended to apply until June 30, 2021, but as the impact of the COVID-19 pandemic is continuing, on March 31, 2021, the IASB extended the period of application of the practical expedient to June 30, 2022. The amendment applies to annual reporting periods beginning on or after April 1, 2021. However, the Company has not received COVID-19-related rent concessions, but plans to apply the practical expedient if it becomes applicable within allowed period of application.

2.2 Changes in Accounting Policies and Disclosures (cont'd)

(2) Standards issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's separate financial statements are disclosed below.

KIFRS 1117 Insurance Contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts*, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, KIFRS 1117 will replace KIFRS 1104 *Insurance Contracts* (KIFRS 1104) that was issued in 2005. KIFRS 1117 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of KIFRS 1117 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in KIFRS 1104, which are largely based on grandfathering previous local accounting policies, KIFRS 1117 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of KIFRS 1117 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

KIFRS 1117 is effective for reporting periods beginning on or after January 1 2023, with comparative figures required. Early application is permitted, provided the entity also applies KIFRS 1109 and KIFRS 1115 on or before the date it first applies KIFRS 1117. This standard is not applicable to the Company.

Amendments to KIFRS 1001: Classification of Liabilities as Current or Non-current

The amendments to paragraphs 69 to 76 of KIFRS 1001 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and must be applied retrospectively. The Company is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

Reference to the Conceptual Framework – Amendments to KIFRS 1103

The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements.

The Board also added an exception to the recognition principle of KIFRS 1103 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of KIFRS 1037 or KIFRS 2121 *Levies*, if incurred separately. At the same time, the Board decided to clarify existing guidance in KIFRS 1103 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements. The amendments are effective for annual reporting periods beginning on or after January 1, 2022 and apply prospectively.

2.2 Changes in Accounting Policies and Disclosures (cont'd)

(2) Standards issued but not yet effective (cont'd)

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to KIFRS 1016

The amendment prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss. The amendment is effective for annual reporting periods beginning on or after January 1, 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment. The amendments are not expected to have a material impact on the Company.

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to KIFRS 1037

The amendments specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a “directly related cost approach”. The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual reporting periods beginning on or after January 1, 2022. The Company will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

Definition of Accounting Estimates - Amendments to KIFRS 1008

The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed. The amendments are not expected to have a material impact on the Company.

Disclosure of Accounting Policies - Amendments to KIFRS 1001 and KIFRS Practice Statement 2

The amendments provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their ‘significant’ accounting policies with a requirement to disclose their ‘material’ accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures. The amendments to KIFRS 1001 are applicable for annual periods beginning on or after January 1, 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary. The Company is currently assessing the impact of the amendments to determine the impact they will have on the Company’s accounting policy disclosures.

2.2 Changes in Accounting Policies and Disclosures (cont'd)

(2) Standards issued but not yet effective (cont'd)

Amendments to KIFRS 1012 “Income Taxes” – Narrowing the scope of the initial recognition exception of deferred income taxes

The amendments narrowed the scope of the initial recognition exemption so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary difference, thus to resolve accounting diversity in the recognizing of deferred tax assets and liabilities. Paragraphs 15 and 24 (initial recognition exemption of deferred income taxes) of KIFRS 1012 were amended to include an additional condition (3) where a deferred tax asset and liability shall be recognized for a temporary difference that arises on initial recognition of an asset or liability in a single transaction if that transaction give rise to equal amounts of taxable and deductible temporary differences. The amendments are effective for annual reporting periods beginning on or after January 1, 2023 with earlier adoption permitted. The amendments are not expected to have a material impact on the Company.

KIFRS 1101 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter

The amendment permits a subsidiary that elects to apply paragraph D16(1) of KIFRS 1101 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to KIFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(1) of KIFRS 1101. The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted.

KIFRS 1109 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The Company will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendments are not expected to have a material impact on the Company.

KIFRS 1041 Agriculture – Taxation in fair value measurements

The amendment removes the requirement in paragraph 22 of KIFRS 1041 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of KIFRS 1041.

The amendment is effective for annual reporting period beginning on or after January 1, 2022 with earlier adoption permitted.

The amendments are not expected to have a material impact on the Company.

2.3 Subsidiaries, Joint Ventures, and Associates

The financial statements of the Company are the separate financial statements prepared in accordance with Korean IFRS 1027 Separate Financial Statements. Investments in subsidiaries, joint ventures and associates are recognized at cost under the direct equity method. The Company recognizes dividend income from subsidiaries, joint ventures and associates in profit or loss when its right to receive the dividend is established.

2.4 Business Segment

Information for each business segment is disclosed based on internal reporting to the chief operating decision maker. The chief operating decision maker is responsible for evaluating the resources to be allocated to the sales sector and the performance of the business sector, and the company views the board of directors as the top decision maker.

2.5 Foreign Currency Translation

(1) Functional and presentation currency

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

(2) Transactions and balances

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

Foreign exchange gains and losses that relate to borrowings are presented in the separate statement of profit or loss, within finance income or costs. All other foreign exchange gains and losses are presented in the separate statement of profit or 'other non-operating income or expenses'.

When a gain or loss on a non-monetary item is recognized in other comprehensive income, any exchange component of that gain or loss shall be recognized in other comprehensive income. As such, translation differences on equities held at fair value through other comprehensive income are recognized in other comprehensive income.

2.6 Cash and Cash Equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

2.7 Financial Assets

(1) Classification

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

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

Financial assets are classified on the basis of the Company's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Gains and losses on financial assets measured at fair value are recognized either 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 when, and only when its business model for managing those assets changes.

Subsequent changes in the fair value of investments in equity instruments that are not held for trading are recognized in other comprehensive income.

(2) Measurement

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

① Debt instruments

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:

(a) 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 'financial income' using the effective interest rate method.

(b) Fair value through other comprehensive income:

Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment loss (reversal of impairment loss), interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. Interest income from these financial assets is included in 'financial income' using the effective interest rate method. Foreign exchange gains and losses are presented in 'financial income / costs or other non-operating income / expenses' and impairment losses are presented in 'other non-operating expenses'.

2. Summary of Significant Accounting Policies (cont'd)

2.7 Financial Assets (cont'd)

(c) Fair value through profit or loss:

Assets that do not meet the criteria for amortized cost or fair value through other comprehensive income are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented net in the separate statement of profit or loss within 'finance income / cost -operating income / expenses' in the year in which it arises.

② Equity instruments

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 reclassified of fair value gains and losses to profit or loss following the derecognition of the investment. Dividend income from such investments continue to be recognized in profit or loss as 'finance income' when the right to receive payments is established. Changes in the fair value of financial assets at fair value through profit or loss are recognized in 'finance income or finance costs' in the separate statement of profit or loss as applicable. Impairment loss (reversal of impairment loss) on equity investments measured at fair value through other comprehensive income are not reported separately from other changes in fair value.

(3) Impairment

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

(4) 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. The Company classified the financial liability as 'borrowings' in the separate statement of financial position.

2.8 Derivative Financial Instruments

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Company has hedge relationships and designates certain derivatives as either:

- hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedges)
- hedges of a particular risk associated with the cash flows of recognized assets and liabilities and highly probable forecast transactions (cash flow hedges), or
- hedges of a net investment in a foreign operation (net investment hedges)

At inception of the hedge relationship, the Company documents the economic relationship between hedging instruments and hedged items including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of hedged items.

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. A non-derivative financial asset and a non-derivative financial liability is classified as a current or non-current based on its expected maturity and its settlement, respectively.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in the cash flow hedge reserve within equity, limited to the cumulative change in fair value (present value) of the hedged item (the present value of the cumulative change in the future expected cash flows of the hedged item) from the inception of the hedge. The ineffective portion is recognized in 'other non-operating income (expenses)'.

2.8 Derivative Financial Instruments (cont'd)

When option contracts are used to hedge forecast transactions, the Company designates only the intrinsic value of the option contract as the hedging instrument. Gains or losses relating to the effective portion of the change in intrinsic value of the option contracts are recognized in the cash flow hedge reserve within equity. The changes in the time value of the option contracts that relate to the hedge item ('aligned time value') are recognized within the costs of hedging in other comprehensive income within equity.

When forward contracts are used to hedge forecast transactions, the Company generally designates only the change in fair value of the forward contract related to the spot element as the hedging instrument. Gains or losses relating to the effective portion of the change in the spot element of the forward contracts are recognized in the cash flow hedge reserve within equity. The change in the forward element of the contract that relates to the hedged item is recognized within other comprehensive income within equity. In some cases, the Company may designate the full change in fair value of the forward contract (including forward points) as the hedging instrument. In such cases, the gains or losses relating to the effective portion of the change in fair value of the entire forward contract are recognized in the cash flow hedge reserve within equity.

Amounts accumulated in equity are reclassified in the periods when the hedged item affects profit or loss, as follows:

- Where the hedged item subsequently results in the recognition of a non-financial asset (such as inventory), both the deferred hedging gains and losses and the deferred time value of the option contracts or deferred forward points, if any, are included within the initial cost of the asset. The deferred amounts are ultimately recognized in profit or loss as the hedged item affects profit or loss (for example through cost of sales).
- The gain or loss relating to the effective portion of the interest rate swaps hedging variable rate borrowings is recognized in profit or loss within 'finance cost' at the same time as the interest expense on the hedge borrowings.

When a hedging instrument expires, or is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, any accumulated cash flow hedge reserve at that time remains in equity until the forecast transaction occurs, resulting in the recognition of a non-financial asset such as inventory. When the forecast transaction is no longer expected to occur, the cash flow hedge reserve and deferred costs of hedging that were reported in equity are immediately reclassified to profit or loss.

Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognized immediately in profit or loss within 'other non-operating income (expenses)' or 'finance income (costs)' based on the nature of transactions.

2.9 Trade Receivables

At initial recognition, trade receivables are measured at the amount of unconditional consideration, unless the trade receivables contain a significant financing component. Trade receivables are subsequently measured at amortized cost using the effective interest method, less loss allowance.

2.10 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using weighted average cost method, except for goods in transit which is determined using the specific identification method.

2.11 Property, Plant and Equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Depreciation of all property, plant and equipment, except for land, is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives as follows:

	<u>Useful lives</u>
Buildings	25 - 50 years
Structures	15 - 50 years
Machinery	4 - 15 years
Others	1 - 15 years

The assets' depreciation method, residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

2.12 Investment Property

Investment property is property held to earn rentals or for capital appreciation or both. An investment property is measured initially at its cost. An investment property is measured after initial measurement at depreciated cost (less any accumulated impairment losses). The Company depreciates investment properties, except for land, using the straight-line method over their useful lives of 25 ~ 50 years.

2.13 Borrowing Costs

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

2.14 Government Grants

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

2.15 Intangible Assets

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

Development costs that are directly attributable to internally generated by the Company are recognized when the criteria; such as, technically feasible, generate probable future economic benefits and other, are met. Membership rights that have an indefinite useful life are not subject to amortization because there is no foreseeable limit to the period over which the assets are expected to be utilized. The Company amortizes intangible assets with a limited useful life using the straight-line method over the following periods:

	<u>Useful lives</u>
Softwar	3 - 15 years
Development costs	3 - 15 years
Industrial property rights	5 - 15 years
Others	6 - 20 years

2.16 Research and Development

Costs associated with research are recognized as an expense as incurred. Costs that are identifiable, controllable and directly attributable to development projects are recognized as intangible asset when the following criteria are met:

- It is technically feasible to complete the development project so that it will be available for use;
- Management intends to complete the development project for its own use or selling;
- There is an ability to use or sell the development project;
- It can be demonstrated how the development project will generate probable future economic benefits;
- Adequate technical, financial resources and other resources to complete the development and to use or sell the development project are available; and
- The expenditure attributable to the development project during its development can be reliably measured.

Generally, internally generated development projects have the following stages; formulation and selection of a project, verification of idea and technology, development and testing, decision of commercialization, test of final application. Expenditures can be capitalized as intangible assets only after the decision of commercialization. Expenditures incurred in other stages are recognized as expenses on the research phase.

Expenditures incurred from technology license agreement with the third parties are recognized as intangible assets.

Development costs previously recognized as an expense are not recognized as an asset in a subsequent period. Capitalized development costs that are recognized as intangible assets are amortized using the straight-line method over their estimated useful lives when the assets are available for use and are tested for impairment.

2.17 Impairment of Non-financial Assets

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

2.18 Trade and Other Payables

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

2.19 Financial Liabilities

(1) Classification and measurement

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

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

(2) Derecognition

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

2.20 Financial Guarantee Contracts

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

(1) The amount determined in accordance with the expected credit loss model under Korean IFRS 1109 Financial Instruments and

(2) The amount initially recognized less, where appropriate, the cumulative amount of income recognized in accordance with Korean IFRS 1115 Revenue from Contracts with Customers

2.21 Current and Deferred Tax

The tax expense for the period consists of current and deferred tax. Current and deferred tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity.

The current income tax expense is measured at the amount expected to be paid to the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation, and considers whether it is probable that a taxation authority will accept an uncertain tax treatment. The Company measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

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

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

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

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

2.22 Provisions

Provisions for service warranties, make good obligation, and legal claims are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

2.23 Greenhouse Gas Emissions Permits and Obligations

With enforcement of The Act on the Allocation and Trading of Greenhouse Gas Emission Permits, the permits that are received free of charge from the government are measured at zero while permits purchased are measured at acquisition cost and stated net of accumulated impairment loss. Emissions obligations are measured as the sum of the carrying amount of the allocated permits that will be submitted to the government and the best estimate of expenditure required to settle the obligation at the end of reporting period for any excess emission. The permits and emissions obligations are classified as intangible assets and provisions, respectively, in the separate statement of financial position.

2.24 Employee Benefits

(1) Post-employment benefits

The Company operates both defined contribution and defined benefit pension plans. For defined contribution plans, the Company pays contribution to publicly or privately administered pension insurance plans on mandatory, contractual or voluntary basis. The Company has no further payment obligation once the contribution has been paid. The contribution is recognized as employee benefit expense when they are due. A defined benefit plan is a pension plan that is not a defined contribution plan

Generally, post-employment benefits are payable after the completion of employment, and the benefit amount depended on the employee's age, periods of service or salary levels. The liability recognized in the separate statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligation. Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in the period in which they occur, directly in other comprehensive income.

