

LOTTE SHOPPING CO.,LTD.

**Separate Financial Statements
As of December 31, 2022 and 2021**

(With Independent Auditors' Report Thereon)

LOTTE SHOPPING CO.,LTD.

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Independent Auditors' Report

Based on a report originally issued in Korean

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

Opinion

We have audited the separate financial statements of Lotte Shopping Co., Ltd. ("the Company"), which comprise the separate statement of financial position as of December 31, 2022 and 2021, the separate statements of comprehensive income (loss), changes in equity and cash flows for the years then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the separate financial position of the Company as of December 31, 2022 and 2021, and its separate financial performance and its separate cash flows for the years then ended in accordance with Korean International Financial Reporting Standards ("K-IFRS").

We also have audited, in accordance with Korean Standards on Auditing (KSAs), the Company's Internal Control over Financial Reporting ("ICFR") as of December 31, 2022 based on the criteria established in Conceptual Framework for Designing and Operating Internal Control over Financial Reporting issued by the Operating Committee of Internal Control over Financial Reporting in the Republic of Korea, and our report dated March 15, 2023 expressed an unmodified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

We conducted our audits in accordance with KSAs. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Separate Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the separate financial statements in Republic of Korea, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matter

Key audit matter is that matter that, in our professional judgment, was of most significance in our audit of the separate financial statements as of and for the year ended December 31, 2022. This matter was addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.



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

As described in Note 13 to the separate financial statements, as of December 31, 2022, the carrying amount of investment in subsidiaries of LOTTE Himart Co., Ltd in the separate statements of financial position of the Company is ₩879,160 million. Also, the impairment loss of ₩335,999 million is recognized during 2022.

The Company reviews at the end of each reporting period on whether there are any indicators of impairment regarding the investment in subsidiaries, and has performed impairment test on investment in subsidiaries for which indicators of impairment were identified by estimating the recoverable amount of the respective investment in subsidiaries. When the recoverable amount is less than the carrying amount, the difference between those amounts has been recognized as impairment loss. In estimating the recoverable amount, management's judgment is involved in determining the key assumptions such as sales growth rate, discount rate, and terminal growth rate that have a significant impact on the estimated recoverable amount. Considering significant degree of judgment in estimating recoverable amount, we identified assessment of investment in subsidiaries impairment in the LOTTE Himart Co., Ltd as a key audit matter.

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

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

Other matter

The procedures and practices utilized in the Republic of Korea to audit such separate financial statements may differ from those generally accepted and applied in other countries.

Responsibilities of Management and Those Charged with Governance for the Separate Financial Statements

Management is responsible for the preparation and fair presentation of the separate financial statements in accordance with K-IFRS, and for such internal control as management determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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



Auditors' Responsibilities for the Audit of the Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with KSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

As part of an audit in accordance with KSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- Evaluate the appropriateness of accounting policies used in the preparation of the separate financial statements and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separated financial statements, including the disclosures, and whether the separated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors' report is Su Kwang Kim.



KPMG Samjong Accounting Corp.

Seoul, Korea
March 15, 2023

This report is effective as of March 15, 2023, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying separate financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

LOTTE SHOPPING CO.,LTD.
Separate Statements of Financial Position
As of December 31, 2022 and 2021

(In Korean won)	Notes	2022	2021
Assets			
Current assets			
Cash and cash equivalents	6,7,35,40	₩ 1,166,440,601,007	1,574,016,044,561
Trade and other receivables	5,7,38,40	572,038,783,359	432,783,918,889
Other financial assets	6,7,23,40	800,119,024,477	612,274,257,156
Inventories	8	446,651,455,872	429,457,320,288
Income tax refund receivables	34	71,337,620,022	138,462,575,535
Other non-financial assets	9	33,414,340,507	23,176,674,714
Assets held for sale	10	30,943,431,996	108,995,085,511
		<u>3,120,945,257,240</u>	<u>3,319,165,876,654</u>
Non-current assets			
Other receivables	5,7	141,565,166,795	145,556,516,360
Investments in subsidiaries, associates and joint ventures	11,12,13,38	3,703,367,076,548	4,531,480,306,602
Other financial assets	6,7,23,40	1,147,624,138,459	1,142,996,248,338
Property, plant and equipment, net	14	11,185,324,831,455	9,694,826,706,939
Right-of-use assets	14,39	3,610,581,389,866	4,244,032,050,908
Investment property, net	15	1,494,694,967,823	931,090,437,568
Goodwill	16	112,405,594,522	28,300,255,953
Intangible assets, net	16	37,528,051,777	81,914,097,909
Other non-financial assets	9	2,018,011,005	2,123,012,410
Defined benefit assets	22	175,719,387,389	104,864,759,451
		<u>21,610,828,615,639</u>	<u>20,907,184,392,438</u>
Total assets		₩ <u>24,731,773,872,879</u>	<u>24,226,350,269,092</u>

See accompanying notes to the separate financial statements.

LOTTE SHOPPING CO.,LTD.
Separate Statements of Financial Position, continued
As of December 31, 2022 and 2021

(In Korean won)	Notes		2022	2021
Liabilities				
Current liabilities				
Borrowings and debentures,				
net of issuance costs	7,18,40	₩	2,142,203,825,881	1,228,169,985,330
Trade and other payables	7,17,40		2,026,174,994,034	1,800,314,117,465
Other financial liabilities	7,23,40		397,473,030,536	376,599,841,909
Lease liabilities	7,39		750,262,843,999	578,277,457,572
Unearned revenues	19		183,529,712,681	163,883,305,906
Provisions	20		13,352,024,029	8,479,923,705
Other non-financial liabilities	21		1,218,599,373,017	1,159,295,467,894
			<u>6,731,595,804,177</u>	<u>5,315,020,099,781</u>
Non-current liabilities				
Borrowings and debentures,				
net of issuance costs	7,18,40		3,866,163,788,476	3,498,970,712,086
Other payables	7,17		3,919,960,755	-
Other financial liabilities	7,23,40		142,947,324,363	83,333,609,626
Lease liabilities	7,39		4,530,458,192,321	5,299,156,516,443
Defined benefit liabilities and other long-				
term employee benefits	22		20,277,069,204	20,762,654,389
Deferred tax liabilities	34		1,713,749,746	85,838,995,674
Unearned revenues	19		10,005,397,554	7,443,242,317
Provisions	20		157,102,986,415	160,041,868,127
			<u>8,732,588,468,834</u>	<u>9,155,547,598,662</u>
Total liabilities			<u>15,464,184,273,011</u>	<u>14,470,567,698,443</u>
Equity				
Share capital	1,24		141,443,775,000	141,443,775,000
Capital surplus	24		3,590,535,627,005	3,590,535,627,005
Capital adjustment	25		(2,856,562,337,456)	(2,818,298,047,582)
Retained earnings	26		8,493,220,958,670	8,911,185,540,093
Accumulated other comprehensive loss	27		(101,048,423,351)	(69,084,323,867)
Total equity			<u>9,267,589,599,868</u>	<u>9,755,782,570,649</u>
Total equity and liabilities		₩	<u>24,731,773,872,879</u>	<u>24,226,350,269,092</u>

See accompanying notes to the separate financial statements.

LOTTE SHOPPING CO.,LTD.
Separate Statements of Comprehensive Income (Loss)
For the years ended December 31, 2022 and 2021

(In Korean won)	Notes	2022	2021
Sales	29,38 ₩	8,814,417,014,838	8,408,202,994,035
Cost of sales	8,32,38	(4,137,606,723,861)	(4,173,541,080,865)
Gross profit		4,676,810,290,977	4,234,661,913,170
Selling, general and administrative expenses	30,32,38	(4,337,355,083,590)	(4,147,206,854,812)
Bad debt expense	30,32,40	(1,855,904,315)	(1,361,095,763)
Operating profit		337,599,303,072	86,093,962,595
Other income	31	117,072,788,789	367,289,961,743
Other expenses	31	(323,328,091,865)	(415,919,485,125)
Finance income - interest income calculated using the effective interest method	33	78,781,277,757	50,350,665,869
Finance income - others	33	376,314,636,324	357,873,924,944
Finance costs	33	(1,127,665,497,256)	(666,335,966,815)
Other bad debt expense	31	(2,752,093,046)	(19,326,502)
Loss before income tax		(543,977,676,225)	(220,666,263,291)
Income tax revenue	34	172,767,513,361	412,501,591,353
Profit (Loss) for the year		(371,210,162,864)	191,835,328,062
Other comprehensive income			
Items that will never be reclassified to profit or loss			
Remeasurements of defined benefit liabilities	22	42,061,498,645	74,582,762,764
Fair value gain(loss) through other comprehensive income on equity instruments	27	(26,009,271,832)	(27,682,805,751)
Income tax effect		(4,512,736,042)	(11,635,456,953)
Total items that will never be reclassified to profit or loss		11,539,490,771	35,264,500,060
Items that may be subsequently reclassified to profit or loss			
Loss on valuation of debt instrument at fair value through other comprehensive income	27	(178,930,828)	(272,776,211)
Gain (loss) on valuation of derivatives	23,27	(14,244,996,290)	11,990,609,641
Income tax effect		3,323,710,304	(2,835,715,690)
Total items that will be subsequently reclassified to profit or loss		(11,100,216,814)	8,882,117,740
Other comprehensive income for the year, net of tax		439,273,957	44,146,617,800
Total comprehensive income (loss) for the year		(370,770,888,907)	235,981,945,862
Earnings (loss) per share	28		
Basic earnings (loss) per share	₩	(13,131)	6,786

See accompanying notes to the separate financial statements.

LOTTE SHOPPING CO.,LTD.
Separate Statements of Changes in Equity
For the years ended December 31, 2022 and 2021

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

See accompanying notes to the separate financial statements.

LOTTE SHOPPING CO.,LTD.
Separate Statements of Changes in Equity, continued
For the years ended December 31, 2022 and 2021

(In Korean won)	Share capital	Capital surplus	Capital adjustment	Retained earnings	Accumulated other comprehensive loss	Total equity
Balance at January 1, 2022	₩ 141,443,775,000	3,590,535,627,005	(2,818,298,047,582)	8,911,185,540,093	(69,084,323,867)	9,755,782,570,649
Comprehensive income (loss) for the year:						
Loss for the year	-	-	-	(371,210,162,864)	-	(371,210,162,864)
Other comprehensive income (loss):						
Net change in equity instruments at fair value through other comprehensive income	-	-	-	-	(20,863,882,670)	(20,863,882,670)
Net change in debt instruments at fair value through other comprehensive income	-	-	-	-	(138,967,852)	(138,967,852)
Gain or loss on valuation of derivatives	-	-	-	-	(10,961,248,962)	(10,961,248,962)
Remeasurements of defined benefit liabilities	-	-	-	32,403,373,441	-	32,403,373,441
Subtotal	-	-	-	32,403,373,441	(31,964,099,484)	439,273,957
Total comprehensive income (loss) for the year	-	-	-	(338,806,789,423)	(31,964,099,484)	(370,770,888,907)
Transactions with owners of the Company recognized directly in equity:						
Changes due to business combination	-	-	(38,264,289,874)	-	-	(38,264,289,874)
Dividends	-	-	-	(79,157,792,000)	-	(79,157,792,000)
Balance at December 31, 2022	₩ 141,443,775,000	3,590,535,627,005	(2,856,562,337,456)	8,493,220,958,670	(101,048,423,351)	9,267,589,599,868

See accompanying notes to the separate financial statements.

LOTTE SHOPPING CO.,LTD.
Separate Statements of Cash Flows
For the years ended December 31, 2022 and 2021

(In Korean won)	Notes	2022	2021
Cash flows from operating activities			
Profit (Loss) for the year	₩	(371,210,162,864)	191,835,328,062
Adjustments	35	1,693,742,623,890	910,298,224,220
Changes in operating assets and liabilities	35	(4,910,459,313)	480,077,524,531
Income taxes refunded (paid)		105,274,492,323	(132,717,049,831)
Net cash provided by operating activities		1,422,896,494,036	1,449,494,026,982
Cash flows from investing activities			
Decrease of lease deposit		54,202,887,801	68,774,230,771
Decrease of short-term financial instruments		327,218,773,874	1,238,327,500,000
Decrease in short-term loans		65,329,112,000	6,269,502,705
Proceeds from sale of equity instruments at fair value through other comprehensive income		-	1,559,742,684
Proceeds from sale of debt instruments at fair value through other comprehensive income		703,361,492	8,254,490,000
Proceeds from sale of investment in subsidiaries, associates and joint ventures		52,662,237,308	45,904,610,768
Proceeds from disposal of property, plant and equipment		5,518,110,260	855,236,420,893
Proceeds from disposal of intangible assets		6,028,844	585,272,727
Proceeds from disposal of assets held for sale		-	797,693,504,116
Collection of financial lease receivables		37,642,071,723	35,572,420,914
Advances received		4,019,235,462	-
Cash inflows from settlement of derivatives		22,364,008,366	6,683,699,000
Cash inflow from business combination		238,870,424,005	10,026,319,483
Increase of lease deposit		(7,546,306,476)	(52,170,210,015)
Increase of short-term financial instruments		(585,008,848,235)	(865,599,113,857)
Increase in short-term loans		(3,000,000,000)	(50,090,790,000)
Increase in long-term loans		-	(991,300,000)
Purchase of long-term financial instruments		(27,011,692,043)	(1,811,000,000)
Purchase of debt instrument at fair value through profit or loss		-	(1,500,044,000)
Purchase of equity instruments at fair value through other comprehensive income		-	(63,302,179,000)
Purchase of investments in subsidiaries, associates and joint ventures		(334,867,494,856)	(538,444,802,886)
Acquisition of property, plant, and equipment		(431,627,940,290)	(611,718,105,728)
Acquisition of intangible assets		(6,101,083,580)	(5,235,400,577)
Interest received		50,302,977,740	22,956,885,954
Dividends received		173,175,553,796	145,547,010,711
Net cash provided by (used in) investing activities	₩	(363,148,582,809)	1,052,528,664,663

See accompanying notes to the separate financial statements.

LOTTE SHOPPING CO.,LTD.
Separate Statements of Cash Flows, continued
For the years ended December 31, 2022 and 2021

(In Korean won)	Notes	2022	2021
Cash flows from financing activities			
Increase in rental deposits	₩	13,792,055,238	19,920,820,697
Proceeds from short-term borrowings		200,000,000,000	-
Proceeds from long-term borrowings		355,000,000,000	100,000,000,000
Proceeds from issuance of debentures		578,340,848,347	819,998,125,487
Decrease in rental deposits		(27,136,125,601)	(140,343,360,143)
Repayment of short-term borrowings		(415,000,000,000)	(200,000,000,000)
Repayment of current portion of long-term borrowings		(311,950,000,000)	(748,424,220,695)
Repayment of debentures		(878,550,000,000)	(912,080,000,000)
Repayment of lease liabilities		(581,634,390,183)	(573,696,482,889)
Interest paid		(326,495,503,147)	(277,777,553,078)
Dividends paid		(79,157,792,000)	(79,157,792,000)
Net cash used in financing activities		(1,472,790,907,346)	(1,991,560,462,621)
Net increase (decrease) in cash and cash equivalents		(413,042,996,119)	510,462,229,024
Cash and cash equivalents at the beginning of the year		1,574,016,044,561	1,058,444,838,960
Effect of exchange rate fluctuation on cash and cash equivalents		5,467,552,565	5,108,976,577
Cash and cash equivalents at the end of the year	₩	1,166,440,601,007	1,574,016,044,561

See accompanying notes to separate financial statements.

LOTTE SHOPPING CO.,LTD.

Notes to the Separate Financial Statements

As of December 31, 2022 and 2021

1. Organization and description of the Company

LOTTE SHOPPING CO.,LTD. (the “Company”) was established on July 2, 1970 in the Republic of Korea to engage in retail operations through department stores. The Company’s operations comprise 32 department stores, 22 outlet stores, 112 discount stores, 199 supermarkets, and 6 Shopping-mall as of December 31, 2022. The Company’s stock was listed on the Korea Exchange through an initial public offering on February 9, 2006.

The shareholders of the Company as of December 31, 2022 are as follows:

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

2. Basis of Accounting

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

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

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

(a) Basis of measurement

The separate financial statements have been prepared based on historical cost except for the following:

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

(b) Functional and presentation currency

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

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

LOTTE SHOPPING CO.,LTD.

Notes to the Separate Financial Statements

As of December 31, 2022 and 2021

2. Basis of Accounting, continued

(c) Estimates and assumptions

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

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

3. Significant Accounting Policies and Changes in Disclosure

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

3.1 Enacted, amended standards adopted by the Company

The Company has initially applied the following enacted/amended standards and interpretations from the year beginning January 1, 2022.

(a) Amendments to K-IFRS No.1103 Business Combination – Reference to the Conceptual Framework

The amendments update a reference of definition of assets and liabilities qualify for recognition in revised Conceptual Framework for Financial Reporting. However, the amendments add an exception for the recognition of liabilities and contingent liabilities within the scope of K-IFRS No.1037 Provisions, Contingent Liabilities and Contingent Assets, and K-IFRS No.2121 Levies. The amendments also confirm that contingent assets should not be recognized at the acquisition date. The amendments do not have a significant impact on the financial statements.

(b) Amendments to K-IFRS No.1016 Property, Plant and Equipment - Proceeds before intended use

The amendments prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while the entity is preparing the asset for its intended use. Instead, the entity will recognize the proceeds from selling such items, and the costs of producing those items, in profit or loss. The amendments do not have a significant impact on the financial statements.

(c) Amendments to K-IFRS No.1037 Provisions, Contingent Liabilities and Contingent Assets - Onerous Contracts: Cost of Fulfilling a Contract

The amendments clarify that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling contracts when assessing whether the contract is onerous. The Company does not expect that these amendments have a significant impact on the financial statements.

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

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

- K-IFRS No.1101 First time Adoption of Korean International Financial Reporting Standards – Subsidiaries that are first-time adopters
- K-IFRS No.1109 Financial Instruments – Fees related to the 10% test for derecognition of financial liabilities
- K-IFRS No.1041 Agriculture – Measuring fair value

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3. Significant Accounting Policies and Changes in Disclosure, continued

3.1 Enacted, amended standards adopted by the Company, continued

- (e) Amendments to K-IFRS No.1116 Lease – Discounts on rent related to COVID-19, which will be offered after June 30, 2021.

The scope of the practical simplification method, which allows not to evaluate whether the lease discount, etc. incurred as a direct result of COVID-19, is subject to lease reduction or exemption that affects the lease fee due before June 30, 2022. Lease users consistently apply practical simplifications to contracts with similar characteristics in similar situations. The company has changed our accounting policy for all rent discounts that meet the conditions by introducing amendments to K-IFRS No.1116.

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

- (a) Amendments to K-IFRS No.1001 Presentation of Financial Statements - Classification of Liabilities as Current or Non-current

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

- (b) K-IFRS No.1001 Presentation of Financial Statements – Disclosure of accounting policy

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

- (c) K-IFRS No.1008 Accounting Policy, changes and errors in accounting estimates – Definition of Accounting Estimates

Defined accounting estimates and clarified how to distinguish them from changes in accounting policies. The amendments should be applied for annual periods beginning on or after January 1, 2023, and earlier application of permitted. The Company is expecting that these amendments do not have a significant impact on the financial statements.

- (d) K-IFRS No.1012 Corporate Tax - deferred tax on assets and liabilities arising from a single transaction

In the initial recognition exception requirement for transactions where assets or liabilities are first recognized, the requirement of transactions that do not cause temporary differences to be added and temporary differences to be deducted at the time of transaction was added. The amendments should be applied for annual periods beginning on or after January 1, 2023, and earlier application of permitted. The Company is expecting that these amendments do not have a significant impact on the financial statements.

