

2014 Third Quarter Results

November, 2014

LOTTE SHOPPING CO., LTD

INVESTOR RELATIONS

Disclaimer

The financial information in this document are consolidated earnings results based on K-IFRS.

This release includes preliminary figures that are still undergoing independent auditor review. The actual results may differ from those included in this release due to a variety of factors. Lotte Shopping Company undertakes no obligation to update or revise the preliminary provided in this release.

Highlights for Q3 FY14

- **Despite a modest pickup in consumer sentiment in Q3, domestic consumption remained broadly flat resulting in -0.4% revenue decline**
 - Domestic dept. stores: Recovery in apparel sales & high growth in outlet malls led to SSSG of +2.4%
 - Domestic hypermarkets: Regulatory impact and delay in market recovery led to negative SSSG of -4.4%
 - Others : Lotte Cinema posted outstanding growth for film investment & distributions along with favorable domestic movie business, Homeshopping maintained high revenue growth
- **Profit recovery delayed maintaining similar trends to 1H14, resulting in OP decline of -15.9% YoY**
 - Domestic: Dept. stores & Homeshopping recorded solid profit growth whereas Hypermarkets & Supermarkets showed weak profit trends
 - Overseas Dept. stores: New store openings added up to bigger losses
 - Overseas Hypermarkets: Recorded similar quarterly losses to 1H due to continuing weak consumption demand & fiercer competition in China
- **Profit before tax -8.3% YoY**
 - High base due to large foreign currency translation gains in 3Q, 2013
 - Recorded gain on disposal of assets related to sales & leaseback transaction

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1. Consolidated Financial Results

(Unit : billion KRW)

	Q3 FY'13	Q3 FY'14	YoY	Q1-Q3 FY'13	Q1-Q3 FY'14	YoY
Gross Sales	7,248	7,218	-0.4%	21,601	21,452	-0.7%
Operating Profit	363	305	-15.9%	1,083	957	-11.6%
EBITDA	539	488	-9.5%	1,598	1,505	-5.8%
Profit before tax	449	411	-8.3%	1,045	1,023	-2.1%
Net Profit	319	280	-12.1%	767	673	-12.2%

*Number of consolidated affiliates: 56

2. Financial Summary by Division

(Unit : billion KRW, %)

	3Q 2013		3Q 2014		YoY	1Q-3Q 2013		1Q-3Q 2014		YoY
Revenue	7,248	(100%)	7,218	(100%)	-0.4%	21,601	(100%)	21,452	(100%)	-0.7%
Department stores	1,845	(25.5%)	1,866	(25.9%)	1.1%	6,065	(28.1%)	6,066	(28.3%)	0.0%
Hypermarkets	2,435	(33.6%)	2,182	(30.2%)	-10.4%	7,046	(32.6%)	6,406	(29.9%)	-9.1%
Electronics	944	(13.0%)	1,016	(14.1%)	7.6%	2,594	(12.0%)	2,799	(13.0%)	7.9%
Finance	360	(5.0%)	400	(5.5%)	11.0%	1,237	(5.7%)	1,285	(6.0%)	3.8%
Others*	1,664	(22.9%)	1,754	(24.3%)	5.4%	4,658	(21.6%)	4,897	(22.8%)	5.1%
Operating Profit	363	5.0%	305	4.2%	-15.9%	1,083	5.0%	957	4.5%	-11.6%
Department stores	104	5.6%	105	5.6%	0.5%	431	7.1%	426	7.0%	-1.3%
Hypermarkets	98	4.0%	51	2.3%	-48.6%	213	3.0%	102	1.6%	-52.0%
Electronics	62	6.6%	58	5.7%	-7.1%	155	6.0%	115	4.1%	-26.0%
Finance	42	11.7%	35	8.7%	-17.4%	158	12.7%	172	13.4%	9.0%
Others*	56	3.4%	57	3.3%	2.5%	126	2.7%	142	2.9%	13.0%

*Includes consolidated adjustments

Department Stores

(Unit : billion KRW)

	3Q 2013		3Q 2014		YoY	Q1-Q3 2013		Q1-Q3 2014		YoY
Sales Revenue	1,845	(100%)	1,866	(100%)	1.1%	6,065	(100%)	6,066	(100%)	0.0%
Domestic	1,828	(99.1%)	1,839	(98.6%)	0.6%	6,029	(99.4%)	5,997	(98.9%)	-0.5%
Overseas	17	(0.9%)	27	(1.4%)	58.0%	36	(0.6%)	69	(1.1%)	93.5%
Operating Profit	104	5.6%	105	5.6%	0.5%	431	7.1%	426	7.0%	-1.3%
Domestic	131	7.1%	134	7.3%	2.9%	499	8.3%	505	8.4%	1.2%
Overseas	-26	-	-29	-	-	-68	-	-79	-	-
EBITDA	174	9.4%	179	9.6%	3.1%	629	10.4%	646	10.6%	2.7%
Domestic	195	10.7%	200	10.9%	2.3%	686	11.4%	702	11.7%	2.4%
Overseas	-21	-	-21	-	-	-57	-	-56	-	-