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

(2) Other long-term employee benefits

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

2.25 Revenue Recognition

(1) Identify performance obligation

With regard to the contract of selling products to the customer, the Company identifies the services provided separately to the customer as a different performance obligation. When the Company makes a sales contract with the customer, the standard warranty period for each product and customer is set up considering the legal warranty period. Even though the standard warranty period has been expired, the warranties are recognized as a revenue and is identified as a separate performance obligation when the Company provides additional warranties for the quality of product or when the customer has an option to purchase additional warranties separately.

(2) A performance obligation satisfied at a point in time

The revenue from the sale of goods is recognized at the time they are delivered to the customer. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Company has objective evidence that all criteria for acceptance have been satisfied.

The goods are often sold with volume discounts, and it is the Company's policy to sell its products to the customer with a right of return. Accumulated experience is used to estimate for the discounts and the refund, and the volume discounts is calculated based on the periodical forecast sales. The warranty provision for the sales and refund is reasonably estimated and recognized properly.

(3) Significant financing component

As a practical expedient, the Company need not adjust the promised amount of consideration for the effects of a significant financing component as the period between when the entity transfers a promised good or service to a customer and when the customer pays for that good or service is generally one year or less.

2.26 Lease

- Lease activities and accounting policies of the Company

Lease income from operating leases where the Company is a lessor is recognized in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognized as expense over the lease term on the same basis as lease income. The respective leased assets are included in the separate statement of financial position based on their nature.

The Company leases various machinery, real estate and cars. Lease contracts are typically made for fixed periods, but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

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

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

If the Company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the useful life of the underlying asset.

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

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

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

Payments associated with short-term leases or leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office furniture.

2.26 Lease (cont'd)

(1) Variable lease payments

Some property leases contain variable payment terms that are linked to sales generated from a warehouse. Variable lease payments that depend on usage are recognized in profit or loss in the period in which the condition that triggers those payments occurs.

(2) Extension and termination options

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

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

3. Financial Risk Management

3.1 Financial Risk Factors

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

Risk management is carried out by the Company's finance team under policies approved by the Board of the Directors. The finance team identifies, evaluates and hedges financial risks in close co-operation with the Company's operating units. The Board of the Directors reviews and approves written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, and credit risk, use of derivative financial instruments and non-derivative financial instruments, investment of excess liquidity.

(1) Market risk

1) Foreign exchange risk

The Company operates internationally and is exposed to foreign exchange risk arising from foreign currency exposures, primarily with respect to the US dollar. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities.

Management has set up a policy to require Company companies to manage their foreign exchange risk against their functional currency. The Company manages maximum loss for currency risk exposures within acceptable range by using currency risk management model and hires employees who are exclusively responsible for currency risk management. Currency exposure arising from the net assets of the Company's foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies.

The Company makes certain investments in overseas business sites, and the net assets of these overseas business sites are exposed to foreign exchange risk. This exposure is mainly managed through borrowings denominated in the relevant foreign currency.

As of December 31, 2021 and December 31, 2020, the Company's monetary assets and liabilities denominated in currencies other than its functional currency, are as follows (Korean won in millions):

	December 31, 2021		December 31, 2020	
	Assets	Liabilities	Assets	Liabilities
USD	₩ 1,839,799	₩ 2,540,124	₩ 2,221,196	₩ 2,364,916
EUR	170,333	750,174	174,206	739,136
JPY	13,679	10,374	15,110	32,693
CNY and others	151,799	602	401,943	974

As of December 31, 2021 and December 31, 2020, if the Company weakened / strengthened by 10% against the US dollar with all other variables held constant, profit before income tax would have been affected as follows (Korean won in millions):

	December 31, 2021		December 31, 2020	
	10% Increase	10% Decrease	10% Increase	10% Decrease
USD	₩ (70,033)	70,033	(14,372)	14,372

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3.1 Financial Risk Factors (cont'd)

The above sensitivity analysis has been performed for monetary assets and liabilities denominated in foreign currencies other than the Company reporting date.

2) As of December 31, 2021, the Company entered into foreign currency forwards to hedge change of exchange rates and the details are as follows (Korean won in millions):

	Contractor	Contract amount (in millions)	Contract exchange rate	Contract inception date	Contract maturity	Book amount	
						Assets	Liabilities
Currency forward (*)	Shinhan bank	USD 500	1,135.60	2020.10.14	2024.10.15	₩ 24,687	₩ -
	KB Kookmin bank	USD 500	1,102.83	2020.11.24	2029.04.16	30,232	-

(*) A derivative instrument which is not subject to hedging.

3) Interest rate risk

Interest rate risk is defined as the risk that the interest income or expenses arising from deposits and borrowings will fluctuate because of changes in future market interest rate. The interest rate risk mainly arises through floating rate deposits and borrowings. The objective of interest rate risk management lies in maximizing corporate value by minimizing uncertainty in interest rates fluctuations and net interest expense.

The Company adequately minimizes risks from interest rate fluctuations through various policies, such as sharing excess cash within the Company (internal cash sharing) to minimize external borrowings, avoiding high rate borrowings, reforming capital structure, managing an appropriate ratio of fixed rate borrowings and floating rate borrowings, monitoring a fluctuation of domestic and foreign interest rates daily, weekly and monthly, establishing alternatives, and balancing floating rate short-term borrowings with floating rate deposits.

The Company has no floating rate deposits and borrowings outstanding at the end of the reporting period.

4) Price risk

Some of the Company's equity securities, which are classified as non-current financial assets, are exposed to price risk. As of December 31, 2021, the listed stocks, which the Company holds, are traded on the open market and are related to the ASX (Australian Stock Exchange).

The effect of the increases or decrease of the listed stock index on the Company's capital (before the corporate tax effect is reflected) is shown in the table below. This analysis analyzes the case where the stock index increases or decreases by 10% under the assumption of that the listed stocks of the Company move in accordance with the correlation with the corresponding index if other variables are constant. (Korean won in millions)

	December 31, 2021	
	10% Increase	10% Decrease
ASX (Australian Stock Exchange) ₩	676 ₩	(676)

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3.1 Financial Risk Factors (cont'd)

(2) Credit risk

Credit risk arises from trade receivables and that the Company holds, as well as debt instruments at amortized cost or fair value through other comprehensive income.

1) Trade receivables

The Company applies the simplified approach to measuring expected credit losses which uses a lifetime expected provisions for trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The provisions for receivables as of December 31, 2021 and December 31, 2020 are as follows. Expected credit losses include forward-looking information. (Korean won in millions)

	<u>Receivables not past due(*1)</u>	<u>Receivables Past due but not impaired(*1)</u>	<u>Total</u>
December 31, 2021 (Trade receivables)			
Gross carrying amount	₩ 1,222,397 ₩	154,206 ₩	1,376,603
Expected loss rate	0.00%	0.00%	0.00%
Provisions for receivables	4	-	4
December 31, 2020 (Trade receivables)			
Gross carrying amount	1,272,961	300,590	1,573,551
Expected loss rate	0.01%	0.00%	0.01%
Provisions for receivables	124	-	124

(*1) See Note 7.(3) for aging analysis.

Changes in the provisions for trade receivables for the year ended December 31, 2021 and one-month period ended December 31, 2020 are as follows (Korean won in millions):

	<u>For the year ended December 31, 2021</u>	<u>For one-month period ended December 31, 2020</u>
Beginning	₩ 124 ₩	₩ 159
Increase (Reversal) of provisions recognized in profit or loss during the period	(120)	(35)
Ending	<u>₩ 4 ₩</u>	<u>₩ 124</u>

As of December 31, 2021, the carrying amount of trade receivables representing the maximum exposure to credit risk amounts to ₩1,376,603 million (as of December 31, 2020: ₩1,573,551 million)

3.1 Financial Risk Factors (cont'd)

2) Other financial assets at amortized cost

Changes in provisions for other financial assets at amortized cost for the year ended December 31, 2021 and one-month period ended December 31, 2020 are as follows (Korean won in millions):

	For the year ended December 31, 2021	For one-month period ended December 31, 2020
Beginning	₩ 54	₩ -
Increase in provisions recognized in profit or loss during the period	-	54
Ending	<u>₩ 54</u>	<u>₩ 54</u>

All of the financial assets at amortized costs are considered to have low credit risk, and the provisions recognized during the period was, therefore, limited to 12 months expected losses.

3) Debt investments measured at fair value through other comprehensive income

Debt investments measured at fair value through other comprehensive income include trade receivables to be discounted. For these investments, changes in fair value are accumulated within the financial assets at fair value through other comprehensive income reserve within equity. The accumulated changes in fair value are transferred to profit or loss when the investment is impaired.

The Company has established the following policies and procedures to manage credit risks.

To manage credit risks relating to trade receivables, the Company evaluates the credit rating of customers and determines credit limit for each customer based on the information provided by credit rating agencies and other available financial information before commencing business with new customers. The credit risks relating to trade receivables are also mitigated by insurance contracts, collateral as well as payment guarantees.

The Company has entered into export bond insurance contracts with Korea Trade Insurance Corporation to mitigate credit risks relating to export trade receivables to overseas customers. The Company is also provided with collateral by customers depending on their credit rating or payment guarantees from the customers financial institutions if necessary.

The Company has deposited its cash and cash equivalents and other long-term deposits in several financial institutions, such as Woori Bank and others. The Company has also entered into derivative contract with several financial institutions. The Company maintains business relationship with those financial institutions with high credit ratings evaluated by independent credit rating agencies and accordingly, credit risks associated with these financial institutions are limited.

(3) Liquidity risk

Finance team of the Company monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Company does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. The Company's liquidity management policy involves projecting cash flows in major currencies and considering the level of liquid assets necessary to meet these, monitoring balance sheet liquidity ratios against internal and external regulatory requirements and maintaining debt financing plans.

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3.1 Financial Risk Factors (cont'd)

1) The table below analyzes the Company groupings based on the remaining period at the reporting date to the contractual maturity date as of December 31, 2021 and December 31, 2020. Cash flows presented below are gross cash flows before discount, and includes cash flows for interests (Korean won in millions):

		December 31, 2021			
		Less than 1 year	Between 1-2 years	Between 2-5 years	Over 5 years
Non-derivative instruments:					
Borrowings (excluding lease liabilities)	₩	48,535	₩ 719,705	₩ 886,439	₩ 646,468
Lease liabilities		9,854	8,460	27,935	-
Trade and other payables		<u>2,017,875</u>	<u>10</u>	<u>3,262</u>	<u>-</u>
		2,076,264	728,175	917,636	646,468
Derivative instruments:					
Gross settlement currency forwards					
Inflows	₩	-	₩ -	(592,750) ₩	(592,750)
Outflows		<u>-</u>	<u>-</u>	<u>567,800</u>	<u>551,415</u>
		<u>-</u>	<u>-</u>	<u>(24,950)</u>	<u>(41,335)</u>
	₩	<u>2,076,264</u>	₩ 728,175	₩ 892,686	₩ 605,133
		December 31, 2020			
		Less than 1 year	Between 1-2 years	Between 2-5 years	Over 5 years
Non-derivative instruments:					
Borrowings (excluding lease liabilities)	₩	45,174	₩ 45,174	₩ 1,324,270	₩ 814,127
Lease liabilities		2,379	1,585	2,109	-
Trade and other payables		<u>1,651,623</u>	<u>1,563</u>	<u>-</u>	<u>-</u>
		1,699,176	48,322	1,326,379	814,127
Derivative instruments:					
Gross settlement currency forwards					
Inflows	₩	-	₩ -	(544,000) ₩	(544,000)
Outflows		<u>-</u>	<u>-</u>	<u>567,800</u>	<u>567,800</u>
		<u>-</u>	<u>-</u>	<u>23,800</u>	<u>7,415</u>
	₩	<u>1,699,176</u>	₩ 48,322	₩ 1,350,179	₩ 821,542

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3.1 Financial Risk Factors (cont'd)

2) As of December 31, 2021, the Company has entered into swap contracts for which cash flow hedge accounting is applied, to avoid market price fluctuation of raw materials (Korean won in millions).

	Purpose of the contracts	Hedged items	Financial institution	Maturity	Fair value
Merchandise (raw materials) swap (*)	Cash flow hedge	Non-ferrous metal	Citibank, SC	~2024.12 ₩	334

Details of derivative assets and liabilities as of December 31, 2021 and December 31, 2020 are as follows (Korean won in millions):

	December 31, 2021		December 31, 2020	
	Assets	Liabilities	Assets	Liabilities
Merchandise (raw materials) swap (*)	₩ 334 ₩	- ₩	23,821 ₩	-

(*) Gain (loss) resulting from the contracts to avoid cash flow fluctuation risk of expected future transaction is accounted for as accumulated other comprehensive income (Note 5).

3) The table below analyzes the Company into relevant maturity groupings based on the remaining maturity as of December 31, 2021 and December 31, 2020 to the contractual maturity date. (Korean won in millions)

	December 31, 2021			
	Less than 1 year	Between 1-2 years	Between 2-5 years	Over 5 years
Financial guarantee contracts(*)	₩ 3,946,480 ₩	- ₩	- ₩	-

	December 31, 2020			
	Less than 1 year	Between 1-2 years	Between 2-5 years	Over 5 years
Financial guarantee contracts(*)	₩ 3,335,344 ₩	- ₩	- ₩	-

(*) The Company has provided financial guarantee for subsidiaries. The amount represents the maximum amount of the guarantee as of December 31, 2021 and December 31, 2020, in which the guarantee could be called (Note 8, 18).

3.2 Capital Risk Management

The Company's objectives for managing capital are to safeguard the Company's ability to continue as a going concern, so the Company can continue to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital.

Consistent with others in the industry, the Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the separate statement of financial position plus net debt.