- (e) Establishments to K-IFRS No.1117 Insurance Contract

K-IFRS No.1117 Insurance Contract replaces K-IFRS No.1104 Insurance Contract. All cash flows under the insurance contract are estimated, insurance liabilities are measured using a discount rate reflecting the assumptions and risks at the time of reporting, and profits are recognized as accrual by the services (insurance coverage) provided to the contractor every fiscal year. The amendments should be applied for annual periods beginning on or after January 1, 2023, and the companies that have applied the amendments to K-IFRS No.1109 Financial Instruments are permitted to apply early. The Company is expecting that these amendments do not have a significant impact on the financial statements.

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3. Significant Accounting Policies and Changes in Disclosure, continued

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

- (f) K-IFRS No.1001 Presentation of Financial Statements – Disclosure of gains and losses on valuation of financial liabilities with exercise price adjustment conditions

In case of all or part of a financial instrument subject to the condition that the exercise price is adjusted according to the fluctuation of the issuer's stock price is classified as a financial liability, the carrying amount of the financial liability and related gains and losses should be disclosed. The amendments should be applied for annual periods beginning on or after January 1, 2023, and earlier application of permitted. The Company is expecting that these amendments do not have a significant impact on the financial statements.

3.3 Cash and cash equivalents

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

3.4 Foreign currency translation

Foreign currency transaction and translation at the end of the reporting period

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

Foreign exchange differences related to borrowings are shown in the income statement as finance expenses, and other foreign exchange differences are shown in other income or other expenses. Foreign exchange differences arising from non-monetary financial assets and liabilities are regarded as part of fair value fluctuation gains and losses, and foreign exchange differences arising from equity instruments measured at fair values through profit or loss are recognized as current profit or loss, and foreign exchange difference between equity instruments measured at fair value through other comprehensive income is recognized as included in other comprehensive income.

3.5 Financial assets

- (a) Classification

The Company classifies financial assets in the following categories.

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

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

For financial assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. The Company reclassifies debt investments only when its business model for managing those assets changes.

For investments in equity instruments that are not held for trading, classification will depend on whether the Company has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income. Changes in fair value of the investments in equity instruments that are not accounted for as other comprehensive income are recognized in profit or loss.

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3. Significant Accounting Policies and Changes in Disclosure, continued

3.5 Financial assets, continued

(b) Measurement

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

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

(i) Debt instrument

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

- Financial assets measured at amortized cost

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt investment that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is included in 'Finance income' using the effective interest rate method.

- Financial assets measured at fair value through other comprehensive income

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

- Financial assets measured at fair value through profit or loss

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

(ii) Equity instrument

The Company subsequently measures all equity investments at fair value. Where the Company's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividend income from such investments continue to be recognized in profit or loss as 'Financial income' when the right to receive payments is established.

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

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3. Significant Accounting Policies and Changes in Disclosure, continued

3.5 Financial assets, continued

(c) Impairment

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

(d) Recognition and derecognition

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

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

(e) Offsetting of financial instruments

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

3.6 Derivatives

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

(a) Hedge accounting

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

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

(i) Fair value hedge

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

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3. Significant Accounting Policies and Changes in Disclosure, continued

3.6 Derivatives, continued

(a) Hedge accounting, continued

(ii) Cash flow hedge

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

(b) Embedded derivatives

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

(c) Other derivatives

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

3.7 Trade receivables

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

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3. Significant Accounting Policies and Changes in Disclosure, continued

3.8 Inventories

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

The cost of inventories is based on the following methods:

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

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

3.9 Non-current assets held for sale

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

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3. Significant Accounting Policies and Changes in Disclosure, continued

3.10 Property, plant and equipment

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

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

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

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

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

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

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

3.11 Borrowing costs

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

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3. Significant Accounting Policies and Changes in Disclosure, continued

3.12 Intangible assets

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

The goodwill is measured in the manner described in K-IFRS No.1110 and is presented at cost less accumulated impairment losses. Intangible assets other than goodwill are initially recognized at historical cost and are presented at cost less accumulated amortization and accumulated impairment losses.

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

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

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

3.13 Investment property

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

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

Investment property except for land, are depreciated on a straight-line basis over 10 to 50 years as estimated useful lives. Depreciation methods, useful lives and residual values are reviewed at the end of each reporting date and adjusted, if appropriate. The change is accounted for as a change in an accounting estimate.

3.14 Impairment of non-financial assets

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

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

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3. Significant Accounting Policies and Changes in Disclosure, continued

3.14 Impairment of non-financial assets, continued

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

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

3.15 Trade payables and other payables

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

3.16 Financial liabilities

(a) Classification and measurement

The financial liabilities of the Company at fair value through profit or loss are financial instruments held for trading. Financial liabilities incurred principally for the purpose of repurchasing in the near term are classified as short-term financial liabilities held for trading. In addition, an embedded derivative separated from a host, or a derivative that is not designated as effective hedging instrument is classified as a short-term financial liability held for trading.

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

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

(b) Derecognition

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

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3. Significant Accounting Policies and Changes in Disclosure, continued

3.17 Provisions

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

3.18 Current and deferred income taxes

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

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

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

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

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

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

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3. Significant Accounting Policies and Changes in Disclosure, continued

3.19 Employee benefits

(a) Retirement benefits

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

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

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

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

(b) Short-term employee benefits

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

(c) Other long-term employee benefits

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

3.20 Revenue recognition

(a) Sales of goods and rendering of services

The Company operates department stores, outlet stores, supermarkets, H&B stores, E-Commerce. Sales of goods from contracts with customers are generally recognized when the goods are delivered to the customers. Under K-IFRS No.1115, revenue is recognized applying the following five-step process to contracts with customers:

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

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

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Notes to the Separate Financial Statements

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3. Significant Accounting Policies and Changes in Disclosure, continued

3.20 Revenue recognition, Continued

(b) Customer loyalty program

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

(c) Commissions

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

(d) Rental income

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

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

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

3.21 Leases

(a) Lessor

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

(b) Lessee

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

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

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

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

- Fixed lease payments (including in-substance fixed lease payment) less incentive to receive
- Variable lease payments that depend on the index or rate initially measured using the index or rate at the commencement date
- Amount expected to be paid by the Company (lessor) according to the guaranteed residual value

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3. Significant Accounting Policies and Changes in Disclosure, continued

3.21 Leases, continued

(b) Lessee, continued

- The exercise price of the purchase option if it is reasonably certain that the Company (lessee) will exercise the purchase option
- If the lease period reflects the exercise of the option to terminate the lease by the Company (lessee), the amount to be paid to terminate the lease

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

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

The Company calculates the incremental borrowing rate as follows:

- Reflects interest rates based on market-observed credit ratings

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

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

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

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

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

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

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

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3. Significant Accounting Policies and Changes in Disclosure, continued

3.21 Leases, continued

(b) Lessee, continued

(i) Variable lease payments

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

(ii) Extension option and termination option

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

3.22 Finance income and finance costs

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

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

3.23 Emission rights

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

(i) Greenhouse gases emission right

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

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

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3. Significant Accounting Policies and Changes in Disclosure, continued

3.23 Emission rights, continued

(ii) Emission liability

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

3.24 Government Subsidy

The government grant is recognized at fair value when there is reasonable assurance on the grant that will be received and the conditions added to the grant will be complied with. Subsidies related to assets are presented as a deduction when calculating the carrying amount of assets, and subsidies related to income are deferred and presented as a deduction from expenses and income related to the purpose of granting government subsidies.

3.25 Authorization of financial statements

The separate financial statements were authorized by the Board of Directors meeting on March 9, 2023, and is subject to modification at the shareholder's meeting.

4. Significant Accounting Estimates and Assumptions

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

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

(a) Impairment of non-financial asset

The recoverable amount of the cash generating unit to assess whether the assets held, such as right-of-use assets and goodwill, are impaired is determined based on the calculation of value in use (see Note 14 and 16).

(b) Income taxes

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

(c) Fair value of financial instruments

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

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4. Significant Accounting Estimates and Assumptions, continued

(d) Impairment of financial assets

The loss allowance for financial assets is measured based on assumptions about default risks and expected loss rates. The Company makes judgement for the setting of these assumptions and the selection of input variables used for impairment model by considering the Company's experience, current market conditions and future forecast information as of financial reporting date (see Note 7 and Note 40).

(e) Net defined benefit liability

The present value of the net defined benefit liability is affected by various factors, especially changes in discount rates, which are determined by actuarial methods (see Note 22).

(f) Revenue recognition

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

(g) Leases

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

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

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

Lease term is re-evaluated if the option is actually exercised (not exercised) or if the Company bears obligation to exercise (not exercise) the option. Only if significant events occur that are within the scope of the lessee's control and affect the determination of the lease term, or if there is a significant change in the situation, the Company changes its judgement whether the exercise of extension option (or not) is reasonably certain.

(h) Provision for restoration costs

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

(i) Provision for restructuring costs

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

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5. Trade and Other Receivables

(a) Trade and other receivables as of December 31, 2022 are as follows:

(in millions of Korean won)

		Trade receivables	Other receivables	Lease payments receivables	Total
Current:					
Total carrying amount	₩	337,284	224,014	34,327	595,625
Reduction: Allowance for bad debts		(3,938)	(19,454)	(194)	(23,586)
Net carrying amount		<u>333,346</u>	<u>204,560</u>	<u>34,133</u>	<u>572,039</u>
Non-current:					
Total carrying amount		-	20,477	122,284	142,761
Reduction: Allowance for bad debts		-	(504)	(692)	(1,196)
Net carrying amount	₩	<u>-</u>	<u>19,973</u>	<u>121,592</u>	<u>141,565</u>

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

(in millions of Korean won)

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

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6. Restricted Deposits

Restricted deposits included in short-term and long-term financial instruments as of December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

Account	Description	Depository	2022	2021	Remarks
Cash and cash equivalents	account	Shinhan Bank	₩ 300	300	Deposits for e-finance business
Other financial assets (current)	account	INDUSTRIAL BANK OF KOREA	4,500	6,000	Pledge
Other financial assets (current)	Short-term financial instrument	INDUSTRIAL BANK OF KOREA and others	113,000	113,000	Deposits for Mutually Beneficial Cooperation Fund
Other financial assets (non-current)	account	Shinhan Bank	2,111	1,811	Pledge
Other financial assets (non-current)	account	Kookmin Bank and others	6,712	-	Trust reserve and joint account
Other financial assets (non-current)	Long-term financial instrument	Shinhan Bank and others	15	15	Deposits for current account
Other financial assets (non-current)	Other comprehensive income - Fair value	Busan city hall			Payment guarantee
			9,891	12,782	
	Total		₩ 136,529	133,908	

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7. Fair value of Financial Instruments

(a) Carrying amount and fair value of financial assets as of December 31, 2022 and 2021 are summarized as follows:

(in millions of Korean won)

		<u>2022</u>	<u>2021</u>
Financial assets measured at fair value (*1):			
	Current assets:		
	Short-term financial instruments	₩ 113,000	113,000
	Current derivatives assets held for trading	-	2,992
Fair value through profit or loss	Non-current assets:		
	Long-term financial instruments	20,024	-
	Non-current debt instruments	4,523	3,937
	Non-current derivatives assets held for trading	22,922	38,077
	Subtotal	<u>160,469</u>	<u>158,006</u>
	Current assets:		
	Current debt instruments	379	702
Fair value through other comprehensive income	Non-current assets:		
	Non-current equity instruments	68,635	94,644
	Non-current debt instruments	4,643	5,164
	Subtotal	<u>73,657</u>	<u>100,510</u>
	Current derivatives assets held for hedging	21,905	5,230
Derivatives assets	Non-current derivatives assets held for hedging	41,805	17,032
	Subtotal	<u>63,710</u>	<u>22,262</u>
	Total financial assets measured at fair value	<u>297,836</u>	<u>280,778</u>
Financial assets not being measured at fair value:			
	Current assets:		
	Cash and cash equivalents	1,166,440	1,574,016
	Trade and other receivables	572,039	432,784
	Short-term financial instruments	585,009	326,372
	Short-term loans	5,147	56,217
	Accrued income	4,194	2,575
Financial assets at amortized cost (*2)	Current portion of lease deposit	70,485	105,185
	Non-current assets:		
	Long-term financial instruments	8,625	1,811
	Deposits for current account	15	15
	Long-term loans	343	7,089
	Accrued income	249	-
	Long-term account receivables	141,565	145,557
	Lease deposit	975,841	975,227
	Subtotal	<u>3,529,952</u>	<u>3,626,848</u>
	Total financial assets not being measured at fair value:	<u>3,529,952</u>	<u>3,626,848</u>
	Total financial assets	<u>₩ 3,827,788</u>	<u>3,907,626</u>

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

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

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7. Fair value of Financial Instruments, continued

(b) Other financial assets as of December 31, 2022 and 2021 are summarized as follows:

<i>(in millions of Korean won)</i>		2022	2021
Current:			
Short-term financial instruments	₩	698,009	439,372
Short-term loans		5,147	56,217
Accrued income		4,194	2,575
Current portion of lease deposits		70,485	105,186
Current debt instruments		379	702
Current derivatives assets held for hedging		21,905	5,230
Current derivatives assets held for trading		-	2,992
Total		<u>800,119</u>	<u>612,274</u>
Non-current:			
Long-term financial instruments		28,650	1,811
Deposits for current account		15	15
Long-term loans		343	7,089
Accrued income		249	-
Lease deposits		975,841	975,227
Non-current equity instruments		68,635	94,644
Non-current debt instruments		9,165	9,101
Non-current derivatives assets held for hedging		41,804	17,032
Non-current derivatives assets held for trading		22,922	38,077
Total	₩	<u>1,147,624</u>	<u>1,142,996</u>

(c) Financial assets at fair value through other comprehensive income as of December 31, 2022 and 2021 are summarized as follows:

(i) Equity instruments

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

			2022		2021
	Number of shares (in shares)	Percentage of ownership	Acquisition cost	Carrying amount	Carrying amount
Marketable equity instruments measured at fair value through other comprehensive income:					
BNK Financial Group Inc.	8,543,826	2.62%	₩ 56,179	55,535	71,768
Shinhan Financial Group Co., Ltd.	311,118	0.06%	2,247	10,951	11,449
Subtotal			<u>58,426</u>	<u>66,486</u>	<u>83,217</u>
Non-marketable equity instruments measured at fair value through other comprehensive income:					
Lotte Properties (Shenyang) Limited	101,648,756	17.93%	124,516	-	9,652
Others	-	-	677	2,148	1,775
Subtotal			<u>125,193</u>	<u>2,148</u>	<u>11,427</u>
Total			₩ <u>183,619</u>	<u>68,634</u>	<u>94,644</u>

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7. Fair value of Financial Instruments, continued

(d) Financial assets at fair value through other comprehensive income as of December 31, 2022 and 2021 are summarized as follows:, continued

(ii) Debt instruments

(in millions of Korean won)

		2022	2021
		Acquisition cost	Carrying amount
National housing bond	₩	5,223	5,022
Urban railway bond		-	-
Total	₩	5,223	5,022

(c) Carrying amount and fair value of financial liabilities as of December 31, 2022 and 2021 are summarized as follows:

(in millions of Korean won)

		2022	2021
Financial liabilities measured at fair value:			
Derivatives liabilities	Current derivatives liabilities held for hedging	₩ -	288
	Non-current derivatives liabilities held for hedging	16,101	903
	Subtotal	16,101	1,191
Total financial liabilities measured at fair value:		16,101	1,191

Financial liabilities not being measured at fair value:

	Current:		
	Trade payables and other payables	2,026,175	1,800,314
	Short-term borrowings	200,000	-
	Current portion of long-term borrowings	997,326	200,000
	Current portion of long-term debentures	944,878	1,028,170
	Accrued expenses	98,732	90,951
Financial liabilities at amortized cost (*)	Current portion of rental deposits	149,340	195,546
	Non-current:		
	Other payables	3,920	-
	Long-term borrowings	944,876	293,194
	Long-term debentures	2,921,288	3,205,777
	Rental deposits	123,530	77,811
	Others	3,316	4,620
	Subtotal	8,413,381	6,896,383
Other financial liabilities	Current lease liabilities	750,263	578,277
	Non-current lease liabilities	4,530,458	5,299,157
	Financial guarantee liabilities	149,401	89,815
	Subtotal	5,430,122	5,967,249
Total financial liabilities not being measured at fair value:		13,843,503	12,863,632
Total financial liabilities	₩	13,859,604	12,864,823

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

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7. Fair value of Financial Instruments, continued

(d) Other financial liabilities as of December 31, 2022 and 2021 are summarized as follows:

<i>(in millions of Korean won)</i>		2022	2021
Current:			
Current derivatives liabilities held for hedging	₩	-	288
Financial guarantee liabilities		149,401	89,815
Accrued expenses		98,732	90,951
Current portion of rental deposits		149,340	195,546
Total		<u>397,473</u>	<u>376,600</u>
Non-current:			
Non-current derivatives liabilities held for hedging		16,101	903
Rental deposits		123,530	77,811
Others		3,316	4,620
Total	₩	<u>142,947</u>	<u>83,334</u>

(e) Fair value hierarchy

Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

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

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

(f) Fair value hierarchy, continued

The fair value measurements of financial instruments that are measured at fair value, classified by fair value hierarchy as of December 31, 2022 and 2021 are as follows:

(i) December 31, 2022

(in millions of Korean won)

		2022			
		Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss	₩	-	-	160,469	160,469
Financial assets at fair value through other comprehensive income		66,486	5,022	2,148	73,656
Derivatives assets held for hedging		-	63,710	-	63,710
Total		66,486	68,732	162,617	297,835
Derivatives liabilities held for hedging		-	16,101	-	16,101
Total	₩	-	16,101	-	16,101

(ii) December 31, 2021

(in millions of Korean won)

		2021			
		Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss	₩	-	-	158,006	158,006
Financial assets at fair value through other comprehensive income		83,217	5,867	11,427	100,511
Derivatives assets held for hedging		-	22,262	-	22,262
Total		83,217	28,129	169,433	280,779
Derivatives liabilities held for hedging		-	1,191	-	1,191
Total	₩	-	1,191	-	1,191

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

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

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7. Fair value of Financial Instruments, continued

(f) Level 3 Fair values

Changes in Level 3 fair values as of December 31, 2022 and 2021 are as follows:

<i>(in millions of Korean won)</i>		2022	2021
Beginning of the year	₩	169,433	119,428
Total income (loss) for the year		2,495	(1,433)
Gain (loss) included in profit and loss		11,773	51,327
Gain (loss) included in OCI		(9,278)	(52,760)
Purchases		20,000	64,802
Disposal, etc.		(29,310)	(13,364)
End of the year	₩	162,618	169,433

(g) Sensitivity analysis

For the fair values of Level 3 financial instruments, reasonably possible changes as of December 31, 2022 to one of the significant unobservable inputs, holding other inputs constant, would have the following effects on the fair values:

(i) Settlement agreement

<i>(in millions of Korean won)</i>		Discount rate	
		5% Decrease	5% Increase
Settlement agreement	₩	106	(105)

(ii) Stock Option

<i>(in millions of Korean won)</i>		Stock price	
		5% Decrease	5% Increase
Stock Option (Assets)	₩	(598)	663
		Stock price volatility	
		5% Decrease	5% Increase
	₩	(1,364)	3,304

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8. Inventories

(a) Inventories as of December 31, 2022 and 2021 are summarized as follows:

<i>(in millions of Korean won)</i>		2022	2021
Merchandise	₩	392,537	380,152
Valuation allowance		(7,421)	(8,696)
Finished goods		11,387	14,852
Valuation allowance		-	-
Semi-finished goods		47	5
Raw materials		8,067	10,629
Ingredients		71	68
Supplies		643	436
Materials-in-transit		17,545	11,287
Unsold building		2,907	-
Unfinished building		6,949	3,605
Land		12,772	16,307
Packing materials		1,147	813
Total	₩	446,651	429,458

(b) For the years ended December 31, 2022 and 2021, the amount of inventories recognized as cost of goods sold and changes of allowance for valuation losses of inventories are as follows:

<i>(in millions of Korean won)</i>		2022	2021
Cost of goods sold:			
Amount of inventories recognized as cost of goods sold	₩	4,121,190	4,146,420
Decrease in valuation allowance of inventories		(1,275)	(3,201)

9. Other Non-financial Assets

Other non-financial assets as of December 31, 2022 and 2021 are summarized as follows:

<i>(in millions of Korean won)</i>		2022	2021
Current:			
Advance payments	₩	14,407	12,744
Prepaid expenses		18,617	10,106
Other non-financial assets		390	326
Total		33,414	23,176
Non-current:			
Long-term advance payments		932	830
Long-term prepaid expenses		1,086	1,293
Total	₩	2,018	2,123

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

Assets held for sale as of December 31, 2022 and 2021 are summarized as follows:

<i>(in millions of Korean won)</i>		<u>2022</u>	<u>2021</u>
Equity instruments and etc. (*1)	₩	30,938	23,846
Land, etc. (*2)		<u>5</u>	<u>85,149</u>
Total	₩	<u>30,943</u>	<u>108,995</u>

(*1) The Company classified LOTTE PROPERTIES HCMC COMPANY LIMITED's 12% equity interests (₩ 23,846 million) of the 40%, Investments in associates, as assets held for sale during year 2021 and the company classified LOTTE HOTEL & RETAIL VIETNAM PTE. LTD.'s 10% equity interests (₩ 7,093 million) of the 20%, Investments in subsidiaries, as assets held for sale during year 2022.

