Gwangju Local Subsidiary

Gwangju Shinsegae

Explanatory Document on Appropriateness of Dividends of Gwangju Shinsegae

February 2023

I. FY22 Regular Dividends and Shareholder Return

- On February 7, 2023, Gwangju Shinsegae's (the "Company") board of directors ("BOD") resolved the FY22 regular dividends at KRW 2,200 per share. However, this may be changed in the course of the external auditor's accounting audit and approval of the annual general meeting of shareholders. The **dividend yield rate is 6.6%** as of February 7, 2023, and the **dividend payout ratio** compared to the FY22 net income in the disclosed provisional earnings report is expected to be **30.7%**. This is considerably higher than 20% dividend payout ratio under the shareholder return policy disclosed by the Company, showing that the Company faithfully complied with its shareholder return policy described below, which was specifically disclosed and communicated to the market.

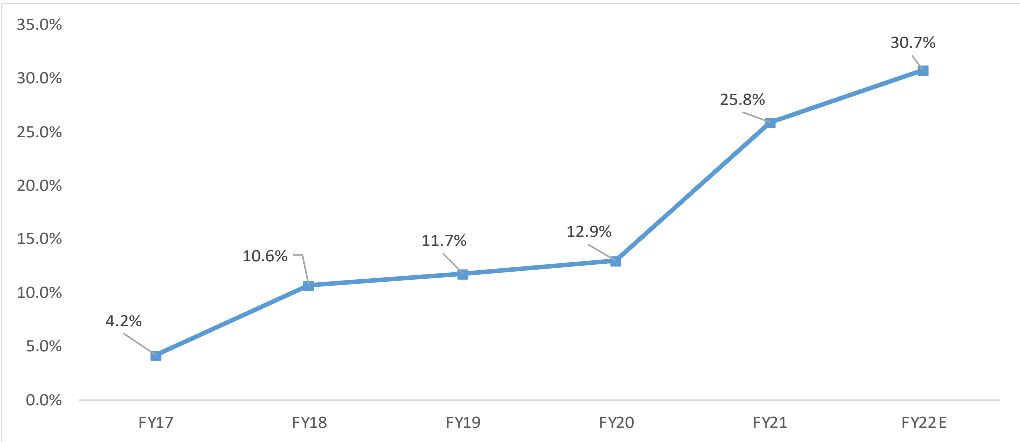
Details of the Company's shareholder return policy are as follows:

Principle	Details
Amount of Shareholder Return	• 20% or more of annual net income
Period and Time of Re-examination	• Every three years (Initial term: FY21-FY23)

※We established our shareholder return policy to increase long-term predictability of shareholder returns and ensure stable dividends.
※The duration of our shareholder return policy has been set at three years in order to enhance the predictability of shareholders.

- As shown below, our dividend payout ratio has steadily increased. In particular, after the announcement of the dividend policy for FY21-FY23, our dividend payout ratio has evidently increased to 12.9%, 25.8%, and 30.7%, and we also fully complied with all principles of our dividend policy disclosed and mentioned above.

[Our dividend payout ratio trend (FY17-FY22E)]



- In general, with respect to a shareholder return policy (regarding dividends, acquisition of treasury stock, etc.), it is difficult to assume that high net income or significant cash reserves guarantee a large amount of dividends, and the decision should be made by comprehensively considering the following factors:

1. Internal considerations

a. Future investment opportunities and required capital;
b. Trends of profit-related index;
c. Level of free cash flow;
d. Return on reinvestment and cost of capital;
e. Capital raising capacity; and
f. Information effects of dividends.

2. External considerations (i.e., economy and industry)

a. Economic and market environment (need to consider worsening liquidity, etc. due to recent economic downturn and interest rate hike); and
b. Dividend level of competitors in the similar industry.

- Currently, we are planning to develop Art & Culture Park in Gwangju, and we have communicated this plan to the market through media reports. In this regard, we expect large-scale investment will be necessary in the future. More specifically, considering the size of our operating cash flow (approximately KRW 68 billion on average over the past three years), we expect that additional financing will be necessary for the above investment. However, due to the recent financial market stagnation, financing costs have been escalating, and the interest rate on corporate bonds (a three-year bond with Shinsegae Inc.'s credit rating of AA) has sharply risen to 4.09% as of February 6, 2023. Considering the uncertainty in the capital market and high financial costs, we believe it would be better to use our reserved funds while maintaining the current level of shareholder return under the dividend policy.

[Corporate Bond Interest Rate Trends (Source: Nice Investors Service)]

%	2020.12.31	2021.12.31	2022.12.31	2023.01.30	2023.02.06
AA (three-year bond)	1.3	2.38	5.16	4.18	4.09

- Accordingly, we formulated the current dividend proposal which increases the dividend payout ratio up to 30% while maintaining our investment capacity. If we apply the dividend of KRW 2,200 per share that the BOD resolved, we estimate that stable annual dividend growth will be realized, given our cash flow expected over the next three years.

- There exists likelihood that the volatility of cash flow would increase due to the planned large-scale investment and uncertainties in the business environment. If we rush into expanding the size of dividends before cash flow is generated in earnest following the planned investment, the liquidity of the Company may deteriorate. Also, if we are forced to decrease the size of dividends after increasing them, it may negatively affect our corporate value.

- Dividends serve also as a tool to signal and deliver certain information. In general, investors tend to take dividend growth as a sign that the Company's profitability will improve, and dividend decrease as a sign that the profitability will decrease. Therefore, if we rapidly increase the dividends to above the 30.7% dividend payout ratio determined by the BOD despite no particular other factors present to improve profitability, and if we decrease the dividends due to decline in profitability and cash flow, it may send a wrong signal to the market, causing confusion in the market and hindering the rise of our share price in the long-term.

- As such, we intend to gradually increase our dividend payout ratio by taking into account a stable increase of corporate value from a long term perspective, future CAPEX size, and current uncertainties in the business environment.

- For your further reference, the Company has had the upper hand in the market in terms of share prices for the past 3 years and will continue to make efforts to increase its corporate value.

[Share Price Trend (as of End of Each Year)]

	FY20	FY21	FY22	23.2/14	vs. FY20
Gwangju Shinsegae	**30,600**	**36,200**	**32,000**	**35,800**	**+17.0%**
(Distribution Industry Index)	394.67	379.42	334.16	339.46	-14.0%
(KOSPI 200 small to mid-cap)	1151.78	1377.29	1091.14	1148.48	-0.3%
(KOSPI Index)	2873.47	2977.65	2236.40	2465.64	-14.2%

II. Shareholder Return Policy after FY24

- The Company plans to announce its second shareholder return policy for FY24-FY26 after a thorough review in 2023, and will continue to make efforts to increase the overall profit of shareholders and its corporate value by determining the details of, disclosing, and complying with the improved shareholder return policy exceeding the FY22 level of shareholder return, such as dividends. The details of the long-term shareholder return policy will be determined by a resolution of the BOD, and once they are determined, we will disclose and communicate them to the market in a transparent manner.

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