The gearing ratio and debt-to-equity ratio as of December 31, 2021 and December 31, 2020 are as follows (Korean won in millions):

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Total borrowings (Note 14) (A)	₩ 2,090,216 ₩	1,949,537
Less: cash and cash equivalents (B)	<u>(257,032)</u>	<u>(536,731)</u>
Net debt (C=A+B)	1,833,184	1,412,806
Total liabilities (D)	6,575,680	5,090,619
Total equity (E)	7,133,956	7,252,098
Total capital (F=C+E)	<u>8,967,140</u>	<u>8,664,904</u>
Gearing ratio (C/F)	20.4%	16.3%
Debt-to-equity ratio (D/E)	92.2%	70.2%

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3.3 Fair Value

(1) The carrying amount and fair value of financial instruments by category as of December 31, 2021 and December 31, 2020 are as follows (Korean won in millions):

	December 31, 2021		December 31, 2020	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets(current):				
Cash and cash equivalents	₩ 257,032	(*1)	₩ 536,731	(*1)
Trade receivables	1,309,544	(*1)	1,547,136	(*1)
Other receivables (excluding deposits held by financial institutions)	1,159,572	(*1)	472,733	(*1)
Deposits held by financial institutions	-	-	600,000	(*1)
Current derivative financial assets	274	274	23,821	23,821
Financial assets(non-current):				
Deposits held by financial institutions	60,014	(*1)	60,014	(*1)
Trade receivables	67,055	(*1)	26,291	(*1)
Other receivables (excluding deposits held by financial institutions)	85,462	(*1)	394,012	(*1)
Other non-current financial assets measured at fair value				
Marketable financial assets	14,063	14,063	-	-
Non-marketable financial assets	97,791	97,791	-	-
Non-current derivative financial assets	16,220	16,220	-	-
Non-current derivative financial assets (currency forward)	54,919	54,919	-	-
Financial liabilities(current):				
Trade and other payables	2,017,875	(*1)	1,651,623	(*1)
Current lease liabilities	9,149	(*2)	2,273	(*2)
Current derivative financial liabilities	-	-	62,544	(*1)
Other current financial liabilities	60,763	(*1)	-	-
Financial liabilities(non-current):				
Non-current borrowings (excluding lease liabilities)	2,045,808	2,109,473	1,943,701	2,020,530
Non-current lease liabilities	35,259	(*2)	3,563	(*2)
Other non-current payables	3,272	(*1)	1,563	(*1)
Other non-current derivative financial liabilities (currency forward)	-	-	41,768	41,768

(*1) Fair values for these financial assets and liabilities are not disclosed above as their carrying amounts are reasonable approximation of their fair values.

(*2) Fair values for these financial assets and liabilities are not disclosed above in accordance with related KIFRS.

3.3 Fair Value (cont'd)

(2) Fair values for measurement and disclosure are determined based on the following method:

Fair values of financial liabilities (non-current) are based on cash outflows discounted by using Korean won currency note yield in the same credit grade with the Company (AA+), and the applied discount rates are as follows:

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Discount rate	1.77% ~ 2.80%	0.98% ~ 2.27%

(3) Fair value hierarchy

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

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

Fair value hierarchy of the financial instruments that are either measured at fair value or their fair values are disclosed for as of December 31, 2021 and December 31, 2020 are as follows (Korean won in millions):

	<u>December 31, 2021</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets/liabilities measured at fair value:				
Current derivative financial assets	₩ -	₩ 274	₩ -	₩ 274
Other non-current derivative financial assets	-	60	16,160	16,220
Other non-current derivative financial assets (currency forward)	-	54,919	-	54,919
Other non-current financial assets	14,063	-	97,791	111,854
Financial assets/liabilities not measured at fair value:				
Non-current borrowings (excluding finance lease liabilities)	-	2,109,473	-	2,109,473

3.3 Fair Value (cont'd)

(3) Fair value hierarchy (cont'd)

	December 31, 2020			
	Level 1	Level 2	Level 3	Total
Financial assets/liabilities measured at fair value:				
Current derivative financial assets	₩ -	₩ 23,821	₩ -	₩ 23,821
Non-current derivative financial liabilities (currency forward)	-	41,768	-	41,768
Financial assets/liabilities not measured at fair value:				
Non-current borrowings (excluding finance lease liabilities)	-	2,020,530	-	2,020,530

(4) The significant unobserved inputs used in the fair value measurements categorized within level 3 of the fair value hierarchy, together with a quantitative sensitivity analysis are as follows:

		Valuation technique	Significant unobservable inputs	Range (weighted average)	Sensitivity of the input to fair value
Non-listed stock:					
Volta Energy Solutions S.a.r.l	Discounted cash flow method		Long-term growth rate through cash flows in subsequent periods	1.00%	-1.32~+1.32%
			Weighted average cost of capital	10.98%	-1.32~+1.32%
Great Power	Discounted cash flow method		Long-term growth rate through cash flows in subsequent periods	1.00%	-1~+1%
			Weighted average cost of capital	12.20%	-1~+1%
Derivatives:					
Put option in relation to Volta Energy Solutions S.a.r.l	Binomial model		Variability	40%	2.36~2.4%

4. Significant Accounting Estimates and Assumptions

The preparation of separate financial statements requires the Company to make estimates and assumptions concerning the future. Management also needs to exercise judgement in applying the Company's accounting policies. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates may differ from the related actual results.

For the year ended December 31, 2021, the spread of COVID-19 has a significant impact on the domestic and international economies. This may negatively affect productivity, decrease or delay in sales, and collection of existing bonds. This may affect the company's financial position and business performance.

Significant accounting estimates and assumptions used in the preparation of separate financial statements may be adjusted according to fluctuations in uncertainty arising from COVID-19, and the ultimate impact of COVID-19 on the Company position, and management performance is currently unpredictable.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(1) Income taxes

The Company's taxable income generated from these operations are subject to income taxes based on tax laws and interpretations of tax authorities in numerous jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain. If certain portion of the taxable income is not used for investments or increase in wages or dividends, the Company is liable to pay additional income tax calculated based on the tax laws. Accordingly, the measurement of current and deferred income tax is affected by the tax effects from the new tax system. As the Company's income tax is dependent on the investments, increase in wages and dividends, there is an uncertainty measuring the final tax effects.

(2) Provisions

The Company recognizes provisions for product warranties as explained in Note 15. These provisions are estimated based on past experience. Provisions related to voluntary recalls by the Company's customer are estimated based on the number of vehicles subject to recall, estimated total repair cost, and cost sharing ratio.

4. Critical Accounting Estimates and Assumptions (cont'd)

(3) Fair value of financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Company uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at December 31, 2021 (Note 3.3).

(4) Impairment of financial assets

The provision for impairment for financial assets is based on assumptions about risk of default and expected loss rates. The Company uses judgement in making these assumptions and selecting the inputs to the impairment calculation based on the Company's past history, existing market conditions as well as forward looking estimates at the end of each reporting period (Note 3.1.(2)).

(5) Net defined benefit liability (assets)

The present value of net defined benefit liability depends on a number of factors that are determined on an actuarial basis using a number of assumptions including the discount rate (Note 16).

(6) Lease

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

The lease term is reassessed if an option is actually exercised (or not exercised) or the Company becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

5. Financial Instruments by Category

(1) Categorizations of financial instruments as of December 31, 2021 and December 31, 2020 are as follows (Korean won in millions):

Financial assets	December 31, 2021			Total
	Financial assets at amortized cost	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income	
Cash and cash equivalents	₩ 257,032	₩ -	₩ -	₩ 257,032
Trade receivables	1,309,544	-	-	1,309,544
Non-current trade receivables	67,055	-	-	67,055
Other receivables	1,159,572	-	-	1,159,572
Other non-current receivables	145,476	-	-	145,476
Other current financial assets	-	-	274	274
Other non-current financial assets	-	71,749	111,244	182,993
	<u>₩ 2,938,679</u>	<u>₩ 71,749</u>	<u>₩ 111,518</u>	<u>₩ 3,121,946</u>

Financial liabilities	December 31, 2021			Total
	Financial assets at fair value through profit or loss	Other financial liabilities (*)		
Trade payables	₩ 1,351,115	₩ -	₩ -	₩ 1,351,115
Other payables	666,760	-	-	666,760
Borrowings(current)	-	9,149	-	9,149
Other current financial liabilities	60,763	-	-	60,763
Other non-current payables	3,272	-	-	3,272
Borrowings(non-current)	2,045,808	35,259	-	2,081,067
	<u>₩ 4,127,718</u>	<u>₩ 44,408</u>	<u>₩ -</u>	<u>₩ 4,172,126</u>

(*) Other financial liabilities include lease liabilities, which are not applied by the categorization of financial liabilities.

Financial assets	December 31, 2020			Total
	Financial assets at amortized cost	Financial assets at fair value through other comprehensive income		
Cash and cash equivalents	₩ 536,731	₩ -	₩ -	₩ 536,731
Trade receivables	1,547,136	-	-	1,547,136
Non-current trade receivables	26,291	-	-	26,291
Other receivables	1,072,733	-	-	1,072,733
Other non-current receivables	454,026	-	-	454,026
Other current financial assets	-	23,821	-	23,821
	<u>₩ 3,636,917</u>	<u>₩ 23,821</u>	<u>₩ -</u>	<u>₩ 3,660,738</u>

5. Financial Instruments by Category (cont'd)

Financial liabilities	December 31, 2020			
	Financial assets at fair value through profit or loss	Financial liabilities at amortized cost	Other financial liabilities (*)	Total
Trade payables	₩ -	₩ 1,272,958	₩ -	₩ 1,272,958
Other payables	-	378,665	-	378,665
Borrowings(current)	-	-	2,273	2,273
Other current financial liabilities	-	-	62,544	62,544
Other non-current financial liabilities	41,768	-	-	41,768
Other non-current payables	-	1,563	-	1,563
Borrowings(non-current)	-	1,943,701	3,563	1,947,264
	₩ 41,768	₩ 3,596,887	₩ 68,380	₩ 3,707,035

(*) Other financial liabilities include lease liabilities and derivative liabilities, which are not applied by the categorization of the financial liabilities.

(2) Net gains or losses on each category of financial instruments for the year ended December 31, 2021 and one-month period ended December 31, 2020 are as follows (Korean won in millions):

	For the year ended December 31, 2021	For one-month period ended December 31, 2020
Interest income:		
Financial assets at amortized cost	₩ 20,887	₩ 1,611
Interest expense:		
Financial liabilities at amortized cost(*)	(51,861)	(3,997)
Other financial liabilities	(729)	(7)
Gains or loss on valuation:		
Financial assets at fair value through other comprehensive income	5,104	-
Derivative instruments	89,360	(13,545)
Exchange differences:		
Financial assets at amortized cost	187,830	(28,807)
Financial liabilities at amortized cost	(192,743)	25,101

(*) The expenses paid to financial institutions in the process of disposing of trade receivables are included.

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6. Cash and Cash Equivalents

(1) Details of cash and cash equivalents as of December 31, 2021 and December 31, 2020 are as follows (Korean won in millions):

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Bank deposits and cash on hand	₩ 25,085	₩ 23,670
Deposits held by financial institutions and others	231,947	513,061
	<u>₩ 257,032</u>	<u>₩ 536,731</u>

(2) As of December 31, 2021, there are no cash and cash equivalents with limited purpose of use by the Company.

7. Trade and Other Receivables

(1) Trade and other receivables and its provisions for impairment as of December 31, 2021 and December 31, 2020 are as follows (Korean won in millions):

	<u>December 31, 2021</u>			<u>December 31, 2020</u>		
	Gross amount	Provision for impairment	Carrying amount	Gross amount	Provision for impairment	Carrying amount
Trade receivables	₩ 1,309,548	₩ (4)	₩ 1,309,544	₩ 1,547,260	₩ (124)	₩ 1,547,136
Non-current trade receivables	67,055	-	67,055	26,291	-	26,291
Other current receivables	1,159,626	(54)	1,159,572	1,072,787	(54)	1,072,733
Other non-current receivables	145,476	-	145,476	454,026	-	454,026
	<u>₩ 2,681,705</u>	<u>₩ (58)</u>	<u>₩ 2,681,647</u>	<u>₩ 3,100,364</u>	<u>₩ (178)</u>	<u>₩ 3,100,186</u>

(2) Details of other receivables as of December 31, 2021 and December 31, 2020 are as follows (Korean won in millions):

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Current:		
Non-trade receivables	₩ 1,155,246	₩ 455,756
Deposits held by financial institutions	-	600,000
Accrued income	124	9,293
Guarantee deposits provided	4,202	7,684
	<u>1,159,572</u>	<u>1,072,733</u>
Non-current:		
Non-trade receivables	₩ 65,048	₩ 43,896
Deposits held by financial institutions(*)	60,014	60,014
Loan	-	333,920
Guarantee deposits provided	20,014	16,196
	<u>145,476</u>	<u>454,026</u>
	<u>₩ 1,305,048</u>	<u>₩ 1,526,759</u>

(*) As of December 31, 2021, ₩60,000 million is restricted for withdrawal in relation to the Win-Win Growth Cooperation Agreement between large, small and medium-sized companies and others. In addition, ₩14 million is restricted for withdrawal in relation to maintaining checking accounts.

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7. Trade and Other Receivables (cont'd)

(3) The aging analysis of trade and other receivables as of December 31, 2021 and December 31, 2020 is as follows (Korean won in millions):

	December 31, 2021		December 31, 2020	
	Trade receivables	Other receivables	Trade receivables	Other receivables
Receivables not past due	₩ 1,222,397	₩ 1,275,521	₩ 1,272,961	₩ 1,491,427
Past due but not impaired:	154,206	29,527	-	-
Up to 3 months	57,535	29,482	146,684	33,876
Between 3-6 months	15,962	45	65,219	117
Over 6 months	80,709	-	88,687	1,339
	1,376,603	1,305,058	300,590	35,332
Impaired receivables	-	54	-	54
	₩ 1,376,603	₩ 1,305,102	₩ 1,573,551	₩ 1,526,813

(4) Changes in the provision for impairment of trade and other receivables for the year ended December 31, 2021 and one-month period ended December 31, 2020 are as follows (Korean won in millions):

	For the year ended December 31, 2021		For one-month period ended December 31, 2020	
	Trade receivables	Other receivables	Trade receivables	Other receivables
Beginning	₩ 124	₩ 54	₩ 159	₩ -
Additions (reversal)	(120)	-	(35)	54
Ending	₩ 4	₩ 54	₩ 124	₩ 54

(5) As of December 31, 2021 and December 31, 2020, the carrying amounts of trade and other receivables are approximation of their fair values.