(*2) The Company returned VIC market-Kintex store (₩ 85,149 million), which was classified as assets held for sale in year 2020, to investment property during year 2022.

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11. Investments in Associates

The details of associates as of December 31, 2022 and 2021 are summarized as follows:

<i>(in millions of Korean won)</i>		2022			
Company	Location	Major operation	Percentage of ownership (%)		Book value
FRL Korea Co., Ltd.	Korea	Import and selling of clothing	49.00	₩	24,827
Zara Retail Korea Co., Ltd.	Korea	Import and selling of clothing	20.00		16,106
Coralis S.A. (*1)	Luxembourg	Holding company	22.50		39,372
LOTTE PROPERTIES HCMC COMPANY LIMITED	Vietnam	Real estate development	40.00		55,641
Lotte start-up fund No. 1 (*2)	Korea	Investment on new technology	7.35		2,000
Prototype	Korea	Service	20.00		-
Lotte-KDB Open Innovation Fund	Korea	Investment on new technology	25.52		16,000
Lotte Card Co., Ltd.	Korea	Credit finance business, etc.	20.00		325,239
Eugene Unicorn Private Equity Fund (*3)	Korea	Finance business	47.06		12,395
Hyundai Infiniti Private Equity Real Estate Investment Trust No.1 (*4)	Korea	Finance business	19.99		10,857
INNOCEAN WORLDWIDE INC. (*5)	Korea	Advertising	5.15		46,565
MUJIKOREA CO.LTD	Korea	Sale of household goods	40.00		350
Total				₩	<u>549,352</u>

<i>(in millions of Korean won)</i>		2021			
Company	Location	Major operation	Percentage of ownership (%)		Book value
FRL Korea Co., Ltd.	Korea	Import and selling of clothing	49.00	₩	24,827
Zara Retail Korea Co., Ltd.	Korea	Import and selling of clothing	20.00		16,106
Coralis S.A. (*1)	Luxembourg	Holding company	45.00		-
LOTTE PROPERTIES HCMC COMPANY LIMITED	Vietnam	Real estate development	40.00		55,641
Lotte start-up fund No. 1 (*2)	Korea	Investment on new technology	7.35		2,000
Prototype	Korea	Service	20.00		-
Lotte-KDB Open Innovation Fund	Korea	Investment on new technology	25.52		11,200
Lotte Card Co., Ltd.	Korea	Credit finance business, etc.	20.00		325,239
Eugene Unicorn Private Equity Fund (*3)	Korea	Finance business	47.06		30,000
Hyundai Infiniti Private Equity Real Estate Investment Trust No.1 (*4)	Korea	Finance business	-		-
INNOCEAN WORLDWIDE INC. (*5)	Korea	Advertising	-		-
MUJIKOREA CO.LTD	Korea	Sale of household goods	-		-
Total				₩	<u>465,013</u>

(*1) The Company recognized ₩ 78.7 billion as a reversal of impairment losses on shares in Coral S.A., an investment in associates and sold 22.5 % equity interest of 45% during year 2022.

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

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11. Investments in Associates, continued

(*3) The Company performed an impairment test for the investee companies based on external valuation agency and, as a result of the impairment test, recognized impairment loss for the years ended December 31, 2022 and 2021 as follows.

<i>(in millions of Korean won)</i>		2022	2021
Eugene Unicorn Private Equity Fund	₩	17,605	-
	₩	17,605	-

(*4) Although the company holds less than 20% of the voting rights in Hyundai Infiniti Private Equity Real Estate Investment Trust No.1 acquired during year 2022, the company classified Hyundai Infiniti Private Equity Real Estate Investment Trust No.1 as associates because the company can exercise significant influence in decision making process to change collective investors of Hyundai Infiniti Private Equity Real Estate Investment Trust No.1.

(*5) Although the company holds less than 20% of the voting rights in INNOCEAN WORLDWIDE INC. acquired during year 2022, the company classified INNOCEAN WORLDWIDE INC. as associates because the company can exercise significant influence on major business and financial policy by participating in the board of directors.

12. Investments in Joint Ventures

The details of joint ventures as of December 31, 2022 and 2021 are summarized as follows:

<i>(in millions of Korean won)</i>				
			2022	
Company	Location	Major operation	Percentage of ownership (%)	Carrying amount
STL Co., Limited	Korea	Import and selling of clothing	50.00	₩ 1,784
LOTTE JTB Co., Ltd.	Korea	Travel business	50.00	896
				₩ 2,680

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

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13. Investments in Subsidiaries

(a) The details of subsidiaries as of December 31, 2022 and 2021 are summarized as follows:

(in millions of Korean won)	2022			
	Name of entity	Location	Major operation	Percentage of ownership (%) (*1) Book Value
	Woori Home Shopping & Television Co., Ltd.	Korea	TV Home Shopping	53.49 ₩ 396,883
	Lotte Gimhae Development Co., Ltd.	Korea	Building Maintaining Service company	100.00 300
	Lotte Suwon Station Shopping Town Co., Ltd. (*2)	Korea	Real estate development	100.00 23,478
	LOTTE Songdo Shopping Town CO., LTD (*7)	Korea	Real estate development	- -
	Lotte GFR Co., Ltd. (*2)	Korea	Apparel manufacturing and selling	99.97 12,070
	CS Mart Co., Ltd.	Korea	Distribution	99.95 111,677
	LOTTE Himart Co., Ltd. (*2, 3)	Korea	Consumer electronics retail	65.25 879,160
	LOTTE SHOPPING HOLDINGS (SINGAPORE) PTE. LTD. (*2)	Singapore	Holding company	100.00 457,262
	LOTTE PROPERTIES (CHENGDU) HK LIMITED (*2)	Hong Kong	Holding company	73.46 -
	Lotte (China) Management Co., Ltd. (*6)	China	Managing company	- -
	LOTTE HOTEL & RETAIL VIETNAM PTE. LTD. (*2,5)	Singapore	Holding company	20.00 7,093
	Lotte Ulsan Development Co., Ltd.	Korea	Real estate development	96.83 24,783
	LOTTE PROPERTIES HANOI (SINGAPORE) PTE. LTD.	Singapore	Holding company	90.00 299,040
	Lotte Cultureworks Co., Ltd.	Korea	Cinema	86.37 234,589
	Lotte corporate venture fund No. 1 (*4)	Korea	Investment on new technology	18.78 400
	Lotte DMC Development Co., Ltd.	Korea	Real estate business, real estate lease	95.00 4,750
	Lotte Incheon Town Co., Ltd	Korea	Real estate development	100.00 101,894
	LOTTE REIT Co., Ltd.	Korea	Real estate development	50.00 441,366
	LOTTE Town Dongtan Co., LTD (*7)	Korea	Real estate development	- -
	Lotte Incheon Development Co., Ltd (*7)	Korea	Real estate development	- -
	LOTTE Shopping Town Daegu Co., LTD (*7)	Korea	Real estate development	- -
	Lotte Department Store (Shenyang) Co., Ltd.	China	Department Store	100.00 -
	Lotte Department Store (Chengdu) Co., Ltd. (*2)	China	Department Store	100.00 -
	LOTTE Shopping Innovation Fund 1	Korea	Investments in new technology	99.00 29,700
	IMM Heim Coinvestment I Private Equity Fund (*2)	Korea	Assets managements	83.71 118,488
	SMART LOTTE SHOPPING INNOVATION FUND	Korea	Investment on new technology	69.08 8,400
				₩ 3,151,333

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

(a) The details of subsidiaries as of December 31, 2022 and 2021 are summarized as follows:, continued

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

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

(*2) The Company recognized impairment loss during year 2021 and 2022. The recognized impairment loss is caused by worsened profit and loss, net assets reduction, etc. of subsidiaries.

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

(a) The details of subsidiaries as of December 31, 2022 and 2021 are summarized as follows:, continued

Impairment losses during the years ended December 31, 2022 and 2021 are as follows:

<i>(in millions of Korean won)</i>		2022	2021
Lotte Suwon Station Shopping Town Co., Ltd.	₩	13,789	17,315
Lotte GFR Co., Ltd.		71,244	3,071
LOTTE Himart Co., Ltd.		335,999	32,910
LOTTE SHOPPING HOLDINGS (SINGAPORE) PTE. LTD.		-	89,199
LOTTE HOTEL & RETAIL VIETNAM PTE. LTD.		-	243
LOTTE PROPERTIES (CHENGDU) HK LIMITED		30,698	93,616
Lotte Department Store (Chengdu) Co., Ltd.		31,657	-
IMM Heim Coinvestment I Private Equity Fund		141,012	-
Total	₩	624,399	236,354

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

-The cash flows of Lotte GFR Co., Ltd., LOTTE Himart Co., Ltd., Lotte Department Store (Chengdu) Co., Ltd., and IMM Heim Coinvestment I Private Equity Fund were calculated in consideration of past average growth rate based on past experience, actual operating results, and business plans for the next five years and objective average growth rate estimated by external professional institution. The cash flows after five years is estimated assuming a growth rate of 0% to 1.0%.

-The cash flows of Lotte Suwon Station Shopping Town Co., Ltd were estimated and calculated based on experience, actual operating results, estimated rent increase rate until year 2044.

-In order to estimate a value in use, the weighted average cost of capital of 5.55% to 13.05% in year 2022 was used.

(*3) The Company issued an exchangeable bond which are exchangeable for common stocks of LOTTE Himart Co., Ltd. described in Note 18. Meanwhile, due to the exercise of the bondholders' right to claim early repayment, 272.0 billion won out of a total of 303.6 billion won in exchange bonds was repaid early during the current period. As a result, the total number of shares subject to exchange has been changed from 3,536,812 shares to 368,127 shares and if exchanged in full, our share in LOTTE Himart Co., Ltd. may be reduced from 65.25% to 63.69%, however there is no influence on the controlling ability of the Company on LOTTE Himart Co., Ltd.

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

(*5) LOTTE SHOPPING HOLDINGS (SINGAPORE) PTE. LTD., a subsidiary of the Company, owns 40.00% of the common shares and recognized 3.2 billion won as a reversal of impairment loss during year 2022. Meanwhile, the company classified LOTTE HOTEL & RETAIL VIETNAM PTE. LTD.'s 10% equity interest of 20% as assets held for sale and recognized 1.5 billion won as a reversal of impairment loss during year 2022.

(*6) Lotte (China) Management Co., Ltd. have been liquidated during year 2022.

(*7) The company merged LOTTE Songdo Shopping Town CO., LTD, LOTTE Town Dongtan Co.,LTD, Lotte Incheon Development Co., Ltd, and LOTTE Shopping Town Daegu Co.,LTD (See note 41).

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

(b) The fair value of marketable shares in subsidiaries as of December 31, 2022 and 2021 are as follows:

<i>(in millions of Korean won)</i>		2022	2021
LOTTE Himart Co., Ltd.	₩	188,690	387,392
LOTTE REIT Co., Ltd.		484,723	674,239

14. Property, Plant and Equipment

(a) Details of property, plant and equipment as of December 31, 2022 and 2021 are summarized as follows:

<i>(in millions of Korean won)</i>		2022				2021			
		Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Book value	Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Book value
Land	₩	6,657,710	-	-	6,657,710	5,735,429	-	-	5,735,429
Buildings		5,387,934	(2,176,588)	(1,288)	3,210,058	4,739,517	(1,967,835)	-	2,771,682
Structures		293,963	(136,328)	(27,375)	130,260	292,013	(127,942)	(23,817)	140,254
Machinery		115,469	(62,113)	(33,552)	19,804	109,033	(55,724)	(15,202)	38,107
Vehicles		4,291	(3,799)	(260)	232	4,347	(3,884)	(249)	214
Display fixtures		50,241	(50,084)	(33)	124	50,691	(50,682)	(6)	3
Tools and equipment		3,954,405	(3,093,644)	(240,885)	619,876	3,834,306	(3,007,353)	(214,254)	612,699
Construction-in-progress		547,260	-	-	547,260	405,285	-	(8,847)	396,438
Total	₩	17,011,273	(5,522,556)	(303,393)	11,185,324	15,170,621	(5,213,420)	(262,375)	9,694,826

(b) Changes in property, plant and equipment for the year ended December 31, 2022 are as follows:

<i>(in millions of Korean won)</i>		2022						
		Beginning balance	Acquisitions	Merger	Depreciation	Impairment	Disposals	Ending balance
Land	₩	5,735,429	3,021	1,008,422	-	-	(1,141)	6,657,710
Buildings		2,771,682	4,922	558,660	(116,699)	(1,288)	(1,252)	3,210,058
Structures		140,254	53	-	(8,599)	(3,558)	-	130,260
Machinery		38,107	1,899	-	(6,491)	(18,350)	(94)	19,804
Vehicles		214	134	20	(126)	(11)	-	232
Display fixtures		3	176	-	(29)	(26)	-	124
Tools and equipment		612,699	211,782	17,849	(221,525)	(44,498)	(8,690)	619,876
Construction-in-progress		396,438	197,014	62,084	-	(2,675)	(840)	547,260
Total	₩	9,694,826	419,001	1,647,035	(353,469)	(70,406)	(12,017)	11,185,324

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

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

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

(in millions of Korean won)

(in millions of Korean won)

		2021							
		Beginning balance	Acquisitions	Business Transfer	Depreciation	Impairment	Disposals	Others (*)	Ending balance
Land	₩	5,754,806	533	-	-	-	(407,581)	387,671	5,735,429
Buildings		2,787,021	12,866	-	(109,197)	-	(381,092)	462,084	2,771,682
Structures		147,663	282	-	(9,041)	(3,166)	-	4,516	140,254
Machinery		36,008	2,663	-	(5,975)	(18)	(236)	5,665	38,107
Vehicles		293	52	-	(131)	-	-	-	214
Display fixtures		15	-	-	(12)	-	-	-	3
Tools and equipment		428,246	164,079	7,695	(198,483)	(12,891)	(8,249)	232,302	612,699
Construction-in-progress		608,769	440,059	-	-	(7)	-	(652,383)	396,438
Total	₩	9,762,821	620,534	7,695	(322,839)	(16,082)	(797,158)	439,855	9,694,826

(*) Others include reclassification between accounts and etc.

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

(d) The Company performed impairment test for cash generating units for the years ended December 31, 2022 and 2021 that have indication of impairment, and the details of impairment losses are summarized as follows. The Company has calculated recoverable amounts for cash generating units that have indication of impairment based on financial plans for a particular period which have been approved by management.

(in millions of Korean won)

		2022				
		Department store	Discount store	Supermarket	E-Commerce	Total
Impairment loss on property, plant and equipment	₩	15,841	13,345	8,285	32,934	70,405
Impairment loss on right-of-use assets		72,216	63,274	11,905	18,518	165,913
Impairment loss on intangible assets (excluding goodwill)		43	-	582	49,815	50,440
Impairment loss on goodwill		-	-	357	-	357
Total	₩	88,100	76,619	21,129	101,267	287,115

(in millions of Korean won)

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

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

- The cash flows were estimated based on experience, actual historical results of operations and business plan.
- The annual revenue growth rate for the following 5-years was estimated based on an analysis of average revenue growth rates in the past and objective growth rates estimated by external agencies. The cash flow after the 5-year period is estimated based on an assumption of inconstant growth rate about 0.0% ~ 1.0%.
- For the department store, discount store, and supermarket, weighted average cost of capital was applied at discount rate of 6.69% (2021:7.34%) and e-commerce was applied at discount rate of 9.93% (2021:7.34%), in determining recoverable amount of each cash-generating units for peer industry.

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

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

(e) Reason of pledged property, plant and equipment provided by the Company as of December 31, 2022 are as follows:

<i>(in millions of Korean won)</i>		2022			
Pledged assets		Book amount	Guaranteed amount	Reason of pledged	Guarantee recipient
Buildings	₩	325,466	179,578	Borrowings, Security deposit for lease	Shinhan Bank and others
Land		921,492	918,409	Borrowings, Provisional attachment on interests	National Health Insurance Service and others

(f) The capitalized borrowing costs and capitalization interest rates for the years ended December 31, 2022 and 2021 are as follows:

<i>(in millions of Korean won)</i>		2022	2021
Capitalized borrowing costs	₩	8,393	3,150
Capitalization interest rates		2.79%	2.40%

LOTTE SHOPPING CO.,LTD.
Notes to the Separate Financial Statements
As of December 31, 2022 and 2021

15. Investment Property

(a) Investment property as of December 31, 2022 and 2021 are summarized as follows:

		2022				2021			
		Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Book value	Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Book value
(in millions of Korean won)									
Land	₩	981,642	-	-	981,642	472,615	-	-	472,615
Buildings		541,123	(227,037)	-	314,086	429,112	(194,498)	-	234,614
Right-of-use assets		312,347	(73,991)	(39,389)	198,967	309,802	(49,286)	(36,656)	223,860
Total	₩	1,835,112	(301,028)	(39,389)	1,494,695	1,211,529	(243,784)	(36,656)	931,089

(b) Changes in investment property for the year ended December 31, 2022 are as follows:

		2022				
		Beginning balance	Depreciation	Merger	Others (*)	Ending balance
(in millions of Korean won)						
Land	₩	472,615	-	377,343	131,684	981,642
Buildings		234,614	(21,337)	32,548	68,261	314,086
Right-of-use assets		223,860	(23,023)	-	(1,870)	198,967
Total	₩	931,089	(44,360)	409,891	198,075	1,494,695

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

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

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

(*) Others include reclassification between accounts and etc.

(d) Income and expense from investment property

The details of income and expense from investment property for the years ended December 31, 2022 and 2021 are as follows:

		2022	2021
(in millions of Korean won)			
Rental income	₩	120,938	109,719
Direct operating expense (including maintenance and repair expenses)		42,362	35,549

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15. Investment Property, continued

(e) Fair value of investment property as of December 31, 2022 is as follows:

<i>(in millions of Korean won)</i>	Location	Book value	Fair value
Land and buildings	40-1 Jamsil-dong, Songpa-gu, Seoul and 149 more.	₩ 1,494,695	4,551,770

16. Goodwill and Intangible Assets

(a) Intangible assets as of December 31, 2022 and 2021 are summarized as follows:

<i>(in millions of Korean won)</i>		2022				2021			
		Acquisition cost	Accumulated amortization	Accumulated impairment losses	Book value	Acquisition cost	Accumulated amortization	Accumulated impairment losses	Book value
Goodwill	₩	680,339	-	(567,933)	112,406	599,203	-	(570,902)	28,301
Industrial property rights		7,830	(6,952)	(508)	370	8,006	(7,008)	(435)	563
Rights to use facility		39,271	(38,492)	(608)	171	39,394	(38,201)	(608)	585
Membership		17,276	-	(2,187)	15,089	15,743	-	(2,006)	13,737
Other intangible assets		201,103	(121,917)	(57,288)	21,898	166,249	(91,930)	(7,290)	67,029
Total	₩	945,819	(167,361)	(628,524)	149,934	828,595	(137,139)	(581,241)	110,215

(b) Changes in intangible assets and goodwill for the year ended December 31, 2022 are as follows:

<i>(in millions of Korean won)</i>		2022						
		Beginning balance	Acquisitions	Merger	Amortization	Impairment	Disposals	Ending balance
Goodwill	₩	28,301	-	84,516	-	(357)	(54)	112,406
Industrial Property rights		563	113	-	(193)	(106)	(40)	370
Rights to use facility		585	-	-	(414)	-	-	171
Membership		13,737	1,533	-	-	(181)	-	15,089
Other Intangible assets		67,029	4,951	318	(20,199)	(50,152)	(385)	21,898
Total	₩	110,215	6,597	84,834	(20,806)	(50,796)	(479)	149,934

(*) Others include reclassification between accounts and etc.