*50 Lotte Department Stores : Domestic 43 stores (including 10 Outlets) / Overseas 7 stores(China 5 stores, Indonesia 1 store, Vietnam 1 store)

Key Factors

◆ Domestic SSSG 3Q: 2.4% (Managerial gross revenue +5.8%)

- Outlets sustained high SSSG(+9.2%), dept. store SSSG excluding outlets(+1.6%)

◆ Apparel sales shows signs of recovery

- Women's wear +3.0%, Men's wear & Sports +4.1%, Food +1.6%, Home appliances +4.2%, Accessories +0.4%, Luxury +0.3%

◆ Carried out sales & leaseback for 2 stores(Ilsan·Sangin, Sept.)

◆ Successful opening of first store in Vietnam (Hanoi store, Sept.)

◆ Launched new Omni-channel marketings

- Smart Coupon Book (new apps for promotional events and gifts)
- Enhance seamless cross channel services; utilizing beacon, smart-pickup, T-commerce etc.

◆ Store openings in Q4

- 2 department stores: Avenuel World Tower(Oct. 2014), Suwon
- 4 outlet stores: Goyang Terminal(Oct. 2014), Guri, Gwangmyeong, East-Busan

Hypermarkets

(Unit : billion KRW)

	3Q 2013		3Q 2014		YoY	1Q-3Q 2013		1Q-3Q 2014		YoY
Sales Revenue	2,435	(100%)	2,182	(100%)	-10.4%	7,046	(100%)	6,406	(100%)	-9.1%
Domestic	1,682	(69.1%)	1,533	(70.2%)	-8.9%	4,899	(69.5%)	4,505	(70.3%)	-8.0%
Overseas	753	(30.9%)	649	(29.8%)	-13.7%	2,148	(30.5%)	1,901	(29.7%)	-11.5%
Operating Profit	98	4.0%	51	2.3%	-48.6%	213	3.0%	102	1.6%	-52.0%
Domestic	106	6.3%	78	5.1%	-26.9%	255	5.2%	187	4.1%	-26.8%
Overseas	-8	-	-27	-	-	-42	-	-85	-	-
EBITDA	152	6.2%	103	4.7%	-32.2%	370	5.3%	261	4.1%	-29.4%
Domestic	144	8.6%	116	7.6%	-19.6%	367	7.5%	301	6.7%	-17.9%
Overseas	8	1.0%	-13	-	-	3	0.2%	-40	-	-

*259 Stores: Korea 110, China 103, Indonesia 38, Vietnam 8

Domestic

- ◆ **SSSG 3Q: -4.3% (Managerial gross revenue -1.2%)**
 - Fresh -7.2%, Processed -6.7%, Households -5.3%, Apparel -7.5%, Electronics +24.8%
- ◆ **No. of store closures end of 3Q(2 days closure per month)**
 - 108ea: 9 voluntary closures / 99 forced closures
- ◆ **Rent expenses increase related to sales & leaseback(5 stores)**
- ◆ **Measures to improve profit margin**
 - Short-term measures: minimal new recruits, minimize general expenses, stop using paper inserts
 - Long-term measures: Build up distribution infrastructure such as APC(Agricultural products Processing Center), Online center
- ◆ **New store openings mainly in complex shopping malls**
 - : 6 stores in Q4

Overseas

- ◆ **Weak SSSG due to economic slowdown in emerging markets**
 - SSSG Q3: China -11.7%, Indonesia +1.6%, Vietnam +1.1%
- ◆ **Project for operational efficiency continues**
 - Merchandise renewal such as H&B, baby goods, electronics in progress(20 stores completed)
 - Customer-orientated MD category management
 - : Product segmentation & enhance display on popular items
- ◆ **5 Store openings in 3Q:** China 3ea(2 store closures in China), Indonesia 1ea, Vietnam 1ea

Electronics

(Unit : billion KRW)