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8. Other Financial Assets and Liabilities

(1) Details of other financial assets and liabilities as of December 31, 2021 and December 31, 2020 are as follows (Korean won in millions):

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Other financial assets:		
Financial assets at fair value through other comprehensive income	₩ 111,184 ₩	-
Cash flow hedge	334	23,821
Financial assets at fair value through profit or loss	<u>71,749</u>	<u>-</u>
	<u>₩ 183,267 ₩</u>	<u>23,821</u>
Other financial liabilities:		
Financial guarantee contracts	₩ 60,763 ₩	62,544
Financial liabilities at fair value through profit or loss	<u>-</u>	<u>41,768</u>
	<u>₩ 60,763 ₩</u>	<u>104,312</u>

(2) Changes in equity securities included in other financial assets for the year ended December 31, 2021 are as follows (Korean won in millions):

	<u>For the year ended December 31, 2021</u>
Beginning	₩ -
Acquisitions / Transfer	106,080
Valuation gain (before income tax deduction), other comprehensive income item	<u>5,104</u>
Ending	<u>₩ 111,184</u>

(*) The Company has investment guarantee arrangement with Volta Energy Solutions S.a.r.l related to the above equity securities.

(3) No impairment losses on other financial assets were recognized for the year ended December 31, 2021 and one-month period ended December 31, 2020.

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9. Inventories

(1) Details of inventories as of December 31, 2021 and December 31, 2020 are as follows (Korean won in millions):

	December 31, 2021			December 31, 2020		
	Gross amount	Valuation allowance	Carrying amount	Gross amount	Valuation allowance	Carrying amount
Merchandise	₩ 64,535	₩ (1,643)	₩ 62,892	₩ 43,165	₩ (1,666)	₩ 41,499
Finished / Semi-finished products	827,908	(70,533)	757,375	595,201	(21,403)	573,798
Raw materials	163,230	(988)	162,242	235,354	(629)	234,725
Supplies	13,338	-	13,338	12,068	-	12,068
Materials-in-transit	91,843	-	91,843	87,659	-	87,659
	<u>₩ 1,160,854</u>	<u>₩ (73,164)</u>	<u>₩ 1,087,690</u>	<u>₩ 973,447</u>	<u>₩ (23,698)</u>	<u>₩ 949,749</u>

(2) For the year ended December 31, 2021, the cost of inventories recognized as expense and included in 'cost of sales' amounted to ₩4,654,216 million (for one-month period ended December 31, 2020: ₩387,585 million).

10. Investments in Subsidiaries, Associates and Joint Ventures

(1) Changes in investments in subsidiaries, associates and joint ventures for the year ended December 31, 2021 and one-month period ended December 31, 2020, are as follows (Korean won in millions):

	For the year ended		For one-month period ended	
	December 31, 2021	December 31, 2020	December 31, 2021	December 31, 2020
Beginning	₩ 4,487,105	₩ 4,452,376		
Acquisition	1,021,022			34,729
Disposals	(15,946)			-
Ending	<u>₩ 5,492,181</u>	<u>₩ 4,487,105</u>		

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10. Investments in Subsidiaries, Associates and Joint Ventures (cont'd)

(2) Details of investments in subsidiaries, associates and joint ventures as of December 31, 2021 and December 31, 2020, are as follows (Korean won in millions):

	Location	Percentage of ownership(%)		Carrying amount	
		December 31, 2021	December 31, 2020	December 31, 2021	December 31, 2020
Subsidiaries:					
LG Energy Solution (Nanjing) Co., Ltd.(*1)	China	100	81	₩ 1,138,401	₩ 1,138,401
LG Energy Solution Michigan Inc.	USA	100	100	1,172,636	583,577
LG Energy Solution Battery (Nanjing) Co., Ltd. (*2)	China	100	50	286,310	88,706
LG Energy Solution Wrocław sp. z o.o.	Poland	100	100	1,810,008	1,810,008
LG Energy Solution Australia Pty Ltd.	Australia	100	100	429	429
LG Energy Solution Technology (Nanjing) Co., Ltd.	China	100	100	788,171	788,171
LG Energy Solution Europe GmbH	Germany	100	100	34,729	34,729
LG Energy Solution (Taiwan) Ltd. (*3)	Taiwan	100	-	1,871	-
Areum noori Co., Ltd. (*4)	Korea	100	-	500	-
LG Energy Solution Fund I LLC (*5)	USA	100	-	22,856	-
				5,255,911	4,444,021
Associates:					
WUXI CL New Energy Technology Ltd. (*6)	China	-	30	-	1,737
Jiangxi VL Battery Co., Ltd.	China	34	34	21,814	21,814
				21,814	23,551
Joint ventures					
HL GREEN POWER Co., Ltd. (*7)	Korea	-	49	-	14,210
PT.HLI Green Power (*8)	Indonesia	50	-	209,133	-
VINFAST LITHIUM BATTERY PACK LLC.(*9)	Vietnam	35	35	5,323	5,323
				214,456	19,533
				₩ 236,270	₩ 43,084

(*1) The Company's ownership of LG Energy Solution (Nanjing) Co., Ltd. has been changed to 100% due to the partner's reduction of capital.

(*2) The Company acquired 50% of LG Energy Solution battery (Nanjing) Co., Ltd.'s share from the partner.

(*3) LG Energy Solution (Taiwan) Ltd. was newly established for the year ended December 31, 2021 and the Company acquired 100% shares of LG Energy Solution (Taiwan) Ltd. for ₩1,871 million.

(*4) Areum noori Co., Ltd was newly established for the year ended December 31, 2021 and the Company acquired 100% shares of Areum noori Co., Ltd for ₩500 million.

(*5) LG Energy Solution Fund I LLC was newly established for the year ended December 31, 2021 and the Company acquired 100% shares of LG Energy Solution Fund I LLC for ₩22,856 million.

(*6) The Company has sold its shares in Wuxi CL New Energy Technology Ltd. for the year ended December 31, 2021.

(*7) The Company has sold its shares in HL GREEN POWER Co., Ltd. for the year ended December 31, 2021.

(*8) PT.HLI Green Power was newly established for the year ended December 31, 2021 and the Company acquired 50% shares of PT. HLI Green Power for ₩209,133 million.

(*9) The Company's ownership in VINFAST LITHIUM BATTERY PACK LLC. is 35%. However, it is classified as a joint venture because it satisfies the classification criteria of a joint venture, such as unanimous decision rule.

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11. Property, Plant and Equipment

(1) Changes in property, plant and equipment for the year ended December 31, 2021 and one-month period ended December 31, 2020 are as follows (Korean won in millions):

	For the year ended December 31, 2021										
	Land	Buildings	Structures	Machinery	Vehicles	Tools	Equipment	Right-of-use assets	Construction -in-progress	Machinery -in-transit	Total
Beginning:											
Cost	₩ 223,838	₩ 809,711	₩ 69,279	₩ 1,386,192	₩ 3,444	₩ 465,363	₩ 105,526	₩ 7,701	₩ 199,754	₩ 23,269	₩ 3,294,077
Accumulated depreciation	-	(158,737)	(29,604)	(1,198,652)	(2,808)	(300,846)	(65,629)	(1,872)	-	-	(1,758,148)
Accumulated impairment	(668)	(3,172)	(1,834)	(1,256)	(4)	(274)	(425)	-	-	-	(7,633)
	<u>₩ 223,170</u>	<u>₩ 647,802</u>	<u>₩ 37,841</u>	<u>₩ 186,284</u>	<u>₩ 632</u>	<u>₩ 164,243</u>	<u>₩ 39,472</u>	<u>₩ 5,829</u>	<u>₩ 199,754</u>	<u>₩ 23,269</u>	<u>₩ 1,528,296</u>
Acquisitions/transfer	-	73,154	1,256	221,073	2,930	106,549	64,701	50,070	544,810	32,360	1,096,903
Disposals/transfer	(162)	-	-	(5,773)	(9)	(6,108)	(11,384)	(555)	(466,616)	(40,646)	(531,253)
Depreciation	-	(18,045)	(2,260)	(112,851)	(356)	(57,768)	(13,465)	(10,259)	-	-	(215,004)
Ending:											
Cost	₩ 223,676	₩ 890,537	₩ 70,467	₩ 1,568,241	₩ 6,211	₩ 551,606	₩ 153,490	₩ 56,524	₩ 277,948	₩ 14,983	₩ 3,813,683
Accumulated depreciation	-	(184,474)	(31,796)	(1,278,280)	(3,010)	(344,424)	(73,749)	(11,439)	-	-	(1,927,172)
Accumulated impairment	(668)	(3,152)	(1,834)	(1,228)	(4)	(266)	(417)	-	-	-	(7,569)
	<u>₩ 223,008</u>	<u>₩ 702,911</u>	<u>₩ -</u>	<u>₩ 288,733</u>	<u>₩ 3,197</u>	<u>₩ 206,916</u>	<u>₩ 79,324</u>	<u>₩ 45,085</u>	<u>₩ 277,948</u>	<u>₩ 14,983</u>	<u>₩ 1,878,942</u>

	For one-month period ended December 31, 2020										
	Land	Buildings	Structures	Machinery	Vehicles	Tools	Equipment	Right-of-use assets	Construction -in-progress	Machinery -in-transit	Total
Beginning:											
Cost	₩ 223,838	₩ 809,121	₩ 69,010	₩ 1,370,400	₩ 3,432	₩ 460,150	₩ 99,682	₩ 7,133	₩ 143,580	₩ 23,224	₩ 3,209,570
Accumulated depreciation	-	(157,344)	(29,416)	(1,190,342)	(2,788)	(297,917)	(64,732)	(1,701)	-	-	(1,744,240)
Accumulated impairment	(668)	(3,172)	(1,834)	(1,256)	(4)	(274)	(424)	-	-	-	(7,632)
	<u>₩ 223,170</u>	<u>₩ 648,605</u>	<u>₩ 37,760</u>	<u>₩ 178,802</u>	<u>₩ 640</u>	<u>₩ 161,959</u>	<u>₩ 34,526</u>	<u>₩ 5,432</u>	<u>₩ 143,580</u>	<u>₩ 23,224</u>	<u>₩ 1,457,698</u>
Acquisitions/Transfer	-	591	269	24,194	13	6,914	6,275	569	88,316	515	127,656
Disposals/transfer	-	-	-	(5,604)	-	(15)	(420)	-	(32,142)	(470)	(38,651)
Depreciation	-	(1,394)	(188)	(11,108)	(21)	(4,615)	(909)	(172)	-	-	(18,407)
Ending:											
Cost	₩ 223,838	₩ 809,711	₩ 69,279	₩ 1,386,192	₩ 3,444	₩ 465,363	₩ 105,526	₩ 7,701	₩ 199,754	₩ 23,269	₩ 3,294,077
Accumulated depreciation	-	(158,737)	(29,604)	(1,198,652)	(2,808)	(300,846)	(65,629)	(1,872)	-	-	(1,758,148)
Accumulated impairment	(668)	(3,172)	(1,834)	(1,256)	(4)	(274)	(425)	-	-	-	(7,633)
	<u>₩ 223,170</u>	<u>₩ 647,802</u>	<u>₩ 37,841</u>	<u>₩ 186,284</u>	<u>₩ 632</u>	<u>₩ 164,243</u>	<u>₩ 39,472</u>	<u>₩ 5,829</u>	<u>₩ 199,754</u>	<u>₩ 23,269</u>	<u>₩ 1,528,296</u>

(2) The Company capitalized ₩960 million of borrowing costs in relation to acquisition of property, plant and equipment, on property, plant and equipment. The capitalization rate of borrowings used to determine the amount of borrowing costs eligible for capitalization is 2.37%.

(3) Line items including depreciation in the consolidated statement of income for the year ended December 31, 2021 and one-month period ended December 31, 2020 are as follows (Korean won in millions):

	For the year ended December 31, 2021	For one-month period ended December 31, 2020
Cost of sales	₩ 139,086	₩ 14,608
Selling and administrative expenses	75,918	3,799
	<u>₩ 215,004</u>	<u>₩ 18,407</u>

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11. Property, Plant and Equipment (cont'd)

(4) Lease

(i) Amounts recognized in the separate statement of financial position

Details of amounts recognized in the separate statement of financial position in relation to lease as of December 31, 2021 and December 31, 2020 are as follows (Korean won in millions):

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Right-of-use assets(*):		
Land	₩ 42,223	₩ 3,554
Vehicles	<u>2,862</u>	<u>2,275</u>
	<u>₩ 45,085</u>	<u>₩ 5,829</u>

(*) Included in 'Property, plant and equipment' of the separate statement of financial position.

Additions to the right-of-use assets for the year ended December 31, 2021 are ₩50,070 million (for one-month period ended December 31, 2020: ₩569 million).

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Lease liabilities (*):		
Current	₩ 9,149	₩ 2,273
Non-current	<u>35,259</u>	<u>3,563</u>
	<u>₩ 44,408</u>	<u>₩ 5,836</u>

(*) Included in 'Borrowings' of the separate statement of financial position.

(ii) Amounts recognized in the separate statement of income

Details of amounts recognized in the consolidated statement of income in relation to lease for the year ended December 31, 2021 and one-month period ended December 31, 2020 are as follows (Korean won in millions):

	<u>For the year ended December 31, 2021</u>	<u>For one-month period ended December 31, 2020</u>
Depreciation of right-of-use assets		
Land	₩ 8,279	₩ 48
Vehicles	<u>1,980</u>	<u>124</u>
	<u>₩ 10,259</u>	<u>₩ 172</u>
Interest expense relating to lease liabilities (included in finance cost)	₩ 729	₩ 7
Expense relating to short-term leases (included in cost of goods sold and administrative expenses)	1,298	699
Expense relating to leases of low-value assets that are not short-term leases (included in cost of goods sold and administrative expenses)	3,819	52

Total cash outflow for leases for the year ended December 31, 2021 is ₩13,717 million (for one-month period ended December 31, 2020: ₩955 million).