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16. Goodwill and Intangible Assets, continued

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

(in millions of Korean won)

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

(*) Others include reclassification between accounts and etc.

(d) Details of the goodwill allocated to the Company of cash-generating units as of December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

		2022	2021
Department store	₩	104,656	20,156
Discount store		16	-
Supermarket		2,873	3,284
E-commerce		4,860	4,860
Total	₩	112,405	28,300

The impairment losses on goodwill are recognized because part of book value of cash generating unit exceeded recoverable amount during the year 2022 and 2021.

(in millions of Korean won)

		2022	2021
Department Store	₩	-	36,800
Supermarket		357	53
Total	₩	357	36,853

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

17. Trade and Other Payables

Details of trade and other payables as of December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

		2022	2021
Current:			
Trade payables	₩	312,294	309,208
Other payables		1,713,881	1,491,106
Total		2,026,175	1,800,314
Non-current:			
Long-term payables		3,920	-
Total	₩	3,920	-

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18. Borrowings and Debentures

(a) Borrowings and debentures as of December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

		2022	2021
Current:			
Short-term borrowings	₩	200,000	-
Current portion of long-term borrowings		1,000,000	200,000
Current portion of discount on long-term borrowings		(2,674)	-
Current portion of long-term debentures		945,060	1,028,700
Current portion of discount on long-term debentures		(741)	(154)
Current portion of debentures redemption premium		799	799
Exchange rights adjustment		(240)	(1,176)
Total		<u>2,142,204</u>	<u>1,228,169</u>
Non-current:			
Long-term borrowings		945,000	300,000
Discount on long-term borrowings		(124)	(6,806)
Long-term debentures		2,924,736	3,211,663
Discount on debentures		(3,448)	(5,885)
Total	₩	<u>3,866,164</u>	<u>3,498,972</u>

(b) Short-term borrowings as of December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

Lender	Details	Annual interest rate (%)		2022	2021
Korea Development Bank	General loan of local currency	3.77	₩	200,000	-

(c) Long-term borrowings as of December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

Lender	Details	Maturity	Annual interest rate (%)		2022	2021
Korea Development Bank	General loan of local currency	2022.06.02	-	₩	-	200,000
L Incheon 1st and others	Borrowings of local currency	2023.02.23	4.01		800,000	-
Mizuho Corporate Bank, Ltd.	General loan of local currency	2024.08.16	1.95		100,000	100,000
Mizuho Corporate Bank, Ltd.	General loan of local currency	2025.01.27	2.90		60,000	-
LD1Q 1st (Tr. A) and others	General loan of local currency	2024.10.28	3.46		390,000	-
LD1Q 1st (Tr. B)	General loan of local currency	2024.10.28	3.40		100,000	-
Daishin Securities	Commercial paper	2023.07.14	2.16		200,000	200,000
Woori Bank(*)	General loan of local currency	2024.06.16	91 days, CD interest rate +1.58		195,000	-
S First L(*)	Borrowings of local currency	2024.06.24	91 days, CD interest rate+ 1.44		100,000	-
	Subtotal				<u>1,945,000</u>	<u>500,000</u>
	Less: Discount on borrowings				<u>(2,798)</u>	<u>(6,806)</u>
	Subtotal				<u>1,942,202</u>	<u>493,194</u>
	Less: Current portion of long-term borrowings, net of discount				<u>(997,326)</u>	<u>(200,000)</u>
	Total			₩	<u>944,876</u>	<u>293,194</u>

(*) As of December 31, 2022, 91days, CD interest rate: 3.98%

LOTTE SHOPPING CO.,LTD.
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As of December 31, 2022 and 2021

18. Borrowings and Debentures, continued

(d) Debentures as of December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

Description	Maturity	Annual interest rate (*1)		2022	2021
65-2nd placed	2022-03-03	-	₩	-	240,000
66-2nd placed	2022-06-23	-		-	50,000
66-3rd placed	2025-06-23	2.98%		140,000	140,000
70-3rd placed	2026-04-04	2.48%		70,000	70,000
72-2nd placed	2022-01-23	-		-	160,000
73-2nd placed	2022-06-15	-		-	150,000
73-3rd placed	2024-06-15	2.69%		100,000	100,000
74th placed	2022-06-29	-		-	50,000
75th placed	2024-08-07	2.74%		150,000	150,000
77-2nd placed	2023-05-30	2.96%		310,000	310,000
77-3rd placed	2028-05-30	3.47%		100,000	100,000
79th placed	2033-08-07	3.55%		70,000	70,000
80th placed	2038-08-29	3.40%		30,000	30,000
81st placed (foreign currency)	2022-01-28	-		-	118,550
82-1st placed	2022-01-28	-		-	110,000
82-2nd placed	2024-01-30	2.29%		150,000	150,000
82-3rd placed	2029-01-30	2.73%		140,000	140,000

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

(d) Debentures as of December 31, 2022 and 2021 are as follows:, continued

(in millions of Korean won)

Description	Maturity	Annual interest rate (*1)	2022	2021
83-1st placed	2024-08-29	1.59% ₩	100,000	100,000
83-2nd placed	2026-08-28	1.67%	70,000	70,000
83-3rd placed	2029-08-29	1.80%	110,000	110,000
84th placed (foreign currency)	2022-11-29	-	-	118,550
85th placed	2023-04-28	2.33%	350,000	350,000
86-1st placed	2025-07-18	2.20%	30,000	30,000
86-2nd placed	2030-07-19	2.58%	20,000	20,000
87-1st placed (foreign currency)	2023-08-18	3M USD Libor+1.40%	126,730	118,550
87-2nd placed (foreign currency)	2023-08-21	3M USD Libor+1.30%	63,365	59,275
87-3rd placed (foreign currency)	2023-08-28	3M USD Libor+2.10%	63,365	59,275
88-1st placed	2025-09-23	2.07%	135,000	135,000
88-2nd placed	2030-09-23	2.55%	60,000	60,000
89-1st placed	2024-04-16	1.63%	170,000	170,000
89-2nd placed	2026-04-16	2.13%	190,000	190,000
89-3rd placed	2031-04-16	2.95%	35,000	35,000
90-1st placed (foreign currency)	2024-05-21	3M USD Libor+0.05%	126,730	118,550
90-2nd placed (foreign currency)	2024-05-20	0.53%	221,778	207,463
91st placed (foreign currency)	2024-08-19	0.86%	126,730	118,550
92nd placed (foreign currency)	2025.03.25	2.54%	202,768	-
93-1st placed	2024.09.06	4.75%	100,000	-
93-2nd placed	2025.09.05	4.86%	110,000	-
93-3rd placed	2027.09.07	4.93%	40,000	-
94th placed (foreign currency)	2025.11.28	4.87%	126,730	-
Exchangeable bonds (*2)	2023-04-04	-	31,600	31,600
Subtotal			3,869,796	4,240,363
Less: Discount on debentures			(4,189)	(6,039)
Debentures redemption premium			799	799
Less: Exchange rights adjustment			(240)	(1,176)
Total book value			3,866,166	4,233,947
Less: Current portion of debentures			(944,878)	(1,028,170)
Total		₩	2,921,288	3,205,777

(*1) As of December 31, 2022, 3M USD Libor: 4.75%

LOTTE SHOPPING CO.,LTD. **Notes to the Separate Financial Statements** **As of December 31, 2022 and 2021**

18. Borrowings and Debentures, continued

(d) Debentures as of December 31, 2022 and 2021 are as follows:, continued

(*2) The Company issued exchangeable bonds which are exchangeable for shares of LOTTE Himart Co., Ltd. and the terms and conditions are as follows: Meanwhile, ₩ 272.0 billion out of a total of ₩ 303.6 billion in exchange bonds was repaid early due to the exercise of the bond creditor's right to claim early repayment for the year ended December 31, 2021.

(1) Type of bonds:	Registered unguaranteed unsecured overseas exchangeable bonds
(2) Total face value of bonds(In Korean won):	₩ 303,600,000,000
(3) Bond interest rate	
Coupon rate (%):	-
Yield to maturity (%):	0.50%
(4) Date of bond maturity:	April 04, 2023
(5) Principal redemption method:	
i. Redemption on maturity date: Redemption in lump sum on the maturity date for the principal amount of bonds for which a condition for early redemption has not occurred and the exchange right has not been exercised.	
ii. Early redemption: The Company has a call option, whereas bond holders have a put option.	
(6) Put option by bondholders:	
The put option can be exercised if any of the following conditions occurs:	
i. After the third anniversary of the date of payment (April 04, 2021);	
ii. If any change of control occurs in the LOTTE Himart Co., Ltd.; or	
iii. The issued stocks of the Company are delisted from the stock exchange or their transaction is suspended for 30 consecutive transaction days or longer.	
(7) Call option by the Company:	
The call option can be exercised if any of the following conditions occurs:	
i. If the closing price of LOTTE Himart Co., Ltd. for 20 transactional days in 30 consecutive transaction days reaches 130% or more of the exchange price between 3 years from the issuance date (April 04, 2021) and 30 business days to the maturity date;	
ii. If the balance of bonds that has not been redeemed reaches less than 10% of the sum of the total issued amount (clean up call); or	
iii. Any additional tax burden arises due to the amendments of the related laws and regulations.	
(8) Matters relating to exchange:	
i. Exchange ratio (%):	100
ii. Exchange price (won per share):	₩ 85,840
iii. Type of shares to be issued following exchange:	Common shares of LOTTE Himart Co., Ltd.
iv. Period to apply for exchange:	
Start date:	May 14, 2018
End date:	March 24, 2023
v. Matters for the adjustment of exchange price:	
In case when a condition for re-adjustment of the exchange price has occurred, such as a stock dividend, the exchange price will be adjusted in accordance with the provisions in the relevant bonds purchase agreement.	

(e) Annual repayment schedule of long-term borrowings and debentures as of December 31, 2022 are as follows:

(in millions of Korean won)

		2022		
		Borrowings	Debentures	Total
2023.01.01 ~ 2023.12.31	₩	1,000,000	945,060	1,945,060
2024.01.01 ~ 2024.12.31		885,000	1,245,238	2,130,238
2025.01.01 ~ 2025.12.31		60,000	744,498	804,498
2026.01.01 ~ 2026.12.31		-	330,000	330,000
After 2027.1.1		-	605,000	605,000
Total	₩	1,945,000	3,869,796	5,814,796

LOTTE SHOPPING CO.,LTD.
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19. Unearned Revenues

The details of unearned revenues as of December 31, 2022 and 2021 are as follows:

<i>(in millions of Korean won)</i>		2022	2021
Current:			
Membership points (*)	₩	-	12
Other points (*)		57,530	55,070
Unearned rental income		346	2,641
Deferred income (*)		125,654	106,161
Subtotal		183,530	163,884
Non-current:			
Unearned rental income		10,005	7,443
Subtotal		10,005	7,443
Total	₩	193,535	171,327

(*) Deferred income for the years 2022 and 2021 include contract liabilities described in Note 29.

20. Provisions

(a) Changes in provisions for the year ended December 31, 2022 are as follows:

<i>(in millions of Korean won)</i>		Beginning balance	Increase	Utilization	Ending balance
Current:					
Provision for bonus payable	₩	-	21,581	(21,581)	-
Provision for sales return		1,039	147	(54)	1,132
Provision for restoration		3,139	1,842	(3,063)	1,918
Provisions for litigation		2,330	124	(1)	2,453
Other provisions		1,322	4,478	(174)	5,626
Provision for restructuring		649	4,038	(2,465)	2,222
Total		8,479	32,210	(27,338)	13,351
Non-current:					
Provision for restoration		160,043	3,242	(6,181)	157,104
Total	₩	160,043	3,242	(6,181)	157,104

LOTTE SHOPPING CO.,LTD.
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20. Provisions, continued

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

(in millions of Korean won)

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

21. Other Non-financial Liabilities

Other non-financial liabilities as of 31 December, 2022 and 2021 are summarized as follows:

(in millions of Korean won)

		2022	2021
Current:			
Withholdings	₩	71,615	73,619
Withholdings of value added tax		41,284	48,348
Advances received		1,096,739	1,026,444
Advance received for sale(construction)		8,962	10,885
Total	₩	<u>1,218,600</u>	<u>1,159,296</u>

LOTTE SHOPPING CO.,LTD.
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22. Employee Benefits

(a) Details of defined benefit liabilities as of December 31, 2022 and 2021 are summarized as follows:

<i>(in millions of Korean won)</i>		2022	2021
Present value of defined benefit obligations	₩	587,824	620,293
Fair value of plan assets		(763,544)	(725,157)
Defined benefit assets	₩	(175,720)	(104,864)

(b) Details of present value of other long-term employee benefits as of December 31, 2022 and 2021 are summarized as follows:

<i>(in millions of Korean won)</i>		2022	2021
Present value of other long-term employee benefits	₩	20,277	20,763

(c) Changes in the defined benefit obligations for the years ended December 31, 2022 and 2021, are as follows:

<i>(in millions of Korean won)</i>		2022	2021
Beginning balance	₩	620,293	705,326
Current service cost		64,397	82,201
Interest costs		18,259	17,015
Remeasurements:			
Actuarial loss from change in demographic assumptions		(1,192)	1,430
Actuarial loss from change in financial assumptions		(71,793)	(64,968)
Actuarial loss from experience adjustments		22,021	(20,001)
Subtotal		(50,964)	(83,539)
Benefit payments		(67,714)	(105,757)
Others		3,553	5,047
Ending balance	₩	587,824	620,293

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22. Employee Benefits, continued

(d) Changes in the plan assets for the years ended December 31, 2022 and 2021, are as follows:

<i>(in millions of Korean won)</i>		2022	2021
Beginning balance	₩	725,157	777,569
Return on plan assets		21,956	19,462
Remeasurements		(8,903)	(8,957)
Employer contribution		84,501	35,900
Benefit payments		(58,132)	(99,154)
Others		(1,035)	337
Ending balance	₩	<u>763,544</u>	<u>725,157</u>

The estimated contribution to the plan for the next annual reporting period is ₩ 62,449 million.

(e) The components of plan assets as of December 31, 2022 and 2021 are summarized as follows:

<i>(in millions of Korean won)</i>		2022	2021
Principal guaranteed insurance policies	₩	763,526	725,136
Contributions to the National Pension Fund		18	21
Total	₩	<u>763,544</u>	<u>725,157</u>

(f) Expenses recognized for the years ended December 31, 2022 and 2021 are as follows:

<i>(in millions of Korean won)</i>		2022	2021
Current service costs	₩	64,397	82,201
Interest costs		18,259	17,015
Return on plan assets		(21,956)	(19,462)
Contributions to defined contribution plans (*)		18,970	86,546
Long-term employee benefits		3,337	(286)
Total	₩	<u>83,007</u>	<u>166,014</u>

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

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22. Employee Benefits, continued

(g) Defined benefit obligation

① Actuarial assumptions

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

	<u>2022</u>	<u>2021</u>
Discount rate	5.18% ~ 5.81%	2.29%~3.42%
Expected rate of promotion	1.69% ~ 2.81%	1.33% ~ 2.63%
Expected rate of increase in salaries	1.00% ~ 4.03%	0.52% ~ 10.07%

② Sensitivity analysis

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

<i>(in millions of Korean won)</i>	<u>Increase</u>	<u>Decrease</u>
Discount rate (1%p movement) ₩	(36,201)	40,740
Expected rate of promotion (1%p movement)	41,676	(37,605)
Expected rate of increase in salaries (1%p movement)	35,742	(31,208)

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

(h) Maturity profile of defined benefit obligation

Information about the maturity profile of the defined benefit obligation as of December 31, 2022, is as follows:

<i>(in millions of Korean won)</i>		<u>Less than 1 year</u>	<u>Between 1-2 years</u>	<u>Between 2-5 years</u>	<u>Between 5-10 years</u>	<u>Over 10 years</u>
Benefits payment ₩		73,677	74,553	232,753	419,954	1,077,219

The weighted average duration of the defined benefit obligation is 7.37 years.

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23. Derivatives

(a) Details of derivatives outstanding as of December 31, 2022 are as follows:

Purpose	Type	Description
Risk hedge	Currency swaps	At the maturity of the swap, the principal and the interest payments for debentures in foreign currency based on floating rates are exchanged back with the principal and fixed interest rate payments in local currency.
	Interest swaps	Fixed interest is paid regarding variable interest of KRW and foreign currency borrowings.
Trade	Total return swap (*)	Cash flows of an investor in beneficiary are exchanged with contracted cash flows.
	Stock Options	The right to purchase shares in stock market.

(*) Total return swaps of the Company as of December 31, 2022 are as follows:

(in millions of Korean won)

Name	Guaranteed Buyer	Guaranteed Seller	Conclusion date of agreement	Maturity date	Agreement Amount	Underlying assets	Purpose of agreement	Description of agreement and settlement method	Special relationship with contract party or issuance company of underlying assets	Collateral	Brokerage financial company	Special agreement
TRS	LOTTE SHOPPING CO.,LTD.	LEP No. 1 Co., Ltd.,			₩ 30,000							
		LEP No. 2 Co., Ltd.	2021-04-29	2026-04-29	70,000			1. Settlement of differences between the selling price of underlying assets and the principal of investment			KB Securities	
		LEP No. 3 Co., Ltd.			50,000							
		LEP No. 4 Co., Ltd.			73,000							
		LOG No. 1 Co., Ltd.	2022-02-17	2025-02-17	40,000	Real estate investment trust related beneficiary certificates	Settlement of disposal of underlying assets				KB Securities	
		LOG No. 3 Co., Ltd.			24,300			2. Settlement of differences between the actual dividends and standard dividends on each dividend payment date (every 3 months)	None	None		-
		LOY No. 1 Co., Ltd.			57,000							
		LOY No. 2 Co., Ltd.	2022-12-15	2023-03-15	65,000						KB Securities	
		LOY No. 3 Co., Ltd.			41,000							
		Kimpo Hangang Park No. 1 Co., Ltd.	2022-12-15	2023-03-15	29,800						KB Securities	
		Kimpo Hangang Park No. 2 Co., Ltd.			120							

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23. Derivatives, continued

(b) Hedge accounting

As of December 31, 2022, the Company entered into currency swap contracts to hedge fair value risk that debentures issued in foreign currency redeemed on the maturity date are dependent on changes in foreign currency. The gain or loss arising from changes in fair value of derivatives are recognized as profit or loss for the period since gain or loss on foreign currency translation from the debentures issued in foreign currency can be hedged through the currency swap.