	3Q 2013		3Q 2014		YoY	1Q-3Q 2013		1Q-3Q 2014		YoY
Sales Revenue	944	(100%)	1,016	(100%)	7.6%	2,594	(100%)	2,799	(100%)	7.9%
Operating Profit	62	6.6%	58	5.7%	-7.1%	155	6.0%	115	4.1%	-26.0%
EBITDA	73	7.8%	70	6.9%	-3.9%	188	7.3%	153	5.5%	-18.6%
Net Profit	45	4.7%	40	4.0%	-10.0%	110	4.2%	77	2.8%	-29.6%

※ 433 Stores(End of Q3 FY14)

Key Factors

◆ Gross revenue up by +7.6% in 3Q

- 433 stores in total, end of 3Q(90 new stores, YoY): 98 stores in Lotte Mart, 335 road shops
- High sales growth in white goods(excluding A/C) (+14%) & small appliances (+29%)
- Weak sales of summer goods such as A/C & dehumidifiers (-20%) due to low temperature

◆ Weak profit trend continued in 3Q: -7.1%

- SG&A expenses led by increased rent expenses related to new stores(+11.9%)

- Opening of new upscale Hi-Mart store in Avenuel World Tower: focus on premium line to differentiate from nearby Jamsil store

◆ FY2014 4Q forecasts

- High sales growth expected from white goods such as kimchi fridges as well as small appliances & mobile handsets
- Expand online malls business to set-up Omni-Channel services
- Increase efficiency by differentiating merchandise of existing stores from Lotte Mart shop in shops
- Opening schedule in 4Q: 4 stores in Lotte Mart

Finance

Income Statement Summary

(Unit : billion KRW)	3Q FY'13	3Q FY'14	YoY	1Q-3Q FY'13	1Q-3Q FY'14	YoY
Operating Revenue	360	400	11.0	1,237	1,285	3.8
Credit Purchase	211	199	▲5.5	633	593	▲6.3
Card Loan & Cash Advance	129	136	5.0	379	397	4.7
Others	20	65	220.8	225	294	31.0
Operating Expense	318	365	14.7	1,079	1,113	3.1
Labor costs	28	30	8.4	86	89	3.3
Finance Expense	48	44	▲8.8	151	139	▲7.6
Loan Loss Provision	56	58	3.9	111	142	27.8
Card Expense	188	202	7.4	572	538	▲6.1
General Expense	▲3	30	-	158	204	28.9
Operating Profit	42	35	▲17.4	158	172	9.0

* Finance division includes 4 Electronic Cash Business subsidiaries

* Other Operating Revenue & General Expense includes gain & loss on Derivative Asset Transaction

Transaction Volume & Other Highlights

(Unit : tr. KRW, thousand, %)

	FY'12	FY'13	1Q FY'14	2Q FY'14	3Q FY'14
Transaction Volume	50.7	54.1	12.6	13.2	13.6
No. of Holders	8,058	8,078	7,488	7,298	7,298
Delinquency Rate	2.23	1.94	2.33	2.14	2.09

Earning Asset Portfolio

	FY'12	FY'13	1Q FY'14	2Q FY'14	3Q FY'14
Credit Purchase	61.4	60.3	59.2	59.0	58.2
Card Loan	20.8	24.0	24.6	25.1	26.1
Cash Advance	12.9	11.2	11.4	11.0	10.4
Installment & lease	4.9	4.5	4.8	4.9	5.3

Key Factors

◆ Operating revenue

- Credit purchase declined by KRW 11.5bn
: Effect of card cancellations and customer defects resulting from customer data leakage issue in Q1
- Other Operating Revenue increased due to gains from disposal of Lotte Chilsung shares(KRW 18.3bn, July)

◆ Operating profit

- Advertising expenses increased by KRW 5bn due to customer trust recovery campaigns(Listen & Change)
- Depreciation costs increased by KRW 4.4bn due to introduction of next-generation IT systems
- ◆ **Plan to spin off Lotte Membership in Jan. 2015**
 - Aim to expand membership affiliates and improve competitive edge

Other Business Units

(Unit : billion KRW)

	3Q 2013	3Q 2014	YoY	1Q-3Q 2013	1Q-3Q 2014	YoY
Sales Revenue	1,664	1,754	5.4%	4,658	4,897	5.1%
Lotte Super	610	614	0.7%	1,760	1,784	1.4%
Lotte Homeshopping	199	212	6.6%	608	659	8.4%
Korea Seven	688	724	5.2%	1,919	1,987	3.5%
Others	167	204	22.2%	372	466	25.9%
Operating Profit	56	57	2.5%	126	142	13.0%
Lotte Super	11	4	-64.8%	28	12	-56.5%
Lotte Homeshopping	11	19	70.4%	45	78	73.4%
Korea Seven	23	15	-35.8%	50	31	-38.8%
Others	11	19	72.7%	3	21	600.0%