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12. Intangible Assets

(1) Changes in intangible assets for the year ended December 31, 2021 and one-month period ended December 31, 2020 are as follows (Korean won in millions):

	For the year ended December 31, 2021				
	Software	Industrial property rights	Memberships	Others	Total
Beginning	₩ 115,373	₩ 148,105	₩ 9,218	₩ 437	₩ 273,133
Separate acquisitions/transfer	94,273	44,032	2,076	1,160	141,541
Disposals/transfer	(6)	(740)	-	(773)	(1,519)
Amortization	(36,758)	(16,248)	-	(30)	(53,036)
Ending	₩ 172,882	₩ 175,149	₩ 11,294	₩ 794	₩ 360,119

	For one-month period ended December 31, 2020				
	Software	Industrial property rights	Memberships	Others	Total
Beginning	₩ 116,905	₩ 145,495	₩ 9,218	₩ 439	₩ 272,057
Separate acquisitions/transfer	1,122	3,908	-	-	5,030
Disposals/transfer	-	(73)	-	-	(73)
Amortization	(2,654)	(1,225)	-	(2)	(3,881)
Ending	₩ 115,373	₩ 148,105	₩ 9,218	₩ 437	₩ 273,133

(2) Line items including amortization of intangible assets for the year ended December 31, 2021 and one-month period ended December 31, 2020 are as follows (Korean won in millions):

	For the year ended	For one-month period
	December 31, 2021	ended December 31, 2020
Cost of sales	₩ 14,892	₩ 1,136
Selling and administrative expenses	38,144	2,745
	₩ 53,036	₩ 3,881

(3) R&D expenses

The total amount of research and development expenses recognized as expenses by the Company is ₩560,875 million for the year ended December 31, 2021 (for one-month period ended December 31, 2020: ₩23,583 million).

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12. Intangible Assets (cont'd)

(4) Greenhouse gas emission right

Changes in greenhouse gas emission right included in intangible assets for the year ended December 31, 2021 are as follows (Ton in thousands, Korean won in millions):

	For the year ended December 31, 2021											
	2020		2021		2022		2023		2024		2025	
	Ton	Amount	Ton	Amount	Ton	Amount	Ton	Amount	Ton	Amount	Ton	Amount
Beginning	-	-	-	-	-	-	-	-	-	-	-	-
Allocated	236	₩ -	275	₩ -	300	₩ -	300	₩ -	297	₩ -	297	₩ -
Purchase	75	1,111	-	-	-	-	-	-	-	-	-	-
Borrowing/C arried over	(25)	(388)	25	388	-	-	-	-	-	-	-	-
Government submission	(286)	(723)	-	-	-	-	-	-	-	-	-	-
Ending	-	₩ -	300	₩ 388	300	₩ -	300	₩ -	297	₩ -	297	₩ -

13. Other Current and Other Non-Current Assets

Details of other current and other non-current assets as of December 31, 2021 and December 31, 2020 are as follows (Korean won in millions):

		<u>December 31, 2021</u>	<u>December 31, 2020</u>
Other current assets:			
Prepayments to suppliers and prepaid expenses	₩	28,436	₩ 42,993
Prepaid value added tax		8,129	14,361
Others		771	889
	₩	<u>37,336</u>	<u>₩ 58,243</u>
Other non-current assets:			
Long-term prepayments and long-term prepaid expenses	₩	27,434	₩ 42,252
Net defined benefit assets		329	-
	₩	<u>27,763</u>	<u>₩ 42,252</u>

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14. Borrowings

(1) Borrowings as of December 31, 2021 and December 31, 2020 are as follows (Korean won in millions):

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Current:		
Current lease liabilities	₩ 9,149	₩ 2,273
	9,149	2,273
Non-current:		
Debentures	₩ 2,045,808	₩ 1,943,701
Non-current lease liabilities	35,259	3,563
	<u>2,081,067</u>	<u>1,947,264</u>
	<u>₩ 2,090,216</u>	<u>₩ 1,949,537</u>

(2) Details of borrowings as of December 31, 2021 and December 31, 2020 are as follows:

1) Debentures (Korean won in millions)

	<u>December 31, 2021</u>					
	<u>Financial institution</u>	<u>Interest rate (%)</u>	<u>Latest maturity date</u>	<u>Amount</u>	<u>Current portion</u>	<u>Non-current portion</u>
	NH					
1st Debenture (non guaranteed/public)	Investment & Securities Co., Ltd. and others	2.21	2026.03.13	₩ 200,000 ₩	-	₩ 200,000
USD foreign currency debenture with maturity in 2024)	CITI Bank and others	3.25	2024.10.15	592,750	-	592,750
USD foreign currency debenture with maturity in 2029	CITI Bank and others	3.63	2029.04.15	592,750	-	592,750
EUR foreign currency debenture with maturity in 2023	CITI Bank and others	0.50	2023.04.15	671,170	-	671,170
Less: discount on debentures				(10,862)	-	(10,862)
				<u>₩ 2,045,808 ₩</u>	<u>-</u>	<u>₩ 2,045,808</u>

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14. Borrowings (cont'd)

		December 31, 2020				
	Financial institution	Interest rate (%)	Latest maturity date	Amount	Current portion	Non-current portion
1st Debenture (non guaranteed/public)	NH Investment & Securities Co., Ltd. and others	2.21	2026.03.13	₩ 200,000 ₩	- ₩	₩ 200,000
USD foreign currency debenture with maturity in 2024)	CITI Bank and others	3.25	2024.10.15	544,000	-	544,000
USD foreign currency debenture with maturity in 2029	CITI Bank and others	3.63	2029.04.15	544,000	-	544,000
EUR foreign currency debenture with maturity in 2023	CITI Bank and others	0.50	2023.04.15	669,120	-	669,120
Less: discount on debentures				(13,419)	-	(13,419)
				₩ 1,943,701 ₩	- ₩	₩ 1,943,701

2) Lease liabilities (Korean won in millions)

		December 31, 2021				
	Interest rate(%)	Latest maturity date	Amount	Current portion	Non-current portion	
Baeksan industry and others	2.01~2.338	2026.3.13	₩ 44,408 ₩	9,149 ₩	35,259	

		December 31, 2020				
	Interest rate(%)	Latest maturity date	Amount	Current portion	Non-current portion	
Baeksan industry and others	2.01~2.338	2025.12.31	₩ 5,836 ₩	2,273 ₩	3,563	

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15. Provisions

Changes in provisions for the year ended December 31, 2021 and one-month period ended December 31, 2020, are as follows (Korean won in millions):

For the year ended December 31, 2021						
	Greenhouse			Legal	Total	
	Warranty(*1)	gas emission(*2)	Provision for restoration(*3)	claims(*4)		
Beginning	₩ 1,093,387	₩ 842	₩ -	₩ 331	₩	1,094,560
Additions(reversal)	1,329,513	(39)	3,069	6,305		1,338,848
Used	(539,411)	(724)	-	(5,649)		(545,784)
Ending	1,883,489	79	3,069	987		1,887,624
Less: current portion	(1,460,348)	(79)	-	-		(1,460,427)
	<u>₩ 423,141</u>	<u>₩ -</u>	<u>₩ 3,069</u>	<u>₩ 987</u>	<u>₩</u>	<u>427,197</u>

For one-month period ended December 31, 2020						
	Greenhouse			Legal	Total	
	Warranty(*1)	gas emission(*2)	Provision for restoration(*3)	claims(*4)		
Beginning	₩ 546,648	₩ 746	₩ -	₩ 336	₩	547,730
Additions(reversal)	560,266		96	(5)		560,357
Used	(13,527)		-	-		(13,527)
Ending	1,093,387		842	331		1,094,560
Less: current portion	(983,393)		(842)	-		(984,235)
	<u>₩ 109,994</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ 331</u>	<u>₩</u>	<u>110,325</u>

(*1) Warranty provisions have been accrued for the estimated warranty costs to be incurred due to quality control, exchange, refunds with regard to products based on historical experience. In addition, provisions related to replacement costs for ESS and voluntary automotive battery recalls are included. The amount recognized as a provision shall be the best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

(*2) In relation to greenhouse gas emissions, the Company estimates the expected future costs of emissions exceeding the Company's right to emit for the year and recognizes them as provisions. The Company assessed provisions using the base quota of 291,000 tons. Estimated emissions are 255,000 tons as of December 31, 2021 (as of December 31, 2020: 215,000 tons)

(*3) The Company estimated provisions for restoration cost.

(*4) Lawsuit provisions have been accrued for certain pending cases.

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16. Net Defined Benefit Liabilities (Assets)

(1) Details of net defined benefit liabilities (assets) as of December 31, 2021 and December 31, 2020, are as follows (Korean won in millions):

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Present value of defined benefit obligations (*)	₩ 552,888	₩ 458,710
Fair value of plan assets	(553,217)	(415,924)
	<u>₩ (329)</u>	<u>₩ 42,786</u>

(*) The present value of retirement benefit obligations is net of existing contributions to the National Pension Plan of ₩45 million as of December 31, 2021(as of December 31, 2020: ₩44 million)

(2) The amounts recognized in the separate statement of income for the year ended December 31, 2021 and one-month period ended December 31, 2020 are as follows (Korean won in millions):

	<u>For the year ended December 31, 2021</u>	<u>For one-month period ended December 31, 2020</u>
Current service cost	₩ 70,582	₩ 5,303
Interest cost	271	53
	<u>₩ 70,853</u>	<u>₩ 5,356</u>

(3) Retirement benefits recognized for defined contribution plan for the year ended December 31, 2021 amounted to ₩946 million (for one-month period ended December 31, 2020: ₩83 million).

(4) Retirement benefits recognized in the separate statement of income for the year ended December 31, 2021 and one-month period ended December 31, 2020 are as follows (Korean won in millions):

	<u>For the year ended December 31, 2021</u>	<u>For one-month period ended December 31, 2020</u>
Cost of sales	₩ 35,424	₩ 2,702
Selling and administrative expenses	36,375	2,737
	<u>₩ 71,799</u>	<u>₩ 5,439</u>

(5) Changes in the present value of defined benefit obligations for the year ended December 31, 2021 and one-month period ended December 31, 2020 are as follows (Korean won in millions):

	<u>For the year ended December 31, 2021</u>	<u>For one-month period ended December 31, 2020</u>
Beginning	₩ 458,710	₩ 455,133
Transfer in	33,256	998
Transfer out	(1,273)	-
Current service cost	70,582	5,786
Interest expense	12,940	924
Remeasurements:		
- Actuarial gain from change in financial assumption	(36,305)	(3,879)
- Actuarial gain from change in demographic assumption	1,766	-
- Actuarial gain due to the difference between the estimated and the actual	20,755	-
- Others	10,538	232
Payments from plans	(18,081)	(484)
Ending	<u>₩ 552,888</u>	<u>₩ 458,710</u>

16. Net Defined Benefit Liabilities (Assets) (cont'd)

(6) Changes in the fair value of plan assets for the year ended December 31, 2021 and one-month period ended December 31, 2020, are as follows (Korean won in millions):

	For the year ended December 31, 2021	For one-month period ended December 31, 2020
Beginning	₩ 415,924	₩ 415,772
Interest income	12,669	871
Remeasurements		
- Return on plan assets (excluding amounts included in interest income)	(5,801)	(258)
Contribution:		
-Employer contribution to plan assets	147,000	-
Payments from plans	(15,844)	(395)
Administrative costs	(731)	(66)
Ending	<u>₩ 553,217</u>	<u>₩ 415,924</u>

(7) The actual return on plan assets for the year ended December 31, 2021 was ₩6,868 million(for one-month period ended December 31, 2020: ₩613 million).

(8) The significant actuarial assumptions as of December 31, 2021 and December 31, 2020, are as follows:

	December 31, 2021	December 31, 2020
Discount rate	3.02%	2.53%
Salary growth rate	5.00%	5.00%

(9) The sensitivity analysis for changes in key actuarial assumptions as of December 31, 2021 is as follows (Korean won in millions):

	Increase by 1.0%	Decrease by 1.0%
Discount rate:		
Increase (decrease) in defined benefit liabilities	₩ (69,266)	₩ 84,065
Salary growth rate:		
Increase (decrease) in defined benefit liabilities	81,469	(68,679)

A decrease in corporate bond yields may lead most significantly to an increase in defined benefit liabilities.

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

The method and assumption that are used on sensitivity analyses is same with prior year.

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16. Net Defined Benefit Liabilities (Assets) (cont'd)

(10) Plan assets as of December 31, 2021 and December 31, 2020 are as follows (Korean won in millions):

	December 31, 2021		December 31, 2020	
	Amount	Composition (%)	Amount	Composition (%)
Insurance contracts with guaranteed yield	₩ 553,217	100	₩ 415,924	100

Plan assets consist of various debt instruments with principal and interest protection and others which have no quoted market prices in an active market.

(11) As of December 31, 2021, the weighted average maturity of the defined benefit obligations is 14.49 years.

The Company reviews the level of the fund every year and has a policy to compensate for any loss in the fund. The estimated contribution for the year ended December 31, 2022 is ₩77,735 million.

17. Other Current and Non-Current Liabilities

Details of other current and non-current liabilities as of December 31, 2021 and December 31, 2020, are as follows (Korean won in millions):

	December 31, 2021		December 31, 2020	
Other current liabilities:				
Advances from customers	₩	164,144	₩	100,135
Withholdings		29,301		28,197
Unearned revenues		49,175		1,015
Accrued expenses		158,916		76,829
	₩	<u>401,536</u>	₩	<u>206,176</u>
Other non-current liabilities:				
Long-term accrued expenses	₩	26,301	₩	21,762
Long-term unearned revenues		88,093		-
Long-term advanced received		-		18,300
	₩	<u>114,394</u>	₩	<u>40,062</u>

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18. Commitments and Contingencies

(1) The Company is jointly liable with LG Chem, Ltd. for liabilities recognized before the split-off date.

(2) As of December 31, 2021, the Company have been guaranteed from Seoul Guarantee Insurance Company for the execution of contracts and others.