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

Details of derivative contracts for hedging as of December 31, 2022 are as follows:

(in millions of Korean won, full foreign currency)

Type	Description	Principal amount	Fixed exchange rate (in Korean won)	Variable rate	Swap rate	Maturity	Remark
Currency Swaps and Interest swaps	87-1st placed (foreign currency)	USD 100,000,000	₩ 1,193.80	3M USD Libor+2.05 %	2.26%	2023.08.18	Kookmin Bank
	87-2nd placed (foreign currency)	USD 50,000,000	1,193.30	3M USD Libor+1.30 %	1.47%	2023.08.21	KEB Hana Bank
	87-3rd placed (foreign currency)	USD 50,000,000	1,190.50	3M USD Libor+2.10 %	2.16%	2023.08.28	Credit Agricole
	90-1st placed (foreign currency)	USD 100,000,000	1,129.50	3M USD Libor+0.05 %	1.64%	2024.05.21	MUFG Bank
	90-2nd placed (foreign currency)	USD 175,000,000	1,129.50	1.53%	1.61%	2024.05.20	SMBC Bank
	91 placed (foreign currency)	USD 100,000,000	1,159.00	0.86%	1.96%	2024.08.19	MUFG Bank
	92 placed (foreign currency)	USD 160,000,000	1,212.00	2.54%	3.10%	2025.03.25	MUFG Bank
	94 placed (foreign currency)	USD 100,000,000	1,352.30	4.87%	5.77%	2025.11.28	MUFG Bank
Interest swaps	Short term borrowings	KRW 200,000	Not applicable	91 days CD rate +0.60%	1.72%	2023.03.17	Shinhan Bank

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23. Derivatives, continued

(c) Gain or loss on valuation of derivatives

Changes in the fair value of derivatives for the year ended December 31, 2022 are as follows:

(in millions of Korean won)

Purpose	Type	Amount	Remarks
Risk hedge	Currency swaps	₩ 47,383	Profit or loss (*1)
		(13,505)	Other comprehensive income (*2)
	Interest swaps	(740)	Other comprehensive income (*2)
Trade	Embedded derivatives	(529)	Profit or loss
	Total return swap	1,903	Profit or loss
	Stock options	(8,911)	Profit or loss

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

(*2) The aggregate amounts of loss on valuation of derivatives incurred as of December 31, 2022 are ₩ 14,245 million. The Company recognized accumulated other comprehensive loss of ₩ 10,961 million (less tax effects of ₩ 3,284 million).

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24. Share capital and Capital Surplus

(a) The share capital of the Company as of December 31, 2022 and 2021 are as follows:

<i>(in millions of Korean won, except for number of shares)</i>		2022	2021
Authorized shares (shares)		60,000,000	60,000,000
Par value per share (in thousands of Korean won)	₩	5	5
Number of shares issued (shares)		28,288,755	28,288,755
Share capital	₩	141,444	141,444

(b) Capital surplus as of December 31, 2022 and 2021 consists of the following:

<i>(in millions of Korean won)</i>		2022	2021
Additional paid-in capital	₩	3,414,873	3,414,873
Others		175,663	175,663
Total	₩	3,590,536	3,590,536

25. Capital Adjustments

Capital adjustments as of December 31, 2022 and 2021 are as follows:

<i>(in millions of Korean won)</i>		2022	2021
Treasury stocks	₩	3,803	3,803
Changes due to merger		52,687	14,423
Other capital adjustments		2,800,072	2,800,072
Total	₩	2,856,562	2,818,298

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26. Retained Earnings

(a) Details of retained earnings as of December 31, 2022 and 2021 are as follows:

<i>(in millions of Korean won)</i>		2022	2021
Legal reserves	₩	257,716	249,801
Voluntary reserves		8,520,052	8,370,052
Unappropriated deficit		(284,548)	291,333
	₩	<u>8,493,220</u>	<u>8,911,186</u>

(b) The appropriation of retained earnings for the years ended December 31, 2022 and 2021 are as follows:

<i>(in millions of Korean won)</i>		2022	2021
Unappropriated retained earnings carried over from prior year	₩	54,259	44,139
Remeasurements of net defined benefit liabilities		32,403	56,534
Gain/Loss from sale of equity instruments at fair value through other comprehensive income		-	(1,175)
Profit (Loss) for the year		(371,210)	191,835
Unappropriated deficit		(284,548)	291,333
Transfers such as voluntary reserves		400,000	-
Appropriation of retained earnings			
Legal reserve		9,329	7,916
Dividends (Cash dividend %):			
Common stock: ₩3,300(66%) in 2022 and ₩2,800(56%) in 2021		93,293	79,158
Voluntary reserve		-	150,000
		<u>102,622</u>	<u>237,074</u>
Unappropriated retained earnings to be carried forward	₩	<u>12,830</u>	<u>54,259</u>

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27. Accumulated Other Comprehensive Income (loss)

Changes in accumulated other comprehensive income (loss) for the years ended December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

		2022			
		Beginning balance	Changes for the year	Tax effects for the year	Ending balance
Fair value gain (loss) through other comprehensive income	₩	(67,486)	(26,188)	5,185	(88,489)
Cash flow hedge		(1,599)	(14,245)	3,284	(12,560)
	₩	<u>(69,085)</u>	<u>(40,433)</u>	<u>8,469</u>	<u>(101,049)</u>

(in millions of Korean won)

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

28. Earnings (losses) per Share

(a) Basic earnings (losses) per share for years ended December 31, 2022 and 2021 are as follows:

(in Korean won, except for number of shares)

		2022	2021
Profit (loss) for the year	₩	(371,210,162,864)	191,835,328,062
Weighted average number of common shares outstanding (in shares)		28,270,640	28,270,640
Basic Earnings (loss)	₩	<u>(13,131)</u>	<u>6,786</u>

(b) Diluted earnings (losses) per share

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

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29. Sales

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

<i>(in millions of Korean won)</i>			2022	2021
Revenue from contracts with customers	Sales of merchandise	₩	13,474,605	12,530,817
	Sales of products		619,358	656,220
	Other sales (*)		293,688	283,304
	Total sales		14,387,651	13,470,341
	Sales discounts and sales returns		(1,064,205)	(943,877)
	Provision for sales return and deferred sales		(247,933)	(229,222)
	Cost of specific sales		(5,797,282)	(5,193,052)
	Total sales deduction		(7,109,420)	(6,366,151)
	Revenue from other sources: rental revenue		1,536,186	1,304,014
	Total	₩	8,814,417	8,408,204

(*) During year 2022, other sales include government grant of ₩ 15,824 million received from Korea Agro-Fisheries & Food Trade Corporation and Korea Fisheries Association to promote agricultural consumption.

(b) The contract assets and liabilities of the Company recognized related to the revenue from contracts with customers as of December 31, 2022 and 2021 are as follows:

<i>(in millions of Korean won)</i>			2022	2021
Contract liabilities				
Customer loyalty program	₩		122,300	103,944
Gift vouchers			1,054,252	988,935
Advance payment for sale(Construction)			8,962	10,885
Other			42,862	36,012
Total	₩		1,228,376	1,139,776

(c) The amounts recognized as revenue and redemption of gift vouchers for the year ended December 31, 2022, in relation to contract liabilities carried forward from the year ended December 31, 2021 are as follows:

<i>(in millions of Korean won)</i>			2022	2021
Revenue				
Customer loyalty programs	₩		103,944	85,043
Others			34,831	23,166
Total			138,775	108,209
Collected				
Gift vouchers			476,663	422,338
Total	₩		476,663	422,338

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29. Sales, continued

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

(in millions of Korean won)

	<u>Book amount</u>	<u>1 year</u>	<u>Between 1-5 years</u>	<u>Over 5 years</u>
₩	1,054,252	555,206	494,322	4,724

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

Details of selling, general and administrative expenses and bad debt expenses for the years ended December 31, 2022 and December 31, 2021 are as follows:

(in millions of Korean won)

		<u>2022</u>	<u>2021</u>
Salaries and bonuses	₩	849,521	825,828
Retirement benefits		82,785	164,996
Long-term employee benefits		3,314	(276)
Employee benefits		181,006	160,870
Training expenses		9,247	6,584
Travel expenses		11,523	8,183
Vehicles maintenance expenses		1,417	1,221
Insurance premium		6,876	6,777
Taxes and dues		199,411	164,955
Entertainment expenses		953	852
Supplies expenses		40,678	40,339
Publication expenses		606	712
Communication expenses		9,256	8,891
Utility expenses		238,772	201,737
Repairs and maintenance		46,688	37,343
Paid rents		128,882	123,607
Depreciation		884,781	882,215
Amortization		20,791	24,453
Commission expenses		531,678	475,557
Service commission expenses		732,273	682,321
Advertising expenses		93,018	95,124
Samples expenses		303	184
Sales commissions		109,108	101,126
Sales promotion expenses		78,553	61,616
Decoration expenses		29,464	19,486
Bad debt expense		1,856	1,361
Transportation expenses		39,915	34,397
Research and development expenses		156	250
Compensation expenses		7,225	20,213
Provisions		(2,161)	(3,066)
Others		1,316	710
Total	₩	<u>4,339,211</u>	<u>4,148,566</u>

LOTTE SHOPPING CO.,LTD.
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31. Other Income and Expenses

Details of other income and expenses for the years ended December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

		2022	2021
Other income:			
Gain on foreign currency transactions	₩	1,400	1,256
Gain on foreign currency translation		-	914
Gain on disposal of property, plant and equipment		2,731	51,409
Gain on disposal of intangible assets		-	360
Gain on termination of financial lease		56,455	83,121
Gain on disposal of right-of-use assets		30,577	53,836
Gain on bargain purchase		-	18,172
Gain on disposal of assets held for sale		-	121,728
Miscellaneous gains		25,910	36,492
Total	₩	<u>117,073</u>	<u>367,288</u>
Other expenses:			
Loss on foreign currency transactions	₩	2,414	1,303
Loss on foreign currency translation		306	-
Loss on disposal of property, plant and equipment		9,207	5,339
Impairment loss on right-of-use assets		165,913	303,864
Impairment loss on property, plant and equipment		70,405	16,082
Loss on disposal of intangible assets		473	6,675
Impairment loss on intangible assets and goodwill		50,797	38,094
Loss on termination of lease		1,817	22,012
Loss on disposal of right-of-use assets		6,576	13,110
Loss on disposal of assets held for sale		-	32
Donations		8,393	7,188
Other bad debt expense		2,752	19
Miscellaneous losses		7,027	2,219
Total	₩	<u>326,080</u>	<u>415,937</u>

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32. Nature of expenses

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

<i>(in millions of Korean won)</i>		2022	2021
Purchase of inventories	₩	4,100,733	4,123,756
Changes in inventories		(10,729)	15,288
Employee benefits		1,129,041	1,164,782
Paid rents		131,135	126,124
Depreciation and amortization		911,241	913,391
Sales commissions		109,108	101,126
Sales promotion expenses		78,553	61,616
Commission expenses		532,012	475,896
Service expenses		748,823	700,056
Advertising expenses		93,018	95,124
Utility expenses		241,374	204,132
Taxes and dues		199,602	165,138
Others		212,907	175,680
Total of cost of goods sold and selling, general and administrative expenses	₩	<u>8,476,818</u>	<u>8,322,109</u>

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33. Finance Income and Finance Costs

(a) Details of finance income and finance costs for the years ended December 31, 2022 and 2021 are as follows:

<i>(in millions of Korean won)</i>		2022	2021
Finance income:			
Interest income according to the effective interest rate method	₩	78,781	50,351
Dividend income		173,207	145,547
Gain on foreign currency transactions		6,882	6,057
Gain on foreign currency translation		8,500	6,158
Gain on valuation of debt instrument at fair value through profit or loss		610	467
Gain on disposal of debt instrument at fair value through profit or loss		37	287
Gain on valuation of derivatives held for hedging		55,883	57,050
Gain on valuation of derivatives held for trading		1,919	41,921
Gain on transaction of derivatives held for hedging		16,500	33,603
Gain on transaction of derivatives held for trading		19,501	18,084
Reversal of impairment losses on investments in subsidiaries, associates, and joint ventures		83,482	-
Gain on disposal of investments in subsidiaries, associates and joint ventures		9,794	47,012
Reversal of financial guaranteed liabilities		-	1,688
Total	₩	<u>455,096</u>	<u>408,225</u>
Finance costs:			
Interest expense according to the effective interest rate method	₩	337,146	303,215
Loss on foreign currency transactions		17,069	34,209
Loss on foreign currency translation		55,883	57,050
Loss on valuation of debt instrument at fair value through profit or loss		-	290
Loss on valuation of derivatives held for hedging		8,500	-
Loss on valuation of derivatives held for trading		9,455	-
Loss on transaction of derivatives held for trading		802	5
Loss on repayment of bonds		-	14,409
Impairment loss on investments in subsidiaries, associates, and joint ventures		642,004	257,158
Financial guaranteed cost		56,806	-
Total	₩	<u>1,127,665</u>	<u>666,336</u>

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

(b) Details of finance income and finance costs by financial instruments category for the years ended December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

		2022							
		Cash and cash equivalents	Financial assets at amortized cost	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Derivatives assets and liabilities held for trading	Derivatives assets and liabilities held for hedging	Financial liabilities at amortized cost	Other financial liabilities
Recognized in profit or loss									Total
Interest income	₩	50,742	28,037	2	-	-	-	-	-
Interest expense		-	-	-	-	-	-	(337,146)	-
Dividend income		-	-	3,822	5,595	-	-	-	-
Valuation/Disposal		-	-	610	37	11,163	63,883	-	-
Impairment		-	(4,608)	-	-	-	-	-	-
Exchange differences		6,313	(521)	-	-	-	-	(64,684)	-
Reversal of financial guarantee liabilities		-	-	-	-	-	-	-	(56,806)
Subtotal		57,055	22,908	4,434	5,632	11,163	63,883	(401,830)	(56,806)
Recognized in other comprehensive income (loss)									
Fair value gain through other comprehensive income (*)		-	-	-	(26,188)	-	-	-	-
Gain(Loss) on valuation of derivatives (*)		-	-	-	-	-	(14,245)	-	-
Subtotal		-	-	-	(26,188)	-	(14,245)	-	-
Total	₩	57,055	22,908	4,434	(20,556)	11,163	49,638	(401,830)	(56,806)

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

(in millions of Korean won)

		2021							
		Cash and cash equivalents	Financial assets at amortized cost	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Derivatives assets and liabilities held for trading	Derivatives assets and liabilities held for hedging	Financial liabilities at amortized cost	Other financial liabilities
Recognized in profit or loss									Total
Interest income	₩	22,401	27,950	-	-	-	-	-	-
Interest expense		-	-	-	-	-	-	(303,215)	-
Dividend income		-	-	174	3,404	-	-	-	-
Valuation/Disposal		-	-	177	287	60,000	90,653	(14,409)	-
Impairment		-	(1,380)	-	-	-	-	-	-
Exchange differences		12,641	902	-	-	-	-	(91,540)	-
Reversal of financial guarantee liabilities		-	-	-	-	-	-	-	1,688
Subtotal		35,042	27,472	351	3,691	60,000	90,653	(409,164)	1,688
Recognized in other comprehensive income (loss)									
Fair value gain through other comprehensive income (*)		-	-	-	(27,956)	-	-	-	-
Gain(Loss) on valuation of derivatives (*)		-	-	-	-	-	11,991	-	-
Subtotal		-	-	-	(27,956)	-	11,991	-	-
Total	₩	35,042	27,472	351	(24,265)	60,000	102,644	(409,164)	1,688

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

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34. Income Taxes

(a) Income tax expense for the years ended December 31, 2022 and 2021 are as follows:

<i>(in millions of Korean won)</i>		2022	2021
		<hr/>	<hr/>
Current income taxes	₩	(51,013)	(4,660)
Deferred tax due to temporary differences		<hr/> (120,565)	<hr/> (393,370)
Total income tax effect		(171,578)	(398,030)
Income tax charged directly to equity		<hr/> (1,189)	<hr/> (14,471)
Income tax revenue	₩	<hr/> (172,767)	<hr/> (412,501)

(b) Details of income tax expense recognized directly to equity for the years ended December 31, 2022 and 2021 are as follows:

<i>(in millions of Korean won)</i>		2022	2021
		<hr/>	<hr/>
Fair value gain through other comprehensive income	₩	5,185	6,480
Gain (loss) on valuation of derivatives		3,284	(2,902)
Remeasurements of defined benefit liabilities		<hr/> (9,658)	<hr/> (18,049)
Income tax charged directly to equity	₩	<hr/> (1,189)	<hr/> (14,471)

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

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34. Income Taxes, continued

(c) Income tax expense and related accounting benefits for the years ended December 31, 2022 and 2021 are as follows:

<i>(in millions of Korean won)</i>		<u>2022</u>	<u>2021</u>
Net loss before income tax	₩	(543,978)	(220,666)
Income tax using statutory tax rate		(131,643)	(53,401)
Adjustment:		(41,124)	(359,100)
Tax effects on non-taxable income		(9,950)	(9,517)
Tax effects on non-deductible expense		713	1,938
Tax credit		(3,326)	-
Adjustment for prior periods		1,714	804
Changes in impracticable contemporary difference		51,583	(574,580)
Changes in deferred income tax due to change in tax rate (*1)		7,152	-
Deferred tax assets not recognized because of loss carried forward		(124,264)	246,331
Others		35,254	(24,076)
Income tax revenue	₩	<u>(172,767)</u>	<u>(412,501)</u>
Effective tax rate (*2)		-	-

(*1) Revised tax rate was applied to deferred tax assets(liabilities) after corporate tax cut was confirmed during the 2022.

(*2) The Company has not present effective tax rate due to net loss before income tax incurred in 2022 and 2021.