3. Non-Operating Profit Analysis

(Unit : billion KRW)

	3Q FY'13	3Q FY'14	YoY	1Q-3Q FY'13	1Q-3Q FY'14	YoY
Operating Profit	363	305	-15.9%	1,083	957	-11.6%
Interest Income / Expense	-42	-40	-	-119	-115	-
Gains on Foreign Currency & Derivative Asset	67	-2	-	42	18	-56.7%
Other non- operating profit	53	88	66.0%	56	79	41.1%
Equity Method Gain & Loss	8	60	-	-17	84	-
Profit Before Tax	449	411	-8.3%	1,045	1,023	-2.1%
Corporate tax	130	131	0.9%	278	350	25.9%
Net Profit	319	280	-12.1%	767	673	-12.2%

Appendix

- Income Statement
- Balance Sheet
- Lotte Marts in Overseas
- Store Network

Income Statement (Consolidated K-IFRS)

(Unit: billion KRW)

	Q3 FY'13		Q3 FY'14		YoY	1Q-3Q 2013		1Q-3Q 2014		YoY
Revenue	7,248		7,218		-0.4%	21,601		21,452		-0.7%
Gross Profit	2,164	(29.9%)	2,176	(30.1%)	0.5%	6,391	(29.6%)	6,471	(30.2%)	1.3%
SG&A	1,802	(24.9%)	1,871	(25.9%)	3.8%	5,308	(24.6%)	5,514	(25.7%)	3.9%
Operating Profit	363	(5.0%)	305	(4.2%)	-15.9%	1,083	(5.0%)	957	(4.5%)	-11.6%
EBITDA	539	(7.4%)	488	(6.8%)	-9.5%	1,598	(7.4%)	1,505	(7.0%)	-5.8%
Profit before tax	449	(6.2%)	411	(5.7%)	-8.3%	1,045	(4.8%)	1,023	(4.8%)	-2.1%
Net Profit	319	(4.4%)	280	(3.9%)	-12.1%	767	(3.6%)	673	(3.1%)	-12.2%
Net Income of Controlling Company	289	(4.0%)	252	(3.5%)	-12.8%	691	(3.2%)	601	(2.8%)	-13.0%
Net income of minority interest equity	30	(0.4%)	28	(0.4%)	-5.2%	76	(0.4%)	73	(0.3%)	-4.8%

Balance Sheet (Consolidated K-IFRS)

(Unit: billion KRW)

	2Q '13	3Q '13	4Q '13	1Q '14	2Q '14	3Q '14
Total assets	38,121	37,879	38,973	38,702	39,022	39,183
Cash & Cash Equivalent	2,050	1,767	2,018	2,121	2,410	2,183
Inventories	2,906	3,027	3,115	3,114	2,899	3,145
Liabilities	21,840	21,386	22,048	21,694	21,788	21,641
Borrowings & Bonds	12,761	12,347	12,675	12,619	12,952	12,145
Equity	16,281	16,493	16,925	17,008	17,234	17,542
Share Capital	158	158	158	158	158	158

Lotte Marts in Overseas

(Unit : billion KRW)

	No. of Stores	3Q FY'13*	3Q FY'14*	YoY*	YoY**
China	103	414	338	-18.4%	-9.7%
Indonesia	38	313	271	-13.4%	6.5%
Vietnam	8	26	40	57.5%	57.7%
Total	149	753	649	-13.7%	-0.3%

*Based on K-IFRS accounting rules(including currency effect)

** Revenue growth in local currency(excluding currency effect)

Store Network

Domestic		2010	2011	2012	2013	2014				2014
		Year End	Year End	Year End	Year End	Openings				Year End
		Total	Total	Total	Total	Q1	Q2	Q3	Q4(E)	Total(E)
Department Store	full-line store	23	24	29	29				2	31
	franchise store	6	6	2	2					2
	young plaza	2	2	2	2					2
	outlet mall	4	6	7	10				4	14
Hypermarket		90	95	103	109			1	6	116

Overseas		2010	2011	2012	2013	2014				2014
		Year End	Year End	Year End	Year End	Openings				Year End
		Total	Total	Total	Total	Q1	Q2	Q3	Q4(E)	Total(E)
Department Store	Russia	1	1	1	1					1
	China	1	2	3	4		1			5
	Vietnam	-	-	-	-			1		1
	Indonesia	-	-	-	1					1
Hypermarket	China	82	94	102	107	-2	-3	3/-2	1/-1	103
	Vietnam	2	2	4	6	1		1	2	10
	Indonesia	22	28	31	36		1	1		38