(3) As of December 31, 2021, the Company have various specific line of credit agreements with several financial institutions, as follows (unit: Korean won in millions, foreign currencies in millions):

	<u>Currency</u>	<u>December 31, 2021</u>
Limit of bank overdraft	KRW	8,700
Limit of the letter of credit	USD	62
Limit of discount of notes from export	USD	731
Limit of guaranteed payments in other foreign currency	USD	122
Future agreement	USD	118
Factoring arrangements	USD	25
Factoring arrangements	KRW	230,000
B2B purchase arrangements	KRW	125,000
Limit of loan agreement	KRW	200,000
Limit of other credit	USD	70

(4) As of December 31, 2021, the Company has entered into payment guarantee contracts of USD 25 million, EUR 2 million and KRW 7,755 million with financial institutions in relation to product warranty for certain installed products.

(5) As of December 31, 2021, in relation to price fixing of mobile batteries, the consumers in Israel have filed one class action against the Company. However, the ultimate outcome of these cases cannot be determined at the reporting date.

(6) As of December 31, 2021, in relation to GM Bolt EV, the consumers have filed one class action against the Company. However, the ultimate outcome of these cases cannot be determined at the reporting date.

(7) As of December 31, 2021, the Company has been named as a defendant in 120 (with ₩3,526 million in claims) cases and involved in 3 legal actions, including the above cases of mobile batteries and GM Bolt EV. The ultimate outcome of these cases cannot be determined at the reporting date.

(8) As of December 31, 2021, a recall in relation to Chrysler PHEV fire in Stellantis is in progress, and the root cause of the fire is unknown at the moment.

(9) The Company has entered into a license agreement with LG Corp. to use trademarks on the products that the Company manufactures and sells, and on the services the Company provides in relation to its business.

(10) Capital expenditure arrangements that have not incurred as of December 31, 2021 and December 31, 2020 are as follows (Korean won in millions):

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Property, plant and equipment	₩ 236,955 ₩	59,506

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18. Commitments and Contingencies (cont'd)

(11) The amount of guarantee provided by the Company on borrowings is ₩3,946,480 million and details as of December 31, 2021 are as follows (Korean won in millions):

	Guarantee beneficiary	Financial institution	Amount of guarantee		Amount of borrowings	
			December 31, 2021	December 31, 2020	December 31, 2021	December 31, 2020
LG Energy Solution Ltd.	LG Energy	Citi	₩ 26,487	₩ 26,952	₩ -	₩ -
	Solution Wrocław sp. z.o.o.	Citi	33,559	33,690	-	-
		Citi	40,270	40,428	-	-
		ING	67,117	67,381	67,117	67,381
		Citi	67,117	67,381	67,117	67,381
		ING	67,117	67,381	67,117	67,381
		ING	26,847	26,952	26,847	26,952
		MUFG	67,117	67,381	67,117	67,381
		MUFG	67,117	67,381	67,117	67,381
		Hana Bank	268,468	269,523	268,468	269,523
		Citi	67,117	67,381	67,117	67,381
		Citi	67,117	67,381	67,117	67,381
		SMBC	134,234	134,761	134,234	134,761
		EBRD	134,234	134,761	120,811	134,761
		SMBC	134,234	134,761	134,234	134,761
		SMBC	67,117	67,381	67,117	67,381
		DBS	134,234	134,761	134,234	134,761
		EIB	644,323	646,854	644,323	646,854
		EBRD	201,351	202,142	201,351	202,142
		KDB Bank/ The Export-import Bank of Korea	355,720	-	355,720	-
		Bank of Korea KDB Bank/ The Export-import Bank of Korea	738,287	741,188	738,287	741,188
		NH Bank KDB Bank/ The Export-import Bank of Korea	268,468	269,523	268,468	134,761
		Bank of Korea KDB Bank/ The Export-import Bank of Korea	134,234	-	134,234	-
		Bank of Korea KDB Bank/ The Export-import Bank of Korea	67,117	-	67,117	-
		Bank of Korea KDB Bank/ The Export-import Bank of Korea	67,117	-	-	-
			<u>₩ 3,946,480</u>	<u>₩ 3,335,344</u>	<u>₩ 3,765,264</u>	<u>₩ 3,099,512</u>

In addition, the Company provides Letters of Comfort (LOC) in relation to certain borrowings of subsidiaries

As of December 31, 2021, the Company provided no financial guarantees to its associates in relation to their borrowings.

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19. Share Capital

Changes in share capital and share premium for the year ended December 31, 2021 are as follows (Korean won in millions and in shares):

	Ordinary shares		
	Number of shares	Share capital	Share premium
December 31, 2020	200,000,000	₩ 100,000	₩ 7,510,351
Changes	-	-	-
December 31, 2021	<u>200,000,000</u>	<u>₩ 100,000</u>	<u>₩ 7,510,351</u>

20. Accumulated Deficit

(1) Details of accumulated deficit as of December 31, 2021 and December 31, 2020 are as follows (Korean won in millions):

	December 31, 2021	December 31, 2020
Unappropriated accumulated deficit	₩ (480,338)	₩ (375,523)

(2) The statement of disposition of accumulated deficits for the year ended December 31, 2021 and one-month period ended December 31, 2020 is as follows (Korean won in millions):

	For the year ended December 31, 2021	For one-month period ended December 31, 2020
	Expected	Appropriation date :
	appropriation date :	March 24, 2021
	March 23, 2022	
I. Unappropriated accumulated deficit		
Unappropriated accumulated deficit carried over from prior years	₩ (375,523)	₩ -
Loss for the year	(102,962)	(377,980)
	<u>₩ (480,338)</u>	<u>₩ (375,523)</u>
II. Unappropriated accumulated deficit to be carried forward to the subsequent year	<u>₩ (480,338)</u>	<u>₩ (375,523)</u>

LG Energy Solution, Ltd.
Notes to the separate financial statements
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21. Selling and Administrative Expenses

Selling and administrative expenses for the year ended December 31, 2021 and one-month period ended December 31, 2020 are as follows (Korean won in millions):

	For the year ended December 31, 2021	For one-month period ended December 31, 2020
Wages and salaries	₩ 426,167	₩ 11,470
Retirement benefits	36,375	2,737
Employee benefits	89,069	5,152
Travel expenses	23,228	957
Water & utilities	29,427	2,309
Packaging expense	156	6
Rental expenses	52,942	3,453
Commission expenses	339,150	17,800
Depreciation	81,994	4,351
Advertising expenses	11,626	924
Freight expenses	53,753	1,529
Training expenses	9,277	250
Amortization	38,144	2,745
Sample expenses	1,743	30
Development costs	118,671	5,447
Contribution to provisions	1,329,513	560,266
Others	122,458	39,832
	<u>₩ 2,763,693</u>	<u>₩ 659,258</u>

22. Classification of Expenses by Nature

Cost of sales, and selling and administrative expenses by nature for the year ended December 31, 2021 and one-month period ended December 31, 2020 are as follows (Korean won in millions):

	For the year ended December 31, 2021	For one-month period ended December 31, 2020
Changes in inventories of merchandise, finished goods, semi-finished goods, and work in process	₩ (204,969)	₩ (40,726)
Raw materials and consumables used	4,092,243	359,804
Purchase of merchandise	766,942	68,507
Employee benefit expenses	900,477	33,274
Advertising expenses	11,859	924
Freight expenses	58,869	1,915
Commission expenses	386,416	21,615
Depreciation and amortization	274,116	22,840
Rent expenses and usage fee	5,886	747
Other expenses	2,449,963	673,184
	<u>₩ 8,741,802</u>	<u>₩ 1,142,084</u>

23. Employee Benefit Expenses

Details of employee benefit expenses for the year ended December 31, 2021 and one-month period ended December 31, 2020 are as follows (Korean won in millions):

	For the year ended December 31, 2021	For one-month period ended December 31, 2020
Salaries	₩ 757,439	₩ 23,099
Retirement benefits defined benefit plan	70,853	5,356
Retirement benefits defined contribution plan	946	83
Others	71,239	4,736
	<u>₩ 900,477</u>	<u>₩ 33,274</u>

24. Finance Income and Costs

Details of finance income and costs for the year ended December 31, 2021 and one-month period ended December 31, 2020 are as follows (Korean won in millions):

	For the year ended December 31, 2021	For one-month period ended December 31, 2020
Finance income:		
Interest income(*1)	₩ 20,887	₩ 1,611
Exchange differences	152,586	23,367
Gain on related to derivatives	112,847	-
	<u>₩ 286,320</u>	<u>₩ 24,978</u>
Finance costs:		
Interest expense(*2)	₩ 51,630	3,932
Exchange differences	208,713	18,188
Loss on related to derivatives	-	15,429
	<u>₩ 260,343</u>	<u>₩ 37,549</u>

(*1) Details of interest income that is included in finance income for the year ended December 31, 2021 and one-month period ended December 31, 2020 are as follows (Korean won in millions):

	For the year ended December 31, 2021	For one-month period ended December 31, 2020
Deposits held by financial institutions	₩ 3,778	₩ 337
Other loans and receivables	17,109	1,274
	<u>₩ 20,887</u>	<u>₩ 1,611</u>

(*2) Details of interest expense that is included in finance costs for the year ended December 31, 2021 and one-month period ended December 31, 2020 are as follows (Korean won in millions):

	For the year ended December 31, 2021	For one-month period ended December 31, 2020
Interest on lease liabilities	₩ 729	₩ 7
Interest on debentures	51,400	3,997
Other interest expenses	461	-
Capitalized interest for qualifying assets	(960)	(72)
	<u>₩ 51,630</u>	<u>₩ 3,932</u>

LG Energy Solution, Ltd.
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25. Other Non-Operating Income

Details of other non-operating income for the year December 31, 2021 and one-month period ended December 31, 2020 are as follows (Korean won in millions):

	For the year ended December 31, 2021	For one-month period ended December 31, 2020
Exchange differences	₩ 207,408	₩ 22,461
Gain on disposal of property, plant and equipment	2,471	28
Gain on disposal of investment in associates	14,167	-
Others	45,778	1,973
	<u>₩ 269,824</u>	<u>₩ 24,462</u>

26. Other Non-Operating Expenses

Details of other non-operating expenses for the year ended December 31, 2021 and one-month period ended December 31, 2020 are as follows (Korean won in millions):

	For the year ended December 31, 2021	For one-month period ended December 31, 2020
Exchange differences	₩ 156,194	₩ 31,346
Loss on disposal of property, plant and equipment	6,643	35
Loss on disposal of intangible	6	-
Loss on disposal of investment in associates	1,868	-
Donations	1,231	-
Others	7,060	1,538
	<u>₩ 173,002</u>	<u>₩ 32,919</u>

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27. Income Tax Benefit and Deferred Tax

(1) Details of income tax benefit for the year ended December 31, 2021 and one-month period ended December 31, 2021 are as follows (Korean won in millions):

	For the year ended December 31, 2021	For one-month period ended December 31, 2020
Current tax on profit for the period	₩ 140,849	₩ 54
Adjustment for past income tax	(26,582)	-
Deferred tax - movement in temporary differences	(257,409)	(141,975)
Changes in deferred tax - tax credit carryforwards	7,837	(7,837)
Changes in deferred tax - tax loss carryforwards	970	(970)
	<u>₩ (134,335)</u>	<u>₩ (150,728)</u>
Deferred tax charged directly to equity	5,055	(518)
Current tax charged directly to equity	703	(932)
	<u>₩ (128,557)</u>	<u>₩ (152,178)</u>

(2) The aggregate current and deferred tax charged directly to equity (other comprehensive income) for the year ended December 31, 2021 and one-month period ended December 31, 2020 are as follows: (Korean won in millions)

	For the year ended December 31, 2021	For one-month period ended December 31, 2020
Current tax:		
Remeasurements of net defined benefit liabilities	₩ 703	₩ (932)
Deferred tax:		
Gain and losses on valuation of financial assets at FVOCI	₩ (1,404)	-
Gain and losses on valuation of derivative instruments	6,459	(518)
	<u>₩ 5,758</u>	<u>₩ (1,450)</u>

(3) Changes in deferred tax assets (liabilities) for the year ended December 31, 2021 and one-month period ended December 31, 2020 are as follows (Korean won in millions):

	For the year ended December 31, 2021			
	Increase(decrease)			Ending
	Beginning	Profit(loss) for the period	Other comprehensive income(loss)	
Net defined benefit liabilities	₩ 120,206	₩ 17,719	₩ -	₩ 137,925
Plan assets	(114,379)	(35,503)	-	(149,882)
Property, plant and equipment	7,697	1,618	-	9,315
Accrued income	(53)	34	-	(19)
Provision	306,987	219,342	-	526,329
Others	48,332	89,528	5,055	142,915
Succession of assets (Property, plant and equipment)	118,637	(38,800)	-	79,837
Succession of assets (Patents)	591,259	(1,583)	-	589,676
Succession of assets (Membership)	600	-	-	600
	<u>₩ 1,079,286</u>	<u>₩ 252,355</u>	<u>₩ 5,055</u>	<u>₩ 1,336,696</u>
Tax credit carryforwards	₩ 7,837	₩ (7,837)	₩ -	-
Tax loss carryforwards	970	(970)	-	-
Deferred tax assets (liabilities)	<u>₩ 1,088,093</u>	<u>₩ 243,548</u>	<u>₩ 5,055</u>	<u>₩ 1,336,696</u>

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27. Income Tax Benefit and Deferred Tax (cont'd)

	For one-month period ended December 31, 2020			
	Increase(decrease)			Ending
	Beginning(*)	Profit(loss) for the period	Other comprehensive income(loss)	
Net defined benefit liabilities	₩ 119,472	₩ 734	₩ -	₩ 120,206
Plan assets	(113,186)	(1,193)	-	(114,379)
Property, plant and equipment	-	7,697	-	7,697
Accrued income	-	(53)	-	(53)
Provision	156,567	150,420	-	306,987
Others	59,778	(10,928)	(518)	48,332
Succession of assets (Property, plant and equipment)	122,690	(4,053)	-	118,637
Succession of assets (Patents)	591,389	(130)	-	591,259
Succession of assets (Membership)	600	-	-	600
	<u>₩ 937,310</u>	<u>₩ 142,494</u>	<u>₩ (518)</u>	<u>₩ 1,079,286</u>
Tax credit carryforwards	₩ -	₩ 7,837	₩ -	₩ 7,837
Tax loss carryforwards	-	970	-	970
Deferred tax assets (liabilities)	<u>₩ 937,310</u>	<u>₩ 151,301</u>	<u>₩ (518)</u>	<u>₩ 1,088,093</u>

(*) In relation to the assets and liabilities transferred from the surviving corporation as of the spin-off date, the effect of corporate tax on the difference between the book value and the tax base on the statement of financial position is reflected in the capital surplus.