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

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34. Income Taxes, continued

(e) Changes in deferred tax assets (liabilities) for the years ended December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

		2022			
		Beginning balance	Profit or loss	Equity	Ending balance
Investments in subsidiaries and associates	₩	(3,954)	(22,774)	-	(26,728)
Depreciation		29,317	14,935	-	44,252
Allowance for bad debt		2,629	505	-	3,134
Accrued income		(623)	(367)	-	(990)
Losses on valuation of inventories		2,104	(382)	-	1,722
Provision for sales return		173	-	-	173
Property, plant and equipment (capitalization of borrowing costs)		(10,358)	424	-	(9,934)
Land		36,987	(52,660)	-	(15,673)
Land (asset revaluation)		(926,063)	33,686	-	(892,377)
Accrued expense		5,018	252	-	5,270
Gain (loss) on foreign currency translation		1,555	(1,555)	-	-
Construction-in-progress		363	(5,838)	-	(5,475)
Impairment loss on intangible assets		26,999	(3,680)	-	23,319
Lease deposit		55,187	(7,538)	-	47,649
Goodwill		2,350	(332)	-	2,018
Exchangeable bonds		(285)	228	-	(57)
Fair value loss through other comprehensive income		21,546	-	5,185	26,731
Gain(loss) on valuation of derivatives		(9,235)	4,612	3,284	(1,339)
Salaries and retirement benefits		(3,669)	(10,299)	(9,658)	(23,626)
Right-of-use assets and lease liabilities		358,184	(6,839)	-	351,345
Loss carried forward		262,763	128,481	-	391,244
Others		63,172	14,455	-	77,627
Total	₩	(85,840)	85,314	(1,189)	(1,715)

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As of December 31, 2022 and 2021

34. Income Taxes, continued

(e) Changes in deferred tax assets (liabilities) for the years ended December 31, 2022 and 2021 are as follows:, continued

(in millions of Korean won)

		2021			
		Beginning balance	Profit or loss	Equity	Ending balance
Investments in subsidiaries and associates	₩	(3,954)	-	-	(3,954)
Depreciation		42,451	(13,134)	-	29,317
Allowance for bad debt		9,423	(6,794)	-	2,629
Accrued income		(523)	(100)	-	(623)
Losses on valuation of inventories		2,305	(201)	-	2,104
Provision for sales return		142	31	-	173
Property, plant and equipment (capitalization of borrowing costs)		(9,922)	(436)	-	(10,358)
Land		36,987	-	-	36,987
Land (asset revaluation)		(1,035,755)	109,692	-	(926,063)
Accrued expense		8,202	(3,184)	-	5,018
Gain (loss) on foreign currency translation		1,555	-	-	1,555
Construction-in-progress		1,371	(1,008)	-	363
Impairment loss on intangible assets		29,740	(2,741)	-	26,999
Lease deposit		56,739	(1,552)	-	55,187
Goodwill		(14,507)	16,857	-	2,350
Exchangeable bonds		(4,843)	4,558	-	(285)
Fair value loss through other comprehensive income		15,066	-	6,480	21,546
Gain(loss) on valuation of derivatives		4,479	(10,812)	(2,902)	(9,235)
Salaries and retirement benefits		3,930	10,450	(18,049)	(3,669)
Right-of-use assets and lease liabilities		288,405	69,779	-	358,184
Loss carried forward		19,639	243,124	-	262,763
Others		69,860	(6,688)	-	63,172
Total	₩	(479,210)	407,841	(14,471)	(85,840)

(f) Temporary differences not recognized as deferred tax assets related to investments in associates and subsidiaries as of December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

		2022	2021
Investments in subsidiaries and associates	₩	2,058,614	1,590,623
Loss carried forward (expire at 2037)		504,411	1,017,896

LOTTE SHOPPING CO.,LTD.
Notes to the Separate Financial Statements
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34. Income Taxes, continued

- (g) As of December 31, 2022 and 2021, the amounts of deferred and current tax assets and liabilities using gross amounts before off-setting are as follows:

<i>(in millions of Korean won)</i>		2022	2021
Deferred tax assets	₩	2,129,380	2,241,466
Deferred tax liabilities		2,131,093	2,327,305
Current tax assets		71,338	138,510
Current tax liabilities		-	47

35. Separate Statements of Cash Flows

- (a) As of December 31, 2022 and 2021 the details of cash and cash equivalents are as follows:

<i>(in millions of Korean won)</i>		2022	2021
Cash	₩	14,231	10,208
Deposits		44,110	40,368
Other cash equivalents		1,108,100	1,523,440
Total	₩	<u>1,166,441</u>	<u>1,574,016</u>

- (b) Adjustments for cash flows from operating activities and changes in operating assets and liabilities for the years ended December 31, 2022 and 2021 are as follows:

i) Adjustment

<i>(in millions of Korean won)</i>		2022	2021
Income tax revenue	₩	(172,767)	(412,502)
Retirement benefits		60,700	79,754
Long-term employee benefits		3,337	(286)
Depreciation		890,435	888,923
Amortization		20,806	24,468
Impairment loss on property, plant and equipment		70,405	16,082
Impairment loss on intangible assets and goodwill		50,797	38,094
Impairment loss on right-of-use assets		165,913	303,864
Loss on foreign currency translation		56,190	57,050
Loss on foreign currency transactions		17,069	34,209
Loss on disposal of property, plant and equipment		9,206	5,339
Loss on disposal of intangible assets		472	6,675
Loss on disposal of right-of-use assets		6,575	13,110
Loss on disposal of assets held for sale		-	32
Loss on valuation of debt instrument at fair value through profit or loss		-	290
Bad debt expenses		1,855	1,361
Other bad debt expense		2,752	19
Loss on valuation of derivatives		17,954	-

LOTTE SHOPPING CO.,LTD.
Notes to the Separate Financial Statements
As of December 31, 2022 and 2021

35. Separate Statements of Cash Flows, Continued

(b) Adjustments for cash flows from operating activities and changes in operating assets and liabilities for the years ended December 31, 2022 and 2021 are as follows:, continued

i) Adjustment, continued

<i>(in millions of Korean won)</i>		2022	2021
Loss on transactions of derivatives	₩	801	5
Loss on repayment of bonds		-	14,409
Rental expenses (amortization of discount on deposit, etc.)		299	32
Loss on lease termination		1,816	22,012
Impairment loss on investments in subsidiaries, associates and joint ventures		642,004	257,158
Interest expense		337,145	303,215
Miscellaneous losses		5,202	2,612
Other expenses without cash outflows		-	160
Reversal of other provision		124	-
Reversal of provision for restoration		(2,284)	(3,066)
Reversal of financial guarantee costs		56,806	(1,688)
Gain on foreign currency translation		(8,500)	(7,073)
Gain on foreign currency transactions		(6,881)	(6,057)
Gain on disposal of property, plant and equipment		(2,730)	(51,409)
Gain on valuation of debt instrument at fair value through profit or loss		(610)	(467)
Gain(Loss) on valuation of derivatives		(57,801)	(98,971)
Gain on transactions of derivatives		(36,000)	(51,687)
Gain on lease termination		(56,454)	(83,121)
Gain on disposal of right-of-use assets		(30,577)	(53,836)
Reversal of impairment losses on investments in subsidiaries, associates, and joint ventures		(83,481)	-
Gain on disposal of investments in subsidiaries, associates and joint ventures		(9,794)	(47,012)
Gain on disposal of debt instrument at fair value through profit or loss		(37)	(287)
Gain on disposal of assets held for sale		-	(121,728)
Gain on disposal of intangible assets		-	(360)
Gain on bargain purchase		-	(18,172)
Income without other cash inflows		(453)	-
Rental income		(4,457)	(4,955)
Interest income		(78,781)	(50,351)
Dividends income		(173,206)	(145,547)
Miscellaneous gains		(108)	-
Total	₩	1,693,742	910,298

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

(b) Adjustments for cash flows from operating activities and changes in operating assets and liabilities for the years ended December 31, 2022 and 2021 are as follows:, continued

ii) Changes in operating assets and liabilities

<i>(in millions of Korean won)</i>		2022	2021
Increase of trade receivables	₩	(80,170)	(31,956)
Decrease (increase) of other receivables		(36,359)	90,660
Decrease (increase) in other financial assets		(694)	3,327
Decrease (increase) of inventories		(10,477)	33,222
Increase in other non-financial assets		(3,020)	(12,838)
Decrease of trade payables		(1,034)	(19,820)
Increase of other payables		143,592	151,086
Decrease of other financial liabilities		(1,979)	(6,696)
Increase in other non-financial liabilities		55,506	279,372
Increase of deferred income		19,685	33,061
Increase (decrease) of provisions		5,935	(5,576)
Payment of other long-term employee benefits		(3,930)	(3,383)
Payment of defined benefit assets		(67,201)	(91,440)
Decrease (Increase) in plan assets		(24,764)	61,058
Total	₩	<u>(4,910)</u>	<u>480,077</u>

(c) Non-cash transactions for the years ended December 31, 2022 and 2021 are as follows:

<i>(in millions of Korean won)</i>		2022	2021
Other payables for acquisition of property, plant and equipment	₩	(12,625)	5,666
Acquisition of right-of-use assets		77,650	1,632,998
Acquisition of lease liabilities		76,759	1,596,444
Increase in debt due to merger		1,702,602	-
Increase in property, plant, and equipment and intangible assets due to merger		1,647,354	-

LOTTE SHOPPING CO.,LTD.
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35. Separate Statements of Cash Flows, continued

(d) Adjustment in liabilities arising from financial activities for the years ended December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

		2022						
		Other assets		Liabilities from financial activities				
		Current derivatives assets held for hedging	Non-Current derivatives assets held for hedging	Leasehold deposit received	Short-term borrowings and debentures	Long-term borrowings and debentures	Lease liabilities	Total
Beginning balance	₩	5,230	17,032	273,357	1,228,169	3,498,971	5,877,433	10,900,192
Net cash flow from financing activities		-	-	(13,344)	(1,405,500)	933,341	(748,722)	(1,234,225)
Non-cash flows								
Transfer to current portion		3,060	(3,060)	-	1,889,618	(1,889,618)	-	-
Foreign currency translation		-	-	-	32,860	31,023	-	63,883
Change in lease liabilities		-	-	-	-	-	(16,157)	(16,157)
Merger		-	-	8,824	415,000	1,287,601	-	1,711,425
Others		13,615	27,833	4,033	(17,944)	4,846	168,167	200,550
Ending balance	₩	21,905	41,805	272,870	2,142,203	3,866,164	5,280,721	11,625,668

(in millions of Korean won)

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

LOTTE SHOPPING CO.,LTD. **Notes to the Separate Financial Statements** **As of December 31, 2022 and 2021**

36. Greenhouse Gases Emission Rights

(a) Emission Right

The Company has participated in the allocation and trading system of emissions since 2015. From year 2021 to 2025 is the third plan of the commitment period, and in December 2020, the emission rights for each implementation year of the plan period are 770,535 tCO₂-eq for year 2021, 2022, and 2023, and 748,998 tCO₂-eq for year 2024 and 2025 and allocated respectively.

In addition, the Company has carried forward emission right of 70,693 tCO₂-eq from the previous compliance period. As of December 31, 2022, there is no pledged emission, and the Company submitted emission right of 672,199 tCO₂-eq and 679,969 tCO₂-eq to the government in 2020 and 2021. The Company has 814,664 tCO₂-eq of emission rights as of December 31, 2022.

(b) Emission liabilities

The Company disposed 35,604 tCO₂-eq and 22,110 tCO₂-eq of emission in 2021 and 2022, respectively and is estimated to emit 713,809 tCO₂-eq in 2022.

37. Contingencies and Commitments

(a) As of December 31, 2022, the Company has the following credit facility commitments with financial institutions:

(in millions of Korean won, full foreign currency)

	Currency	Credit line	Amount used under credit facility
General loan (local currency)	KRW	660,000	555,000
General loan (foreign currency)	USD	82,600,000	-
Commercial paper	KRW	750,000	200,000
Buyer's credit	KRW	240,000	1,408
Bank overdraft	KRW	30,000	-
Letter of credit and others	USD	23,000,000	7,468,951

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

(c) As of December 31, 2022, the Company is involved in 24 lawsuits as a plaintiff with damage claims totaling ₩ 8,087 million and is involved in 38 lawsuits as a defendant with damage claims totaling ₩ 30,748 million. The management believes that the ultimate resolutions of other legal actions will not have a material impact on the financial position or results of operations of the Company.

Also, the Company is involved in 13 lawsuits as a defendant with damage related to victims of humidifier disinfectant totaling of ₩ 23,768 million and the Company recognized other liabilities of ₩ 2,233 million in regard to the claim on victims of humidifier disinfectant as of December 31, 2022.

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

- (d) As of December 31, 2022, the Company has entered into loan agreements securing trade receivables with INDUSTRIAL BANK OF KOREA and others amounting to ₩ 290,000 million.
- (e) As of December 31, 2022, the Company is provided performance guarantees totaling ₩ 197,528 million (138 cases) from Seoul Guarantee Insurance and others for its business.
- (f) Brand usage contract, etc.

The Company and some subsidiaries have entered into contracts with Lotte Corporation for the use of brand, management consulting, and management support service as of December 31, 2022. The cost of use of brand is 0.2% of sales less advertising expenses. The Company pays for management consulting and management support service the amount allocated by Lotte Corporation, based on objective and reasonable allocation criteria, from the costs that have incurred in the course of performing such relevant business plus 5% of such allocated amount.

- (g) The Company leases and uses land and buildings after disposing of land and buildings to structured companies, and some stores have closed due to the end of the lease period. The details are as follows:
 - (i) The Company disposed of land and buildings of 3 stores including Lotte mart Jeju store to KTB Confidence Private Real Estate Investment Trust No.29 for ₩ 220 billion in 2008 and the Company has been leasing back Jeju store from Hyundai Infiniti Private Equity Real Estate Investment Trust No.1 and Daedeok store from Mirae Castle. The Company has the preemptive options to purchase the land and the building at a fair value at the end of the lease. The operation of Hangdong store was discontinued during the year 2020 and the Company has no preemptive options to purchase the land and the building.
 - (ii) The Company disposed of land and buildings of 6 stores including Lotte department store Bundang store to Lotte Retail Real Estate Investment Trust No.1~4 for ₩ 594.9 billion in 2010 and 2011, and the Company has been leasing back the assets. The Company has the preemptive options to purchase the land and the building at a fair value at the end of the lease. The operation of Lotte Mart Suji store was discontinued in 2019 and Guro store and Dobong store were discontinued during the year 2020 and the Company has no preemptive options to purchase the land and the building.
 - (iii) The Company has been leasing the building of Lotte outlet Esiapolis store from KB Star Retail Private Real Estate Investment Trust No.1 since 2013. According to the real estate sales contract signed on June 25, 2018, Marston Specialized Investment Private Equity Investment Trust No. 31 transferred its status as a lessor under the lease contract and the Company has the preferential right of negotiation to purchase the building.
 - (iv) In 2013, the Company disposed buildings of Lotte outlets store Gwang Myeong to KTB Confidence Private Real Estate Investment Trust No.55 for ₩ 146.9 billion and the Company has been leasing the assets. In 2015, the Company disposed of land and buildings of Lotte mart Yangdeok to KTB Confidence Private Real Estate Investment Trust No.81 for ₩ 55.1 billion and the Company has been leasing back the assets. The Company has the preferential right of negotiation to purchase the land and the building at the end of the lease.
 - (v) In 2014, the Company disposed of land and buildings of 2 Lotte department stores including Ilsan store and 5 Lotte mart stores including Bupyeong store to KB Lotte Master Lease Private Real Estate Investment Trust No.1 for ₩ 601.7 billion and the Company has been leasing back the assets. The Company disposed land and buildings of 2 Lotte department stores including Dongrae store and 3 Lotte mart stores including Sung Jung store to Capstone Private Real Estate Investment Trust No.11 for ₩ 500.1 billion and the Company has been leasing back the assets. The Company has the preferential right of negotiation to purchase the land and the building at the end of the lease.

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

- (vi) During 2018, the land and buildings of Lotte Mart's Geumcheon branch were sold for ₩ 64.2 billion to the KORAMCO Specialty Investment Private Property Investment Trust No.82 and the Company has been leasing back from KORAMCO respectively. The Company has the preferential right of negotiation to purchase the land and the building at the end of the lease.
- (vii) Starting 2019, the Company has been leasing the land and buildings of Lotte department store Gangnam of LOTTE REIT Co., Ltd. for ₩ 269.7 billion. The Company disposed the land and buildings of 5 branches including Lotte department store Changwon and 4 branches including Lotte mart Euiwang for ₩ 1,062.9 billion and the Company has been leasing back the assets. The Company has the preferential right of negotiation to purchase the land and the building at the end of the lease.
- (viii) During 2021, the Company has sold 3 branches including Lotte department store Jung-dong and 2 branches including Lotte Mart Gye-yang for ₩ 682.7 billion to LOTTE REIT Co., Ltd. and has been leasing back the assets. The Company has the preferential right of negotiation to purchase the land and the building at the end of the lease.
- (h) As of December 31, 2022, the Company has provided investment commitments (LOC, LOA, LOU) to Standard Chartered Bank Korea Ltd and others in relation to loan agreements for the following subsidiaries: PT. LOTTE SHOPPING INDONESIA, LOTTE CINEMA VIETNAM CO., LTD., LOTTE VIETNAM SHOPPING JOINT STOCK COMPANY, LOTTE PROPERTIES HANOI CO., LTD. However, the investment commitment is not considered as payment guarantees.
- (i) Lotte Cultureworks Co., Ltd., a subsidiary of the Group, issued common shares of 7,687,456 and received 1,860,000 common stock shares of INNOCEAN WORLDWIDE INC. as contribution in kind in 2019. At the issuance date, Lotte Cultureworks Co., Ltd. agreed to purchase all shares issued to the new owner with cash if Lotte Cultureworks Co., Ltd. did not hold an initial public offering (IPO) within a certain period based on agreement with the new owner. The Company does not oppose performance of such obligation unless it violated the law.
- (j) In accordance with stock trading agreement on May 10, 2019 with the seller and contract takeover agreement on July 19, 2022 with seller, the common shares of 1,030,000 from INNOCEAN WORLDWIDE INC. cannot be disposed or provided as pledged assets without the prior consent from the seller until the fifth year from the date of contract commitment or the IPO completion date of Lotte Cultureworks Co., Ltd. Also, if the Company wishes to sell the shares from INNOCEAN WORLDWIDE INC. after the listing date to the third party, the seller can exercise its preferential right to purchase directly or by designating the third party.
- (k) During 2019, the Company granted LOTTE REIT Co., Ltd. the preferential right of negotiation to purchase 17 branches including Lotte department store Myeongdong and 67 branches including Lotte Mart Gangbyeon.
- (l) The Company has call options that can be exercised until the third year from the date of initial acquisition of 69.88% shares in Joonggo-nara owned by Eugene Unicorn Private Equity Fund and other investors.
- (m) The Company has preferential subscription rights and preferential purchase claim rights that shall be exercised after three years from the initial date of acquisition for shares in Hanssem, held by Heim Limited Company, Heim No.1 Limited Company, and Heim No.2 Limited Company.
- (n) As of December 31, 2022, the Company has concluded agreement, in regard to asset-backed loans and commercial papers (face value of ₩ 195,000 million, balance of amount to replenish debt: ₩ 184,000 million, maturity on May 28th, 2024), asset-backed commercial papers (face value of ₩ 80,000 million, maturity on April 20th, 2023), and asset-backed bonds(face value of ₩ 193,000 million, maturity on March 15th, 2023) issued by Suwon Landmark 4th, Suwon Landmark 5th, KS 1st. Co., Ltd., LKH 2nd. Co., Ltd., and New Star Gimpo Hangang 2nd Co., Ltd., to replenish funds in case of impossible to repay principal and interests.

LOTTE SHOPPING CO.,LTD.
Notes to the Separate Financial Statements
As of December 31, 2022 and 2021

37. Contingencies and Commitments, continued

- (o) In accordance with the resolution of board of directors on April 26, 2017, the Company split the investment sector among business operated by LOTTE CHILSUNG BEVERAGE CO., LTD. and LOTTE FOOD CO., LTD. and did merger and divisional merger to investment sector in Lotte Confectionery Co., Ltd. In this regard, the Company established through division and the surviving company are jointly liable for the debts prior to division, in accordance with Article 530-9, Paragraph 1 of the Commercial Act.
- (p) As of December 31, 2022, the description of payment guarantees regarding to foreign currency debentures issued by the Company has been provided and are as follows. D

Description	Advisor	Maturity	Guaranteed Amount (Full amount in USD)
87-1st placed (foreign currency)	Kookmin Bank	2023.08.18	100,000,000
87-2nd placed (foreign currency)	KEB Hana Bank	2023.08.21	50,000,000
90-1st placed (foreign currency)	MUFG Bank	2024.05.21	100,000,000
90-2nd placed (foreign currency)	SMBC Bank	2024.05.20	175,000,000
91st placed (foreign currency)	MUFG Bank	2024.08.19	100,000,000
92nd placed (foreign currency)	MUFG Bank	2025.03.25	160,000,000
94th placed (foreign currency)	MUFG Bank	2025.11.28	100,000,000

LOTTE SHOPPING CO.,LTD.
Notes to the Separate Financial Statements
As of December 31, 2022 and 2021

38. Related Party Transactions

(a) Details of the Company's major shareholders and subsidiaries as of December 31, 2022 are as follows:

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

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

Subsidiaries	Percentage of ownership (%)		
	Company	Subsidiaries	Total
Woori Home Shopping & Television Co., Ltd.	53.49	-	53.49
Lotte GFR Co., Ltd.	99.97	-	99.97
Lotte Gimhae Development Co., Ltd.	100.00	-	100.00
Lotte Suwon Station Shopping Town Co., Ltd.	100.00	-	100.00
CS Mart Co., Ltd.	99.95	-	99.95
LOTTE Himart Co., Ltd.	65.25	-	65.25
Lotte Ulsan Development Co., Ltd.	96.83	-	96.83
Lotte Cultureworks Co., Ltd.	86.37	-	86.37
LOTTE CINEMA VIETNAM CO., LTD.	-	90.00	90.00
Lotte corporate venture fund No. 1	18.78	79.81	98.59
Lotte Homeshopping Innovation Fund No.1	-	98.52	98.52
LOTTE Shopping Innovation Fund 1	99.00	-	99.00
SMART LOTTE SHOPPING INNOVATION FUND	69.08	-	69.08
IMM Heim Coinvestment I Private Equity Fund	83.71	16.13	99.84
Heim No.2 Limited Company	-	100.00	100.00
Lotte DMC Development Co., Ltd.	95.00	-	95.00
LOTTE REIT Co., Ltd.	50.00	-	50.00
Lotte Incheon Town Co., Ltd.	100.00	-	100.00
Lotte Department Store (Shenyang) Co., Ltd.	100.00	-	100.00
Lotte Department Store (Chengdu) Co., Ltd.	100.00	-	100.00
LOTTE PROPERTIES (CHENGDU) HK LIMITED	73.46	-	73.46
Lotte Properties (Chengdu) Limited	-	100.00	100.00
LOTTE SHOPPING HOLDINGS (SINGAPORE) PTE. LTD.	100.00	-	100.00
LOTTE VIETNAM SHOPPING JOINT STOCK COMPANY	-	99.99	99.99
PT. LOTTE SHOPPING INDONESIA	-	80.00	80.00
PT. LOTTE MART INDONESIA	-	100.00	100.00
PT. LOTTE Shopping Avenue Indonesia	-	100.00	100.00

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

(a) Details of the Company's major shareholders and subsidiaries as of December 31, 2022 are as follows:, continued

Subsidiaries	Percentage of ownership (%)		
	Company	Subsidiaries	Total
Lotte Shopping India Private Limited	-	100.00	100.00
LOTTEMART C&C INDIA PRIVATE LIMITED	-	100.00	100.00
Lotte Shopping Plaza Vietnam Co., Ltd.	-	100.00	100.00
LOTTE HOTEL & RETAIL VIETNAM PTE. LTD.	20.00	40.00	60.00
Lotte Holdings Hong Kong Ltd.	-	100.00	100.00
HAI THAHN - LOTTE COMPANY LIMITED	-	70.00	70.00
LOTTE E-COMMERCE VIETNAM Co., LTD	-	100.00	100.00
LOTTE PROPERTIES (HANOI) SINGAPORE PTE. LTD.	90.00	-	90.00
LOTTE PROPERTIES HANOI Co., LTD.	-	100.00	100.00
KC-K Contents Investment Association	-	96.55	96.55
LKH 1st., Co., Ltd.	-	-	-
New Star Gimpo Hangang 1st Co., Ltd.	-	-	-

LOTTE SHOPPING CO.,LTD.
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38. Related Party Transactions, continued

(b) Transactions which occurred in the normal course of business with related companies for the years ended December 31, 2022 and 2021 are as follows:

(in millions of Korean won)		2022			
Name of related parties		Sales	Purchase	Acquisition of property, plant and equipment and intangible assets	Other income (*3) / Other expenses (*3)
Shareholders:					
Lotte Corporation	₩	1,868	-	-	89
Hotel Lotte Co., Ltd.		50,286	-	78	-
Hotel Lotte Pusan Co., Ltd.		5,234	-	2,039	422
Subtotal		57,388	-	2,117	511
Subsidiaries:					
Woori Home Shopping & Television Co., Ltd.		3,311	-	-	25,172
LOTTE Himart Co., Ltd. (*1)		62,010	-	6	16,994
Lotte Cultureworks Co., Ltd.		50,776	-	-	2,373
Lotte Suwon Station Shopping Town Co., Ltd.		7,141	-	-	15
CS Mart Co., Ltd.		9,781	-	-	89
Lotte Incheon Development Co., Ltd.		3,141	-	-	-
LOTTE REIT Co., Ltd.		-	3	64	39,250
Others		22,659	-	-	3,274
Subtotal		158,819	3	70	87,167
Associates:					
FRL Korea Co., Ltd.		34,749	-	-	68,600
Zara Retail Korea Co., Ltd.		11,082	-	-	2,185
Lotte Card Co., Ltd.		2,838	-	-	13,305
Others		10,548	-	-	224
Subtotal		59,217	-	-	84,314
Others (*2):					
Lotte Confectionery Co., Ltd.		5,232	84,150	-	-
LOTTE CHILSUNG BEVERAGE CO., LTD.		9,130	44,472	-	37
Lotte Data Communication Company		923	-	24,766	-
Korea Seven Co., Ltd.		7,965	19	-	-
Lotte GRS Co., Ltd.		8,208	814	-	18
LOTTE ASSET DEVELOPMENT CO., LTD.		6	-	251	-
LOTTE Property & Development (*4)		6,124	-	-	49,369
LOTTE STATION B/D. CO.		9,147	-	-	-
LOTTE INTERNATIONAL CO., LTD.		305	92,894	-	-
LOTTE Engineering & Construction Co., LTD.		522	-	74,172	18
LOTTE FOOD CO., LTD.		1,609	27,322	-	-
Lotte Aluminum Co., Ltd.		105	5,937	190	-
Lotte Global Logistics Co., LTD.		632	-	4	-
Others		14,064	4,291	2,592	313
Subtotal		63,972	259,899	101,975	49,755
Total	₩	339,396	259,902	104,162	221,747

(*1) The Company sold gift vouchers to the LOTTE Himart Co., Ltd. for a total of ₩ 698 million for the year ended December 31, 2022.

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

(*3) The Company entered into lease agreements with related parties. As a result, interest income received in accordance with amortization of financial lease receivables and interest expense paid in accordance with amortization of lease liabilities for the year ended December 31, 2022 are included in other income and expenses.

(*4) Other income includes ₩ 48,755 million, which is sales of shares in Coralis S.A.

LOTTE SHOPPING CO.,LTD.
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As of December 31, 2022 and 2021

38. Related Party Transactions, continued

(in millions of Korean won)

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

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

(*2) The Company sold gift vouchers to the LOTTE Himart Co., Ltd. for a total of ₩ 562 million for the year ended December 31, 2021.

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

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

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

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

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

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

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

(c) Fund transactions with related parties for the year ended December 31, 2022 and 2021 are as follows:

(in millions of Korean won)		2022				2021		
Name of related parties		Cash contribution	Stock purchase	Loan	With -draws	Cash contribution	Stock purchase	Loan
Subsidiaries:								
LOTTE REIT Co., Ltd.	₩	-	-	-	-	166,673	-	-
Lotte GFR Co., Ltd.		30,000	-	3,000	3,000	-	-	-
LOTTE Shopping Innovation Fund 1		8,910	-	-	-	20,790	-	-
Lotte SHOPPING HOLDINGS (SINGAPORE) PTE. LTD.		51,870	-	-	-	49,728	-	-
IMM Heim Coinvestment I Private Equity Fund		-	-	-	-	259,500	-	-
SMART LOTTE SHOPPING INNOVATION FUND		8,400	-	-	-	-	-	-
LOTTE PROPERTIES HANOI (SINGAPORE) PTE. LTD.		141,458	-	-	-	-	-	-
Lotte Department Store (Chengdu) Co., Ltd.		31,657	-	-	-	-	-	-
Lotte Cultureworks Co., Ltd. (*1)		-	46,556	-	50,000	-	-	50,000
LKH 1st., Co., Ltd.		-	-	83,664	-	-	-	-
New Star Gimpo Hangang 1st Co., Ltd.		-	-	35,069	-	-	-	-
Subtotal		272,295	46,556	121,733	53,000	496,691	-	50,000
Associates:								
Lotte-KDB Open innovation fund		4,800	-	-	-	4,800	-	-
Eugene Unicorn Private Equity Fund		-	-	-	-	30,000	-	-
Subtotal		4,800	-	-	-	34,800	-	-
Others:								
LOTTE INTERNATIONAL CO., LTD. (*2)		-	350	-	-	-	-	-
LOTTE Property & Development (*3)		-	-	-	-	-	72,381	-
Subtotal		-	350	-	-	-	72,381	-
Total	₩	277,095	46,906	121,733	53,000	531,491	72,381	50,000

(*1) The Company has purchased common shares of INNOCEAN WORLDWIDE INC. for ₩ 46,556 million from Lotte Cultureworks Co., Ltd. in 2022.

(*2) The Company has purchased common shares of MUJIKOREA CO.LTD for ₩ 350 million from LOTTE INTERNATIONAL CO., LTD in 2022.

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

LOTTE SHOPPING CO.,LTD.
Notes to the Separate Financial Statements
As of December 31, 2022 and 2021

38. Related Party Transactions, continued

(d) Account balances with related companies as of December 31, 2022 and 2021 are summarized as follows:

(in millions of Korean won)

Name of related parties	2022					
	Receivables			Payables		
	Trade receivables	Other receivables	Financial lease receivables	Trade payables	Other payables	Lease liabilities
Shareholders:						
Lotte Corporation	₩ 5	121	-	-	968	31,157
Hotel Lotte Co., Ltd. (*4)	1,036	57,624	-	-	19,975	212,230
Hotel Lotte Pusan Co., Ltd.	-	17,151	-	-	2,364	18,436
Subtotal	1,041	74,896	-	-	23,307	261,823
Subsidiaries:						
Woori Home Shopping & Television Co., Ltd. (*2)	31,386	158	-	-	1,708	-
LOTTE Himart Co., Ltd.	4,924	428	2,250	-	18,262	-
Lotte Cultureworks Co., Ltd.	1,781	599	47,844	-	31,513	-
Lotte Suwon Station Shopping Town Co., Ltd.	-	709	-	-	1,146	319,676
CS Mart Co., Ltd.	10,235	4,080	-	-	2,009	1,410
LOTTE REIT Co., Ltd.	-	105,279	-	-	10,041	736,077
Others	-	10,650	-	-	6,811	-
Subtotal	48,326	121,903	50,094	-	71,490	1,057,163
Associates:						
FRL Korea Co., Ltd.	1,188	-	-	-	26,163	-
Zara Retail Korea Co., Ltd.	-	-	-	-	6,324	-
Lotte Card Co., Ltd. (*2)	34,060	2,508	36	-	12,010	-
Others	-	-	308	-	6,523	40,275
Subtotal	35,248	2,508	344	-	51,020	40,275
Others (*1):						
Lotte Confectionery Co., Ltd.	415	664	44	21,472	2,405	-
LOTTE CHILSUNG BEVERAGE CO., LTD.	283	216	-	2,866	11,546	-
Lotte Data Communication Company	-	80	-	-	18,030	6,482
Korea Seven Co., Ltd.	58	559	-	-	2,525	5,761
Lotte GRS Co., Ltd.	512	-	665	-	5,172	-
LOTTE ASSET DEVELOPMENT CO., LTD.	-	-	-	-	23	-
LOTTE Property & Development	3,000	7,275	-	-	7,020	392,232
LOTTE STATION B/D. CO.	3,031	8,284	-	-	7,850	5,795
LOTTE INTERNATIONAL CO., LTD.	155	3	-	4,208	37	-
LOTTE Engineering & Construction Co., Ltd. (*5)	-	13,391	-	-	45,092	1,773
Lotte Aluminum Co., Ltd.	10	8	-	492	475	-
Lotte Global Logistics Co., Ltd.	-	26	-	-	19,795	14,318
Others (*3)	915	11,554	7,550	567	107,778	2,908
Subtotal	8,379	42,060	8,259	29,605	227,748	429,269
Total	₩ 92,994	241,367	58,697	29,605	373,565	1,788,530

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

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

(*3) Other payables include ₩ 90,000 million of Payables in Lotte Capital due to the merger of Lotte Incheon Development Co., Ltd and LOTTE Town Dongtan Co.,LTD.

(*4) Other payables include down payments for shares purchase contract of LOTTE HOTEL & RETAIL VIETNAM PTE. LTD.

(*5) Other payables include down payments for shares purchase contract of LOTTE PROPERTIES HCMC COMPANY LIMITED.

LOTTE SHOPPING CO.,LTD.
Notes to the Separate Financial Statements
As of December 31, 2022 and 2021

38. Related Party Transactions, continued

(d) Account balances with related parties as of December 31, 2022 and 2021 are summarized as follows:, continued

(in millions of Korean won)

Name of related parties	2021					
	Receivables			Payables		
	Trade receivables	Other receivables	Financial lease receivables	Trade payables	Other payables	Lease liabilities
Shareholders:						
Lotte Corporation	₩ 6	312	-	-	1,594	32,316
Hotel Lotte Co., Ltd.	1,463	54,235	-	-	12,205	233,297
Hotel Lotte Pusan Co., Ltd.	-	17,575	-	-	5,027	31,426
Subtotal	1,469	72,122	-	-	18,826	297,039
Subsidiaries:						
Woori Home Shopping & Television Co., Ltd. (*2)	30,132	142	-	-	3,150	-
LOTTE Himart Co., Ltd.	1,801	2,782	7,121	-	13,596	-
Lotte Cultureworks Co., Ltd. (*3)	1,033	50,467	63,033	-	31,664	-
Lotte Suwon Station Shopping Town Co., Ltd.	-	654	-	-	1,037	347,034
CS Mart Co., Ltd.	10,234	4,710	-	-	1,147	2,128
Lotte Incheon Development Co., Ltd.	6,868	3,152	-	-	5,169	2
LOTTE REIT Co., Ltd.	-	105,279	-	-	9,797	840,275
Others	468	12,529	-	-	9,038	2,957
Subtotal	50,536	179,715	70,154	-	74,598	1,192,396
Associates:						
FRL Korea Co., Ltd.	735	-	-	-	19,921	-
Zara Retail Korea Co., Ltd.	-	-	-	-	5,321	-
Lotte Card Co., Ltd. (*2)	18,923	3,297	-	-	8,557	-
Subtotal	19,658	3,297	-	-	33,799	-
Others (*1):						
Lotte Confectionery Co., Ltd.	-	487	-	4,628	799	-
LOTTE CHILSUNG BEVERAGE CO., LTD.	1,385	3,810	-	4,540	11,703	208
Lotte Data Communication Company	-	87	-	-	18,065	1,708
Korea Seven Co., Ltd.	21	315	-	-	2,712	5,697
Lotte GRS Co., Ltd.	11	446	884	-	5,793	-
LOTTE ASSET DEVELOPMENT CO., LTD.	-	7	-	-	23	-
LOTTE Property & Development	2,884	5,914	-	-	5,946	428,342
LOTTE STATION B/D. CO.	3,364	8,053	-	-	6,111	7,576
LOTTE INTERNATIONAL CO., LTD.	-	-	-	4,903	82	-
LOTTE Engineering & Construction Co., Ltd.	-	4,003	-	-	20,680	1,100
LOTTE FOOD CO., LTD.	-	1,198	87	4,887	12,376	705
Lotte Aluminum Co., Ltd.	-	11	-	494	1,533	-
Lotte Global Logistics Co., Ltd.	-	130	-	-	21,133	18,825
Others	172	7,435	209	351	12,853	2,420
Subtotal	7,837	31,896	1,180	19,803	119,809	466,581
Total	₩ 79,500	287,030	71,334	19,803	247,032	1,956,016

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

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

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

LOTTE SHOPPING CO.,LTD.
Notes to the Separate Financial Statements
As of December 31, 2022 and 2021

38. Related Party Transactions, continued

- (e) The amount of lease payments receivable collection and lease liability payment for the years ended December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

Name of related parties	2022	
	Collection of lease payments receivable (*2)	Payment of lease liabilities (*3)
Shareholders:		
Lotte Corporation	₩ -	2,303
Hotel Lotte Co., Ltd.	-	78,532
Hotel Lotte Pusan Co., Ltd.	-	13,620
Subtotal	-	94,455
Subsidiaries:		
Lotte Cultureworks Co., Ltd.	8,757	-
LOTTE Himart Co., Ltd.	2,931	-
Lotte Suwon Station Shopping Town Co., Ltd.	-	34,240
LOTTE Songdo Shopping Town CO., LTD	-	550
Lotte REIT Co., Ltd.	-	108,432
Others	-	3,169
Subtotal	11,688	146,391
Associates:		
Lotte Card Co., Ltd	552	-
MUJIKOREA CO.LTD	156	5,038
Subtotal	708	5,038
Others (*1):		
Lotte Data Communication Company	-	3,707
LOTTE Property & Development	-	54,478
LOTTE STATION B/D. CO.	-	1,484
LOTTE Rental Co., Ltd.	-	1,493
Others	2,259	8,044
Subtotal	2,259	69,206
Total	₩ 14,655	315,090

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

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

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

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

- (e) The amount of lease payments receivable collection and lease liability payment for the years ended December 31, 2022 and 2021 are as follows:, continued

(in millions of Korean won)

Name of related parties	2021	
	Collection of lease payments receivable (*2)	Payment of lease liabilities (*3)
Shareholders:		
Lotte Corporation	₩ -	2,258
Hotel Lotte Co., Ltd.	-	78,220
Hotel Lotte Pusan Co., Ltd.	-	13,664
Subtotal	-	94,142
Subsidiaries:		
Lotte Cultureworks Co., Ltd.	7,776	-
LOTTE Himart Co., Ltd.	3,065	-
Lotte Suwon Station Shopping Town Co., Ltd.	-	29,261
LOTTE Songdo Shopping Town CO., LTD	-	6,597
Lotte REIT Co., Ltd.	-	104,269
Others	-	4,278
Subtotal	10,841	144,405
Associates:		
Lotte Card Co., Ltd	67	-
Subtotal	67	-
Others (*1):		
LOTTE ASSET DEVELOPMENT CO., LTD.	1,180	24
Lotte Data Communication Company	-	1,158
LOTTE Property & Development	-	46,165
LOTTE STATION B/D. CO.	-	1,579
LOTTE Rental Co., Ltd.	-	1,251
Others	354	4,612
Subtotal	1,534	54,789
Total	₩ 12,442	293,336

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

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

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

- (f) The contents of compensation of major management during the years ended December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

Classification	2022	2021
Short-term salary	₩ 33,356	26,860
Retirement benefits	4,065	3,856
Other long-term benefits	74	6
Total	₩ 37,495	30,722

LOTTE SHOPPING CO.,LTD.
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38. Related Party Transactions, continued

- (g) Details of payment guarantees, and collateral provided by the Company for the financial supports to the related parties as of December 31, 2022 are as follows, and no collateral and payment guarantees are provided by the related parties:

(in full foreign currency)

Name of company	Guaranteed by	Guaranteed amount	Guarantee period	Remarks
Subsidiaries:				
Lotte Department Store (Chengdu) Co., Ltd.	KEB Hana Bank	CNY 258,000,000	May 27, 2022 ~ May 26, 2023	
PT. LOTTE MART INDONESIA	Standard Chartered Bank Korea Ltd	IDR 175,000,000,000	April 13, 2022~ April 13, 2023	
	PT Bank KB Bukopin Tbk.	IDR 125,000,000,000	April 13, 2022~ April 13, 2023	
	Shinhan Bank	IDR 250,000,000,000	April 14, 2022~ April 14, 2023	
	KEB Hana Bank	IDR 420,000,000,000	Feb 25, 2022 ~ Feb 25, 2023	
LOTTE PROPERTIES (CHENGDU) HK LIMITED	Kookmin Bank	USD 165,000,000	March 11, 2022 ~ March 10, 2023	
	NongHyup Bank	USD 60,000,000	March 15, 2022 ~ March 15, 2023	
	Shinhan Bank	USD 30,000,000	Nov 15, 2022~ Nov 14, 2023	Payment Guarantee
	Woori Bank	USD 30,000,000	Nov 15, 2022~ Nov 14, 2023	
LOTTE PROPERTIES HANOI Co., LTD.	KEB Hana Bank	USD 30,000,000	Nov 15, 2022~ Nov 14, 2023	
	Kookmin Bank, 3 others	USD 250,000,000	May 23, 2022~ May 23, 2023	
	The Export-Import Bank of Korea	USD 125,000,000	June 27, 2022~ June 28, 2023	
Joint ventures:				
International Business Center Company Limited	DBS	USD 6,000,000	March 31, 2022 ~ March 30, 2023	
	The Export-Import Bank of Korea	USD 4,000,000	April 1, 2022 ~ April 3, 2023	

- (h) The Company entered in agreement with LOTTE Property & Development to jointly provide financial support for L Incheon 1st Ltd and L Incheon 2nd Ltd in default of the principal and interest on asset backed loans (₩ 800,000 million of par value, maturity on February 23, 2023). As the subsidiary, Lotte Incheon Development Co., Ltd was merged in 2022, the agreement was concluded successfully.
- (i) The Company entered in agreement to jointly provide financial support for LKH 1st., Co., Ltd. and New Star Gimpo Hangang 1st Co., Ltd. in default of the principal and interest on commercial papers (₩ 222,900 million of par value, maturity on June 15, 2023).
- (j) The Company has provided guarantees for Lotte Suwon Station Shopping Town Co., Ltd. to pay the rent during the term of the lease (20 years) from the beginning of the lease contract in 2014.