(4) The reconciliations between income tax benefit and accounting loss for the year ended December 31, 2021 and one-month period ended December 31, 2020 are as follows: (Korean won in millions)

	For the year ended December 31, 2021	For one-month period ended December 31, 2020
Net loss before tax	₩ (231,540)	₩ (530,158)
Tax at domestic tax rates	(63,673)	(145,794)
Tax effects of:		
Income not subject to tax	(8,150)	(71)
Expenses not deductible for tax purposes	2,700	1,531
Tax credit	(109,678)	(6,449)
Effect of non-recognition of deferred tax on temporary differences	(6,347)	-
Others	56,570	(1,395)
Income tax benefit	<u>₩ (128,578)</u>	<u>₩ (152,178)</u>
Effective tax rate (income tax benefit / profit before income tax)(*)	-	-

(*) As the net loss before tax occurs, the effective tax rate is not separately calculated.

(5) The future feasibility of deferred tax assets depends on a variety of factors, including the Company's ability to generate taxable income during the period when the temporary difference is realized, and the overall economic environment and industry prospects. The Company is reviewing those of factors periodically.

(6) Details of temporary differences that are not recognized as deferred tax assets(liabilities) as of December 31, 2021 and December 31, 2020 are as follows (Korean won in millions):

	December 31, 2021	December 31, 2020
Investments in subsidiaries, associates and joint ventures	₩ 770,725	₩ 793,277

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28. Losses per Share

Basic losses per share is calculated by dividing the losses attributable to ordinary shares by the total number of ordinary shares issued.

(1) Basic losses per ordinary share for the year ended December 31, 2021 and one-month period ended December 31, 2020, are computed as follows (Korean won in millions and in number of shares):

	For the year ended December 31, 2021	For one-month period ended December 31, 2020
Losses attributable to ordinary shares	₩ (102,962)	₩ (377,980)
Number of ordinary shares outstanding	200,000,000	200,000,000
Basic losses per ordinary share (in Korean won)	₩ (515)	₩ (1,890)

(2) The Company did not issue any potential ordinary shares. Therefore, basic earnings(losses) per share is identical to diluted earnings(losses) per share.

29. Dividend

The Company did not pay any dividends for the accounting period ending on December 31, 2021.

30. Related Party Transactions

(1) As of December 31, 2021, the Parent Company is LG Chem, Ltd. (percentage of ownership: 100%) over which LG Corp. exercises a significant influence.

(2) Details of other related parties that have sales and other transactions with the Company or have receivables and payables balances, other than separate subsidiaries, associates and joint ventures (Note 10), as of December 31, 2021, are as follows:

Related party	Related party's subsidiary (Domestic)	Related party's subsidiary (Overseas)	Details
LG Chem, Ltd.	HAENGBOKNURI CO., LTD. And others	LG Chem America Inc. and others	Subsidiary of LG Chem, Ltd
S&I Corp.	S&I CM	S&I CM NANJING Co., Ltd. and others	
LG CNS Co., Ltd.	Biz Tech Partners Co., Ltd. and others	LG CNS America Inc. and others	Subsidiary of LG Corp.
LG Management Development Institute	-	-	
LG Display, Inc	-	LG Display (china) co., Ltd and others	
LG Electronics, Inc.	LG Innotek Co., Ltd. and others	Inspur LG Digital Mobile Communications Co., Ltd. and others	
LG Household & Health Care Ltd.	Coca-Cola Beverage Co. and others	-	LG Enterprise group (*1)
LG Uplus Corp.	LG HelloVision Corp	-	
GIR Inc.	HS AD Inc.	-	
LX Holdings., Ltd. (*2)	LX MMA Corp and others	LX International (Japan) Ltd. and others	

(*1) Although these entities are not the related parties of the Company in accordance with Korean IFRS 1024, the entities belong to a large enterprise group in accordance with the Monopoly Regulation and Fair Trade Act.

(*2) Includes LX MMA Corp (formerly, LG MMA Corp.), LX International Corp. (formerly, LG International Corp.), LX Hausys Co., Ltd. (formerly, LG Hausys Co., Ltd.).

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30. Related Party Transactions (cont'd)

(3) Sales and purchases with related parties for the year ended December 31, 2021 and one-month period ended December 31, 2020 are as follows (Korean won in millions):

	For the year ended December 31, 2021					
	Sales and others	Purchase and others				Others
		Purchase of raw materials /merchandises	Acquisition of property, plant and equipment and intangible assets	Acquisition of right-of-use assets	Interest expense	
Parents:						
LG Chem, Ltd.	₩ 14,711	₩ 93,065	₩ 11	₩ -	₩ 62	₩ 10,379
Subsidiaries:						
LG Energy Solution (Nanjing) Co., Ltd	166,956	1,684,974	-	-	-	734
LG Energy Solution Michigan, Inc.	346,837	4,612	-	-	-	34,869
LG Energy Solution Battery (Nanjing) Co., Ltd.	61,681	704,815	-	-	-	706
LG Energy Solution Wroclaw sp. z o.o.	1,144,646	3,026	-	-	-	5,898
LG Energy Solution Australia Pty Ltd	12,825	-	-	-	-	3,685
LG Energy Solution Technology (Nanjing) Co., Ltd.	69,165	980,741	-	-	-	1,195
Ultium Cells LLC	815	-	-	-	-	-
LG Energy Solution Europe GmbH	180,706	-	-	-	-	48,888
LG Energy Solution (Taiwan), Ltd.	-	-	-	-	-	4,499
Areum noori Co., Ltd.	6	-	-	-	-	4,761
Associates and joint ventures:						
PT. HLI Greenpower	19,151	-	-	-	-	-
VINFAST LITHIUM BATTERY PACK LLC.	6,483	-	-	-	-	-
HL Greenpower Co., Ltd.	386,838	-	-	-	-	-
Other related parties:						
LG Corp.	-	-	-	-	-	36,018
LG Chem America, Inc.	-	-	-	-	-	8
LG Chem(Taiwan), Ltd.	-	-	-	-	-	560
LG Chem Europe GmbH	234	-	-	-	-	47
HAENGBOKNURI CO., LTD.	16	-	-	-	-	1,816
LEYOU NEW ENERGY MATERIALS(WUXI) Co., Ltd.	-	129,024	-	-	-	-
TECH WIN Co., Ltd.	-	-	3,922	-	-	62
LG Management Development Institute	-	-	-	-	-	12,455
S&I Corp. and its subsidiaries	78	12,427	66,153	-	-	65,534
LG CNS Co., Ltd. and its subsidiaries	13,726	583	129,352	-	-	48,152
Others	-	-	-	-	-	2,479
Others:						
LG Electronics Inc., Ltd. and its subsidiaries	192,002	103,322	25,573	-	-	10,128
LX Holdings., Ltd. and its subsidiaries (*)	244	28,827	2,272	-	-	91,103
Others	37	-	797	-	-	4,595
	<u>₩ 2,617,157</u>	<u>₩ 3,745,416</u>	<u>₩ 228,080</u>	<u>₩ -</u>	<u>₩ 62</u>	<u>₩ 388,571</u>

(*) Includes subsidiaries of LX Holdings., Ltd. after its split-off from the Group described in Note 30.(2).

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30. Related Party Transactions (cont'd)

	For one-month period ended December 31, 2020					
	Sales and others	Purchase and others				Others
		Purchase of raw materials /merchandises	Acquisition of property, plant and equipment and intangible assets	Acquisition of right-of-use assets	Interest expense	
Parents:						
LG Chem, Ltd.	₩ 1,970	₩ 18,526	₩ -	₩ 3,204	₩ 6	₩ 5,072
Subsidiaries:						
LG Energy Solution (Nanjing) Co., Ltd	5,088	137,317	-	-	-	-
LG Energy Solution Michigan, Inc.	33,536	1,775	-	-	-	2,493
LG Energy Solution Battery (Nanjing) Co., Ltd.	7,100	30,538	-	-	-	-
LG Energy Solution Wroclaw sp. z o.o.	81,476	71	-	-	-	233
LG Energy Solution Australia Pty Ltd	550	-	-	-	-	398
LG Energy Solution Technology (Nanjing) Co., Ltd.	2,678	69,726	-	-	-	-
LG Energy Solution Europe GmbH	7,647	-	-	-	-	3,601
Associates and joint ventures:						
HL Greenpower Co., Ltd.	83,875	-	-	-	-	319
Other related parties:						
LG Corp.	-	-	-	-	-	2,058
Techwin, Inc	-	-	2,126	-	-	-
LG M&A, Inc	9	-	-	-	-	-
S&I Corp. and its subsidiaries	19	3,457	1,364	-	-	10,762
LG CNS Co., Ltd. and its subsidiaries	1,005	38	30,161	-	-	3,206
Others	2	-	-	-	-	491
Others:						
LG Electronics Inc., Ltd. and its subsidiaries	46,870	11,029	8,163	-	-	2,180
LX International Inc., Ltd. and its subsidiaries	-	327	-	-	-	4,715
Others	2	-	175	-	-	737
	<u>₩ 271,827</u>	<u>₩ 272,804</u>	<u>₩ 41,989</u>	<u>₩ 3,204</u>	<u>₩ 6</u>	<u>₩ 36,265</u>

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30. Related Party Transactions (cont'd)

(4) Balances of receivables and payables with related parties as of December 31, 2021 and December 31, 2020 are as follows (Korean won in millions):

	December 31, 2021									
	Receivables				Payables					
	Trade receivables	Loan receivables	Other receivables	Total	Trade payables	Borrowings	Lease liabilities	Other payables	Total	
Parents:										
LG Chem, Ltd.	₩ 3,382	₩ -	₩ 42,877	₩ 46,259	₩ 19,073	₩ -	₩ 2,524	₩ 5,753	₩ 27,350	
Subsidiaries:										
LG Energy Solution (Nanjing) Co., Ltd	9,785	-	140,946	150,731	500,222	-	-	131	500,353	
LG Energy Solution Michigan, Inc.	96,576	-	23,162	119,738	3,350	-	-	56,746	60,096	
LG Energy Solution Battery (Nanjing) Co., Ltd.	10,797	-	26,442	37,239	218,837	-	-	135	218,972	
LG Energy Solution Wroclaw sp. z o.o.	89,355	-	268,492	357,847	-	-	-	7,801	7,801	
LG Energy Solution Australia Pty Ltd	5,845	-	-	5,845	-	-	-	756	756	
LG Energy Solution Technology (Nanjing) Co., Ltd.	9,572	-	7,426	16,998	221,824	-	-	20	221,844	
Ultium Cells LLC	821	-	-	821	-	-	-	1	1	
LG Energy Solution Europe GmbH	37,381	-	-	37,381	-	-	-	13,018	13,018	
LG Energy Solution (Taiwan), Ltd.	-	-	-	-	-	-	-	622	622	
Areum noori Co., Ltd.	-	-	-	-	-	-	-	566	566	
Associates and joint ventures:										
PT. HLI Greenpower	-	-	-	-	-	-	-	134,054	134,054	
VINFAST LITHIUM BATTERY PACK LLC.	463	-	-	463	-	-	-	-	-	
Other related parties:										
LG Corp.	-	-	42	42	-	-	-	10,907	10,907	
HAENGBOKNURI CO., LTD.	-	-	-	-	-	-	-	93	93	
LEYOU NEW ENERGY MATERIALS(WUXI) Co., Ltd.	-	-	-	-	22,075	-	-	-	22,075	
Techwin Inc.,	-	-	-	-	317	-	-	72	389	
LG Management Development Institute	-	-	2,784	2,784	-	-	-	487	487	
S&I Corp. and its subsidiaries	-	-	3,066	3,066	-	-	-	81,238	81,238	
LG CNS Co., Ltd. and its subsidiaries	5,861	-	-	5,861	-	-	-	94,750	94,750	
Others	-	-	-	-	-	-	-	393	393	
Others:										
LG Electronics Inc., Ltd. and its subsidiaries(*1)	81,593	-	23,529	105,122	20,979	-	-	21,497	42,476	
LX Holdings., Ltd. and its subsidiaries (*2)	-	-	10	10	-	-	-	16,470	16,470	
Others	-	-	-	-	-	-	-	3,796	3,796	
	<u>₩ 351,431</u>	<u>₩ -</u>	<u>₩ 538,776</u>	<u>₩ 890,207</u>	<u>₩ 1,006,677</u>	<u>₩ -</u>	<u>₩ 2,524</u>	<u>₩ 449,306</u>	<u>₩ 1,458,507</u>	

(*1) The GM volt recall provision was not included in the balance of the receivables and liabilities.

(*2) Includes subsidiaries of LX Holdings., Ltd. after its split-off from the Group described in Note 30.(2).

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30. Related Party Transactions (cont'd)

	December 31, 2020																	
	Receivables				Payables													
	Trade receivables	Loan receivables	Other receivables	Total	Trade payables	Borrowings	Lease liabilities	Other payables	Total									
Parents:																		
LG Chem, Ltd.	₩	-	₩	2,764 ₩	₩	20,352 ₩	-	₩	3,127 ₩	₩	6,971 ₩	₩	30,450					
Subsidiaries:																		
LG Energy Solution (Nanjing) Co., Ltd		12,097	333,920	53,573	399,590	466,069	-	-	14,165	480,234								
LG Energy Solution Michigan, Inc.		122,039	-	17,921	139,960	7,581	-	-	4,199	11,780								
LG Energy Solution Battery (Nanjing) Co., Ltd.		50,565	-	2,110	52,675	91,114	-	-	-	91,114								
LG Energy Solution Wroclaw sp. z o.o.		182,243	-	258,450	440,693	2,401	-	-	3,858	6,259								
LG Energy Solution Australia Pty Ltd		2,590	-	-	2,590	-	-	-	505	505								
LG Energy Solution Technology (Nanjing) Co., Ltd.		13,364	-	15,878	29,242	157,191	-	-	-	157,191								
LG Energy Solution Europe GmbH		7,645	-	-	7,645	-	-	-	3,315	3,315								
Associates and joint ventures:																		
HL Greenpower Co., Ltd.		277,326	-	-	277,326	-	-	-	330	330								
Other related parties:																		
LG Corp.		-	-	25	25	-	-	-	664	664								
LG Chem (Taiwan), Ltd.		-	-	-	-	-	-	-	638	638								
LG Chem Europe GmbH		40,876	-	543	41,419	-	-	-	857	857								
LEYOU NEW ENERGY MATERIALS(WUXI) Co., Ltd.		-	-	-	-	9,662	-	-	-	9,662								
TECWIN Co., Ltd.		-	-	-	-	-	-	-	5,531	5,531								
LX MMA Corp. (formerly, LG MMA Corp.)		-	-	10	10	-	-	-	-	-								
S&I Corp. and its subsidiaries		-	-	21	21	-	-	-	18,702	18,702								
LG CNS Co., Ltd. and its subsidiaries		7,048	-	-	7,048	-	-	-	38,914	38,914								
Others		-	-	1,800	1,800	-	-	-	672	672								
Others:																		
LG Electronics Inc., Ltd. and its subsidiaries		67,708	-	103,723	171,431	37,559	-	-	13,237	50,796								
LX International Corp. (formerly, LG International Corp. and its subsidiaries)		-	-	-	-	-	-	-	5,151	5,151								
Others		-	-	3	3	-	-	-	661	661								
	<u>₩</u>	<u>783,501</u>	<u>₩</u>	<u>333,920</u>	<u>₩</u>	<u>456,821</u>	<u>₩</u>	<u>1,574,242</u>	<u>₩</u>	<u>791,929</u>	<u>₩</u>	<u>-</u>	<u>₩</u>	<u>3,127</u>	<u>₩</u>	<u>118,370</u>	<u>₩</u>	<u>913,426</u>

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30. Related Party Transactions (cont'd)

(5) Fund transactions with related parties for the year ended December 31, 2021 and one-month period ended December 31, 2020 are as follows (Korean won in millions):

	For the year ended December 31, 2021								
	Dividends received	Dividends paid	Equity contribution In cash (Capital reduction)	Loans transaction		Borrowings transaction(*)			
				Loans	Repayment	Borrowings	Repayment		
Parents:									
LG Chem, Ltd.	₩	- ₩	- ₩	- ₩	- ₩	- ₩	- ₩	783	
Associates and joint ventures:									
PT. HLI Greenpower		-	-	209,132	-	-	-	-	
Subsidiaries:									
LG Energy Solution (Nanjing) Co., Ltd		-	-	-	-	333,920	-	-	
LG Energy Solution Michigan, Inc.		-	-	589,059	-	-	-	-	
LG Energy Solution (Taiwan), Ltd.		-	-	1,871	-	-	-	-	
Areum noori Co., Ltd.		-	-	500	-	-	-	-	
LG Energy Solution Fund LLC		-	-	22,856	-	-	-	-	
LG Energy Solution Battery (Nanjing) Co., Ltd.		-	-	197,604	-	-	-	-	
	₩	- ₩	- ₩	1,021,022 ₩	₩	- ₩	333,920 ₩	₩	783

	For one-month period ended December 31, 2020								
	Dividends received	Dividends paid	Equity contribution In cash (Capital reduction)	Loans transaction		Borrowings transaction(*)			
				Loans	Repayment	Borrowings	Repayment		
Parents:									
LG Chem, Ltd.	₩	- ₩	- ₩	- ₩	- ₩	- ₩	3,204 ₩	71	
Subsidiaries:									
LG Energy Solution Europe GmbH		-	-	34,729	-	-	-	-	
Others:									
LG Corp.		-	-	-	-	-	-	-	
	₩	- ₩	- ₩	34,729 ₩	₩	- ₩	3,204 ₩	₩	71

(*) The amounts represent lease liabilities that were recognized or repaid for the year ended December 31, 2021 and one-month period ended December 31, 2020.

(6) Compensation for key management of the Company for the year ended December 31, 2021 and one-month period ended December 31, 2020 are as follows (Korean won in millions):

	For the year ended December 31, 2021		For one-month period ended December 31, 2020	
Short-term employee benefits	₩	39,054 ₩	₩	2,827
Retirement benefits		11,669		227
	₩	50,723 ₩	₩	3,054

Key management includes directors and audit committee members having duties and responsibilities over planning, operations and controlling of the Company's business activities.

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30. Related Party Transactions (cont'd)

(7) There are no provisions recognized against receivables from related parties as of December 31, 2021.

(8) As of December 31, 2021, there are payment guarantees provided by the Company for related parties are filled in Note 18.

31. Statement of Cash Flow

(1) Details of cash generated from operations for the year ended December 31, 2021 and one-month period ended December 31, 2020 are as follows (Korean won in millions):

	For the year ended	For one-month period
	December 31, 2021	ended
	December 31, 2021	December 31, 2020
Loss before income tax:	₩ (231,540)	₩ (530,158)
Adjustments for		
- Depreciation	221,080	18,957
- Amortization	53,036	3,881
- Retirement benefits	70,853	5,839
- Financial income	(151,805)	(36,417)
- Financial costs	155,553	58,801
- Loss on valuations of inventories	49,466	(1,344)
- Loss on disposal of inventories	12,945	-
- Gain on disposal of property, plant and equipment	(2,471)	(28)
- Loss on disposal of property, plant and equipment	6,643	35
- Loss on disposal of intangible asset	6	-
- Gain on disposal of investments in associates	(14,167)	-
- Loss on disposal of investments in associates	1,868	-
- Contribution to provisions	1,335,779	560,357
- Other income and expenses	(23,484)	60
- Changes in inventories	(200,352)	(192,154)
- Changes in trade receivables	206,046	(9,247)
- Changes in other receivables	(754,436)	(24,788)
- Changes in other current assets	35,707	(36,160)
- Changes in trade payables	76,669	61,525
- Changes in other payables	123,130	94,300
- Changes in other current liabilities	265,778	(48,056)
- Changes in net defined benefit liabilities	(116,523)	672
- Changes in provisions	(545,060)	(13,527)
- Other cash flows from operations	4,540	26,696
Cash generated from operations	₩ 579,261	₩ (60,756)

LG Energy Solution, Ltd.
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31. Statement of Cash Flow (cont'd)

(2) Changes in liabilities arising from financial activities for the year ended December 31, 2021 and one-month period ended December 31, 2020 are as follows (Korean won in millions):

	For the year ended December 31, 2021						
	Beginning	Cash flows from financing activities	Reclassification of current portion	Amortization	Lease liabilities	Others	Ending
Short-term borrowings	₩ 2,273	₩ (9,541)	₩ 14,747	₩ -	₩ -	₩ 1,670	₩ 9,149
Long-term borrowings	3,563	-	(14,747)	-	46,443	-	35,259
Debentures	1,943,701	-	-	3,232	-	98,875	2,045,808
	<u>₩ 1,949,537</u>	<u>₩ (9,541)</u>	<u>₩ -</u>	<u>₩ 3,232</u>	<u>₩ 46,443</u>	<u>₩ 100,545</u>	<u>₩ 2,090,216</u>

	For one-month period ended December 31, 2020						
	Beginning	Cash flows from financing activities	Reclassification of current portion	Amortization	Lease liabilities	Others	Ending
Short-term borrowings	₩ 2,087	₩ (197)	₩ 383	₩ -	₩ -	₩ -	₩ 2,273
Long-term borrowings	3,378	-	(383)	-	568	-	3,563
Debentures	1,951,409	-	-	273	-	(7,981)	1,943,701
	<u>₩ 1,956,874</u>	<u>₩ (197)</u>	<u>₩ -</u>	<u>₩ 273</u>	<u>₩ 568</u>	<u>₩ (7,981)</u>	<u>₩ 1,949,537</u>

(3) Significant non-cash transactions for the year ended December 31, 2021 and one-month period ended December 31, 2020 are as follows (Korean won in millions):

	For the year ended December 31, 2021	For one-month period ended December 31, 2020
Reclassification of construction-in-progress	₩ 466,616	₩ 32,142
Reclassification of machinery-in-transit	40,646	470
Reclassification of long-term borrowings into current portion	14,747	384
Other payables related to acquisitions of property, plant and equipment and intangible assets	301,088	135,326

32. Assets and Liabilities related to Contracts with Customers

(1) Assets and liabilities related to contracts with customers as of December 31, 2021 and December 31, 2020 are as follows (Korean won in millions):

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Contract liabilities:		
Advances from customers received as part of the Company's main business activities	₩ 164,024	₩ 104,522
Expected customer incentives	3,042	3,858
Unearned revenue	136,642	340
	<u>₩ 303,708</u>	<u>₩ 108,720</u>

(2) Revenue recognized in relation to contract liabilities

Revenues recognized from the contract liabilities transferred through the split-off for the year ended December 31, 2021 and one-month period ended December 31, 2020 are as follows (Korean won in millions):

	<u>For the year ended December 31, 2021</u>	<u>For one-month period ended December 31, 2020</u>
Revenue recognized in the current period from the beginning contract liabilities:		
Revenues in relation to advances from customers received as part of the Company's main business activities	₩ 93,832	₩ 10,367
Unearned revenue	127	795
	<u>₩ 93,959</u>	<u>₩ 11,162</u>

33. Investment Properties

(1) Details of investment properties as of December 31, 2021 and December 31, 2020, are as follows (Korean won in millions):

	<u>December 31, 2021</u>				<u>December 31, 2020</u>			
	<u>Acquisition Cost</u>	<u>Accumulated depreciation</u>	<u>Accumulated impairment</u>	<u>Book value</u>	<u>Acquisition Cost</u>	<u>Accumulated depreciation</u>	<u>Accumulated impairment</u>	<u>Book value</u>
Land	₩ 161	₩ -	₩ -	₩ 161	₩ -	₩ -	₩ -	₩ -
Buildings	313,630	(76,726)	(461)	224,311	333,869	(78,342)	(441)	255,086
	<u>₩ 313,791</u>	<u>₩ (76,726)</u>	<u>₩ (461)</u>	<u>₩ 224,472</u>	<u>₩ 333,869</u>	<u>₩ (78,342)</u>	<u>₩ (441)</u>	<u>₩ 255,086</u>

(2) Changes in investment properties for the year ended December 31, 2021 and for the one-month period ended December 31, 2020, are as follows (Korean won in millions):

	<u>For the year ended December 31, 2021</u>		<u>For one-month period ended December 31, 2020</u>
	<u>Land</u>	<u>Building</u>	<u>Building</u>
Beginning	₩ -	₩ 255,086	₩ 255,638
Acquire / Transfer	161	-	-
Disposal / Transfer	-	(24,699)	-
Depreciation	-	(6,076)	(552)
Ending	<u>₩ 161</u>	<u>₩ 224,311</u>	<u>₩ 255,086</u>

33. Investment Properties (cont'd)

(3) The fair value of investment properties is measured either by independent professional appraisers with certified qualification or measured based on official appraised value of land and available information from recent transactions of similar properties, and it is classified as 'level 3' of the fair value hierarchy. The fair value of investment properties as of December 31, 2021, is ₩258,297 million.

Rental income from investment properties under operating lease for the year ended December 31, 2021, is ₩13,024 million, and operating expenses incurred for investment properties that generated rental income (including maintenance and repair expenses) for the year ended December 31, 2021 are ₩6,076 million.

(4) Operating lease

Investment properties are leased to tenants under operating leases with monthly rent payments. Where considered necessary to reduce credit risk, the Company may obtain bank guarantees for the Term of the lease.

Although the Company is exposed to changes in the residual value at the end of the current leases, the Company typically enters into new operating leases and therefore will not immediately realize any reduction in residual value at the end of these leases. Expectations about the future residual values are reflected in the fair value of investment properties.

The future minimum lease payments expected to be received in relation to the above operating lease agreement for investment properties as of December 31, 2021 and December 31, 2020 are as follows (Korean won in millions):

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Less than 1 year	₩ 12,362	₩ 14,842
Between 1-2 years	12,357	12,831
Between 2-5 years	-	12,831
	<u>₩ 24,719</u>	<u>₩ 40,504</u>

34. Revenue form Contracts with Customers

(1) Regarding the trade secret infringement dispute between the company and SK Innovation Co., Ltd., on February 10, 2021, the US International Trade Commission (ITC) made a final decision that SK Innovation Co., Ltd. had infringed on the Company's trade secrets. The two companies signed an agreement on May 15, 2021, and in exchange for the settlement, the Company agreed to receive a lump-sum payment of ₩1 trillion and ₩1 trillion in royalties in accordance with a certain percentage of annual sales from SK Innovation Co., Ltd..

(2) In accordance with this agreement, the Company terminated the dispute with SK Innovation Co., Ltd. through entering into a permanent license agreement and agreed to not file any lawsuits for the next 10 years as well as dropping all ongoing lawsuits at domestic and abroad. The Company has determined that all settlement payments are consideration received in exchange for the license agreement.

(3) 'Granting a license' corresponds to the main business activity of the Company, and the nature of the license the Company provides to SK Innovation Co., Ltd. is the right to use, and there is no performance obligation to provide additionally after agreement.

(4) Accordingly, for the above reasons, the Company has recognized the lump-sum of ₩1,000,000 million (at the present value of ₩992,233 million) as operating income based on the agreement made with SK Innovation Co., Ltd.

(5) SK On Co., Ltd. was established through a physical spin-off from SK Innovation Co., Ltd. in October 2021. The agreement with the Company was transferred to SK On Co., Ltd.

35. Events After the Reporting Period

(1) In January 2022, the Company approved the investment in the third plant of Ultium Cells LLC, a joint venture with GM in the United States, to respond to the growing demand for electric vehicle batteries in the North America market.

(2) The Company was listed on the stock market on January 27, 2022 for the purpose of expanding domestic and overseas investments.

(3) In February 2022, the Company acquired 100% of the shares of NEC Energy Solutions, an American energy storage system (ESS) integrator, from NEC Corporation in Japan, the parent Company of NEC Energy Solutions.

36. Date of approval for issuance of financial statements

The Company's separate financial statements were approved by the Board of Directors on February 7, 2022 and may be revised at the general meeting of shareholder.