LOTTE SHOPPING CO.,LTD.
Notes to the Separate Financial Statements
As of December 31, 2022 and 2021

38. Related Party Transactions, continued

(k) Dividends recognized from related parties during the year ended December 31, 2022 are as follows:

(in millions of Korean won)

Name of related parties		Contractual amount
Subsidiaries:		
Woori Home Shopping & Television Co., Ltd.	₩	25,142
LOTTE Himart Co., Ltd.		15,403
LOTTE REIT Co., Ltd.		39,250
Subtotal		79,795
Associates:		
Lotte Card Co., Ltd.		12,960
Hyundai Infiniti Private Equity Real Estate Investment Trust No.1		250
Zara Retail Korea Co., Ltd.		2,185
FRL Korea Co., Ltd.		68,600
Subtotal		83,995
Total	₩	163,790

(l) Details of purchasing card transactions with Lotte Card Co., Ltd as of December 31, 2022 are as follows:

(in millions of Korean won)

Classification	Contractual amount	Used amount	Repayment	Unsettled amount
In the perspective of user	₩ 240,000	2,554,956	2,553,548	1,408

39. Lease

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

Details recognized in the separate statement of financial position related to lease as of December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

	2022	2021
Right-of-use assets		
Land	₩ 364,504	365,005
Buildings	3,234,368	3,865,695
Vehicles	2,136	1,612
Others	9,573	11,720
Total	3,610,581	4,244,032
Investment property	198,968	223,862
Financial lease receivables:		
Current	34,132	28,452
Non-current	121,592	124,852
Total	155,724	153,304
Financial lease liabilities		
Current	750,263	578,277
Non-current	4,530,458	5,299,157
Total	₩ 5,280,721	5,877,434

LOTTE SHOPPING CO.,LTD.
Notes to the Separate Financial Statements
As of December 31, 2022 and 2021

39. Lease, continued

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

Details recognized in the separate statement of comprehensive income (loss) related to lease during 2022 and 2021 are as follows:

<i>(in millions of Korean won)</i>		2022	2021
Depreciation expense on right-of-use assets			
Land and buildings	₩	485,836	518,218
Vehicles		1,245	1,105
Others		5,522	5,611
Total	₩	492,603	524,934
Bad debt expenses on financial lease payments receivables	₩	(749)	(137)
Depreciation expense on investment in properties		(23,024)	(29,333)
Impairment loss on right-of-use assets		(165,913)	(303,864)
Interest expense on lease liabilities		(167,088)	(171,907)
Interest income on financial lease receivables		(3,981)	(3,900)
Gain on lease termination		(56,455)	(83,121)
Gain on disposal of right-of-use assets		(30,577)	(53,836)
Loss on lease termination		(1,817)	(22,012)
Loss on disposal of right-of-use assets		(6,576)	(13,110)
Leases of low-value assets and short-term leases		(82,838)	(77,809)

The Company uses a practical expedient that does not assess whether a rent concession occurring as a direct consequence of the COVID-19 pandemic is a lease modification. Accordingly, the Company recognized ₩ 368 million in profit or loss during the year ended December 31, 2022, to reflect changes in lease payments that arise from a rent concession to which the lessee has applied the practical expedient.

(c) Details of right-of-use assets as of January 1, 2022 and December 31, 2022 are as follows:

<i>(in millions of Korean won)</i>		Property	Vehicles	Others	Total
January 1, 2022	₩	4,230,700	1,612	11,720	4,244,032
Depreciation expenses		(485,836)	(1,245)	(5,522)	(492,603)
Acquisition of right-of-use assets		72,171	2,547	2,931	77,649
Impairment loss on right-of-use assets		(164,068)	(356)	(1,489)	(165,913)
Others (*)		(54,096)	(421)	1,933	(52,584)
December 31, 2022	₩	3,598,871	2,137	9,573	3,610,581

(*) Others are consisting of modification and termination of lease contract, investment in real estate, and sub-lease replacements, etc.

LOTTE SHOPPING CO.,LTD.
Notes to the Separate Financial Statements
As of December 31, 2022 and 2021

39. Lease, continued

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

(in millions of Korean won)

		Property	Vehicles	Others	Total
January 1, 2021	₩	4,494,535	2,013	4,186	4,500,734
Depreciation expenses		(518,218)	(1,105)	(5,611)	(524,934)
Acquisition of right-of-use assets		1,615,983	1,213	15,770	1,632,966
Impairment loss on right-of-use assets		(302,082)	(90)	(1,693)	(303,865)
Others (*)		(1,059,518)	(419)	(932)	(1,060,869)
December 31, 2021	₩	<u>4,230,700</u>	<u>1,612</u>	<u>11,720</u>	<u>4,244,032</u>

(*) Others are consisting of modification and termination of lease contract, investment in real estate, and sub-lease replacements, etc.

(e) The contractual maturity of lease liabilities as of December 31, 2022 are as follows:

(in millions of Korean won)

		Less than 6 months	6 months~ 1 year	1 ~ 2 years	2 ~ 5 years	More than 5 years	Total
Total minimum lease payments	₩	402,669	362,160	687,482	1,853,266	3,006,211	6,311,788
Net minimum lease payments		398,907	351,356	642,459	1,662,911	2,225,088	5,280,721

Total cash outflow of lease liabilities during the year of 2022 is ₩ 748,722 million.

(f) The contractual maturity of lease receivables as of December 31, 2022 are as follows:

(in millions of Korean won)

		Less than 6 months	6 months~ 1 year	1 ~ 2 years	2 ~ 5 years	More than 5 years	Total
Total minimum lease payments	₩	18,264	16,629	40,360	58,473	42,405	176,131
Net minimum lease payments		18,102	16,224	38,661	52,967	30,656	156,610

LOTTE SHOPPING CO.,LTD.
Notes to the Separate Financial Statements
As of December 31, 2022 and 2021

39. Lease, continued

(g) Operating lease

The Company entered and maintained an operating lease agreement to lease property, plant, and equipment. The collection plan of lease payments related to the operating lease contract as of December 31, 2022 and 2021 is as follows:

<i>(in millions of Korean won)</i>		<u>2022</u>	<u>2021</u>
Within 1 year	₩	96,272	98,771
Within 1 ~ 5 years		151,358	189,660
Over 5 years		<u>72,532</u>	<u>66,856</u>
Total (*)	₩	<u>320,162</u>	<u>355,287</u>

(*) Variable lease payments due to changes in sales are not included.

The lease income related to the operating lease consisting of variable lease payment amounting to ₩ 1,233,599 million and fixed lease payment amounting to ₩ 119,319 million are recognized during 2022 and variable lease payment amounting to ₩ 1,015,435 million and fixed lease payment amounting to ₩ 126,872 million are recognized during 2021 by the Company.

40. Risk Management

(a) Management of financial risks

(i) Objectives and policies of the Company

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

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

LOTTE SHOPPING CO.,LTD.
Notes to the Separate Financial Statements
As of December 31, 2022 and 2021

40. Risk Management, continued

(a) Management of financial risks, continued

(ii) Credit risk

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

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

① Exposure to credit risk

The book value of a financial asset represents the maximum exposure to credit risk. The maximum exposures to credit risk as of December 31, 2022 and 2021 are as follows:

<i>(in millions of Korean won)</i>		2022	2021
Cash and cash equivalent (*1)	₩	1,152,210	1,563,808
Trade and other receivables		713,604	578,340
Other financial assets (current)		800,119	612,274
Other financial assets (non-current) (*2)		1,078,989	1,048,352
Total	₩	3,744,922	3,802,774

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

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

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

Trade and other receivables before deducting the allowance for doubtful accounts as of December 31, 2022 are as follows:

<i>(in millions of Korean won)</i>		2022		
		Total carrying amount	Probability of default	Allowance for doubtful accounts
Not past due	₩	711,914	0.00%~1.85%	2,857
0 ~ 3 months past due		3,603	0.06%~73.33%	311
3 ~ 6 months past due		1,695	10.50%~95.82%	1,567
6 ~ 9 months past due		169	30.01%~98.21%	136
9 ~ 12 months past due		740	74.54%~98.89%	733
12 ~ 15 months past due		923	100.00%	923
15 months past due		19,342	27.51%~100%	18,255
Total	₩	738,386		24,782

There is no impairment loss on other financial assets (current) as of December 31, 2022.

LOTTE SHOPPING CO.,LTD.
Notes to the Separate Financial Statements
As of December 31, 2022 and 2021

40. Risk Management, continued

(a) Management of financial risks, continued

(ii) Credit risk, continued

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

Other financial assets (non- current) before deducting the allowance for doubtful accounts as of December 31, 2022 are as follows:

(in millions of Korean won)

		2022		
		Total carrying amount	Probability of default	Allowance for doubtful accounts
Not past due	₩	1,078,989	0.00%	-
15 months past due		1,111	100.00%	1,111
Total	₩	1,080,100		1,111

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

(in millions of Korean won)

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

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

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

(in millions of Korean won)

		2021		
		Total carrying amount	Probability of default	Allowance for doubtful accounts
Not past due	₩	1,048,352	0.00%	-
15 months past due		1,111	100.00%	1,111
Total	₩	1,049,463		1,111

LOTTE SHOPPING CO.,LTD.
Notes to the Separate Financial Statements
As of December 31, 2022 and 2021

40. Risk Management, continued

(a) Management of financial risks, continued

(ii) Credit risk, continued

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

Movements in the allowance for doubtful trade and other receivables for the years ended December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

		2022	2021
Beginning Balance	₩	20,310	48,510
Provision		4,608	4,053
Reversal of impairment loss		-	(2,748)
Write-offs		(136)	(6,693)
Collection		-	(25,734)
Others		-	2,922
Ending balance	₩	24,782	20,310

Movements in the allowance for doubtful other financial assets (current) for the years ended December 31, 2022 and 2021 have not occurred.

Movements in the allowance for doubtful other financial assets (non- current) for the years ended December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

		2022	2021
Beginning Balance	₩	1,111	1,036
Provision		-	75
Ending balance	₩	1,111	1,111

③ Payment guarantees

As of December 31, 2022, the Company has provided financial guarantees to subsidiaries, associates and joint ventures, amounting to ₩ 1,012,395 million.

(iii) Liquidity risks

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

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

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

LOTTE SHOPPING CO.,LTD.
Notes to the Separate Financial Statements
As of December 31, 2022 and 2021

40. Risk Management, continued

(a) Management of financial risks, continued

(iii) Liquidity risks, continued

Aggregate maturities of financial liabilities, including estimated interest, as of December 31, 2022 are as follows:

(in millions of Korean won)

(in millions of Korean won)

		2022					
		Book value	3 months or less	3 ~ 6 months	6 months ~ 1 year	More than 1 year	contractual cash flow
Borrowings and debentures (current) (*1, 2)	₩	2,142,204	810,516	902,262	457,987	-	2,170,765
Trade payables and other payables		2,026,175	2,026,175	-	-	-	2,026,175
Other financial liabilities (current) (*3)		998,335	571,618	165,227	425,816	-	1,162,661
Borrowings and debentures (non-current) (*1, 2)		3,866,164	28,721	28,972	58,295	4,083,343	4,199,331
Trade payables and other payables (non-current)		3,920	-	-	-	3,920	3,920
Other financial liabilities(non-current) (*3)		4,673,405	417	362	844	5,694,742	5,696,365
Financial guarantee contracts (*2)		149,401	1,012,395	-	-	-	1,012,395
Total	₩	13,859,604	4,449,842	1,096,823	942,942	9,782,005	16,271,612

(*1) Interest expenses are included.

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

(*3) It includes lease liabilities.

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

LOTTE SHOPPING CO.,LTD. **Notes to the Separate Financial Statements** **As of December 31, 2022 and 2021**

40. Risk Management, continued

(a) Management of financial risks, continued

(iv) Market risk

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

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

① Currency risk

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

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

Assets and liabilities denominated in foreign currencies other than the Company's functional currency as of December 31, 2022 and 2021 are as follows:

(in millions of Korean won)

		2022		2021	
		Assets	Liabilities	Assets	Liabilities
USD	₩	11,410	1,061,968	187,167	923,370
EUR		-	349	-	160
JPY		-	-	-	-
IDR		902	-	629	-
CNY		49	-	3,082	-
AUD		-	16	-	3
Total	₩	12,361	1,062,333	190,878	923,533

LOTTE SHOPPING CO.,LTD.
Notes to the Separate Financial Statements
As of December 31, 2022 and 2021

40. Risk Management, continued

(a) Management of financial risks, continued

(iv) Market risk, continued

① Currency risk, continued

The average rates for the years ended December 31, 2022 and 2021, and the closing rates as of December 31, 2022 and 2021 are as follows:

		Average rate		Closing rate	
		2022	2021	2022	2021
<i>(in Korean won)</i>					
USD	₩	1,291.95	1,144.42	1,267.30	1,185.50
EUR		1,357.38	1,352.79	1,351.20	1,342.34
JPY		9.8344	10.4145	9.5318	10.3024
IDR		0.0869	0.0800	0.0809	0.0831
CNY		191.57	177.43	181.44	186.26
AUD		895.43	859.42	858.41	858.89

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

		2022		2021	
		10% increase	10% decrease	10% increase	10% decrease
<i>(in millions of Korean won)</i>					
USD	₩	764	(764)	18,256	(18,256)
EUR		(35)	35	(16)	16
JPY		-	-	-	-
IDR		90	(90)	63	(63)
CNY		5	(5)	308	(308)
AUD		(2)	2	(0)	0
Total	₩	822	(822)	18,611	(18,611)

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

② Interest rate risk

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

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

LOTTE SHOPPING CO.,LTD.
Notes to the Separate Financial Statements
As of December 31, 2022 and 2021

40. Risk Management, continued

(a) Management of financial risks, continued

(iv) Market risk, continued

② Interest rate risk, continued

The book value of the Company's variable interest-bearing financial instruments as of December 31, 2022 and 2021 are as follows:

<i>(in millions of Korean won)</i>		<u>2022</u>	<u>2021</u>
Financial assets	₩	-	14,140
Financial liabilities		674,599	591,250

The table below summarizes the impact of increases/decreases of interest rates in loans and borrowings with floating interest rate on the Company's interest income and expense that would incur in relation to the loans and borrowings for the years ended December 31, 2022 and 2021. The analysis is based on the assumption that the interest rate has increased/decreased by 100 basis points with all other variables held constant. Borrowings and debentures for which the Company has entered interest rate swap transactions are not included.

<i>(in millions of Korean won)</i>		<u>2022</u>		<u>2021</u>	
		<u>100bps increase</u>	<u>100bps decrease</u>	<u>100bps increase</u>	<u>100bps decrease</u>
Interest income	₩	-	-	141	(141)
Interest expense		2,950	(2,950)	-	-

③ Price risk

The Company is exposed to fluctuations of price in equity instrument at fair value through other comprehensive income. The book value of the marketable equity instrument at fair value through other comprehensive income as of December 31, 2022 and 2021 are ₩ 66,486 million and ₩ 83,217 million, respectively. Assuming that other variables remain the same and the prices of the equity instruments fluctuate by 10%, the effects of the fluctuation to the other comprehensive income in 2022 and 2021 are ₩ 6,649 million and ₩ 8,322 million, respectively.

LOTTE SHOPPING CO.,LTD.
Notes to the Separate Financial Statements
As of December 31, 2022 and 2021

40. Risk Management, continued

(b) Capital Management

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

The liabilities to equity ratios and net borrowings to equity ratios as of December 31, 2022 and 2021 are as follows:

<i>(in millions of Korean won)</i>		2022	2021
Liabilities (A)	₩	15,464,184	14,470,568
Equity (B)		9,267,590	9,755,783
Financial instruments (C)		1,878,868	2,004,990
Borrowings (D)		6,008,368	4,727,141
Liabilities to equity ratio (A/B)		166.86%	148.33%
Net borrowings to equity ratio ((D-C)/B)		44.56%	27.90%

41. Business Combination

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

(b) This business combination is occurred between the Company and the subsidiaries, and all the acquired assets and liabilities were recognized as the carrying values on the consolidated financial statements of the Company and the subsidiaries. The differences between carrying values of investments in subsidiaries before business combination and recognized amounts in identifiable assets and liabilities are recorded as capital adjustments.

LOTTE SHOPPING CO.,LTD.
Notes to the Separate Financial Statements
As of December 31, 2022 and 2021

41. Business Combination, continued

According to business combination, details of acquired assets and liabilities are as follows:

(in millions of Korean won)

	2022
I. Total transfer fee (Carrying amount of investment in subsidiaries before merger) ₩	554,497
II. Identifiable assets and liabilities	
Cash and cash equivalents	238,870
Trade and other receivables	1,192
Inventory	7,553
Tangible and intangible assets	1,647,354
Goodwill	84,516
Investment Property	409,891
Other financial assets	2,106
Other non-financial assets	7,639
Other assets	124
Trade and other payables	90,922
Borrowings and debentures	1,702,601
Other financial liabilities	31,931
Other non-financial liabilities	585
Deferred corporate tax liabilities	36,440
Current corporate tax liabilities	12,882
Other liabilities	7,651
Net assets	516,233
III. Capital Adjustments	(38,264)

Independent Auditors' Report on Internal Control over Financial Reporting

English Translation of a report originally issued in Korean

To the Shareholders and Board of Directors of

Lotte Shopping Co., Ltd.

Opinion on Internal Control over Financial Reporting

We have audited Lotte Shopping Co., Ltd.'s (the Company) internal control over financial reporting ("ICFR") as of December 31, 2022 based on the criteria established in the Conceptual Framework for Designing and Operating ICFR ("ICFR Design and Operation Framework") issued by the Operating Committee of Internal Control over Financial Reporting in the Republic of Korea (the "ICFR Committee").

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2022, based on ICFR Design and Operation Framework.

We also have audited, in accordance with Korean Standards on Auditing (KSAs), the separate financial statements of the Company, which comprise the separate statements of financial position as of December 31, 2022 and 2021, the separate statements of comprehensive income (loss), changes in equity and cash flows for the years then ended, and notes, comprising significant accounting policies and other explanatory information, and our report dated March 15, 2023 expressed an unmodified opinion on those separate financial statements.

Basis for Opinion

We conducted our audit in accordance with KSAs. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Internal Control over Financial Reporting section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the internal control over financial reporting in Republic of Korea, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

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

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

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

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



Definition and Limitations of Internal Control over Financial Reporting

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

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

The engagement partner on the audit resulting in this independent auditors' report is Su Kwang Kim.

KPMG Samjong Accounting Corp.

Seoul, Korea
March 15, 2023

This report is effective as of March 15, 2023, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the internal control over financial reporting. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

ICFR Operating Status Report by CEO

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

We, as the Chief Executive Officer (or President, etc which means the representative director of the Company) and the Internal Accounting Manager of LOTTE SHOPPING CO., LTD (“the Company”), assessed operating status of the Company’s Internal Control over Financial Reporting(“ICFR”) for the year ending December 31, 2022.

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

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

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

Based on our assessment, we concluded that the Company’s ICFR is designed and operated effectively as of December 31, 2022, in all material respects, in accordance with the ‘Conceptual Framework for Designing and Operating Internal Control over Financial Reporting.

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

January 31st 2023

Kim Sang hyun (Signature)

Chief Executive Officer

Jang Ho joo (Signature)

Internal Accounting Manager

English Translation of Report Originally Issued in Korea