

# 2014 Fourth Quarter Results

February, 2015

**LOTTE SHOPPING CO., LTD**

**INVESTOR RELATIONS**

# Disclaimer

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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.



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# 1. Consolidated Financial Results

(Unit: billion KRW)

	4Q 2013	4Q 2014	YoY	FY2013	FY2014	YoY
<b>Gross Sales</b>	<b>7,697</b>	<b>7,687</b>	<b>-0.1%</b>	<b>29,297</b>	<b>29,139</b>	<b>-0.5%</b>
<b>Operating Profit</b>	<b>403</b>	<b>232</b>	<b>-42.4%</b>	<b>1,485</b>	<b>1,188</b>	<b>-20.0%</b>
<b>EBITDA</b>	<b>584</b>	<b>431</b>	<b>-26.2%</b>	<b>2,182</b>	<b>1,936</b>	<b>-11.3%</b>
<b>Profit before tax</b>	<b>274</b>	<b>59</b>	<b>-78.4%</b>	<b>1,318</b>	<b>1,082</b>	<b>-17.9%</b>
<b>Net Profit</b>	<b>114</b>	<b>-56</b>	<b>-</b>	<b>881</b>	<b>618</b>	<b>-29.9%</b>

\* Number of consolidated affiliates: 56

## 2. Analysis by Divisions

(Unit : billion KRW, %)

	4Q 2013		4Q 2014		YoY	FY2013		FY2014		YoY
<b>Revenue</b>	<b>7,697</b>	<b>(100.0%)</b>	<b>7,687</b>	<b>(100.0%)</b>	<b>-0.1%</b>	<b>29,297</b>	<b>(100.0%)</b>	<b>29,139</b>	<b>(100%)</b>	<b>-0.5%</b>
Department stores	2,558	(33.2%)	2,492	(32.4%)	-2.6%	8,623	(29.4%)	8,558	(29.4%)	-0.7%
Hypermarkets	2,169	(28.2%)	2,101	(27.3%)	-3.2%	9,215	(31.5%)	8,507	(29.2%)	-7.7%
Electronics	925	(12.0%)	955	(12.4%)	3.3%	3,519	(12.0%)	3,754	(12.9%)	6.7%
Finance	457	(5.9%)	476	(6.2%)	4.2%	1,694	(5.8%)	1,761	(6.0%)	3.9%
Others*	1,588	(20.7%)	1,663	(21.7%)	4.7%	6,246	(21.3%)	6,559	(22.5%)	5.0%
<b>Operating Profit</b>	<b>403</b>	<b>5.2%</b>	<b>232</b>	<b>3.0%</b>	<b>-42.4%</b>	<b>1,485</b>	<b>5.1%</b>	<b>1,188</b>	<b>4.1%</b>	<b>-20.0%</b>
Department stores	267	10.5%	177	7.1%	-33.9%	699	8.1%	603	7.0%	-13.8%
Hypermarkets	20	0.9%	-19	-	-	233	2.5%	83	1.0%	-64.3%
Electronics	30	3.2%	30	3.1%	-0.3%	185	5.3%	144	3.8%	-21.9%
Finance	43	9.5%	31	6.5%	-28.5%	201	11.9%	203	11.5%	0.9%
Others*	43	2.7%	13	0.8%	-68.5%	169	2.7%	155	2.4%	-7.6%

\*Includes consolidated adjustments

# Department Stores

(Unit : billion KRW)

	4Q 2013		4Q 2014		YoY	FY2013		FY2014		YoY
<b>Sales Revenue</b>	<b>2,558</b>	<b>(100%)</b>	<b>2,492</b>	<b>(100%)</b>	<b>-2.6%</b>	<b>8,623</b>	<b>(100%)</b>	<b>8,558</b>	<b>(100%)</b>	<b>-0.7%</b>
Domestic	2,536	(99.2%)	2,463	(98.8%)	-2.9%	8,565	(99.3%)	8,460	(98.9%)	-1.2%
Overseas	22	(0.8%)	29	(1.2%)	34.3%	58	(0.7%)	98	(1.1%)	71.1%
<b>Operating Profit</b>	<b>267</b>	<b>10.5%</b>	<b>177</b>	<b>7.1%</b>	<b>-33.9%</b>	<b>699</b>	<b>8.1%</b>	<b>603</b>	<b>7.0%</b>	<b>-13.8%</b>
Domestic	294	11.6%	208	8.4%	-29.6%	793	9.3%	712	8.4%	-10.2%
Overseas	-27	-	-31	-	-	-94	-	-109	-	-
<b>EBITDA</b>	<b>339</b>	<b>13.3%</b>	<b>261</b>	<b>10.5%</b>	<b>-23.2%</b>	<b>969</b>	<b>11.2%</b>	<b>907</b>	<b>10.6%</b>	<b>-6.4%</b>
Domestic	360	14.2%	282	11.4%	-21.8%	1,046	12.2%	984	11.6%	-6.0%
Overseas	-21	-	-21	-	-	-77	-	-77	-	-

※ 56 Lotte Department Stores : Domestic 49 stores (including 14 Outlets) / Overseas 7 stores(China 5 stores, Indonesia 1 store, Vietnam 1 store)

## Key Factors

### ◆ Domestic SSSG: -3.0% (4Q)/ 0.0% (FY14)

- Gross revenue including new store effect: +3.4% (4Q)/ +4.1% (FY14)
- Outlet SSSG +4.7%, Dept. stores SSSG excluding outlets -4.0%
- 4Q SSSG: Women's wear(-4.2%), Men's wear(-2.3%), Food(+3.7%), Electronics(+2.3%), Accessories(-1.9%), Luxuries(-0.1%)

### ◆ Overseas SSSG: +7.6% (4Q)/ +17.5% (FY14)

- Maintained EBITDA while opening 5 stores in 2 years(3 in '13, 2 in '14)

### ◆ Domestic: increased cost burden related to rental expenses

- New leased stores: +10.7bn KRW (World Tower, Suwon, Gwangmyeong, Goyang)
- Sales & leaseback: +5.2bn KRW (2 stores in Aug, '14, 2 stores in Dec, '14)
- One-off settlement for Gwangbok store in Busan('10~'14): +17.1bn KRW

### ◆ Store Openings in 2015

- 3 outlets: Incheon Hang-dong(1H), Jinju, Gwanggyo(2H)
- 2 stores (acquired in 2014) : (Domestic) Masan, (Overseas) Diamond Plaza in Vietnam

# Hypermarkets

(Unit : billion KRW)

	4Q 2013		4Q 2014		YoY	FY2013		FY2014		YoY
<b>Sales Revenue</b>	<b>2,169</b>	<b>(100.0%)</b>	<b>2,101</b>	<b>(100.0%)</b>	<b>-3.2%</b>	<b>9,215</b>	<b>(100.0%)</b>	<b>8,507</b>	<b>(100.0%)</b>	<b>-7.7%</b>
Domestic	1,561	(72.0%)	1,485	(70.6%)	-4.9%	6,460	(70.1%)	5,990	(70.4%)	-7.3%
Overseas	608	(28.0%)	616	(29.4%)	1.4%	2,755	(29.9%)	2,517	(29.6%)	-8.6%
<b>Operating Profit</b>	<b>20</b>	<b>0.9%</b>	<b>-19</b>	-	-	<b>233</b>	<b>2.5%</b>	<b>83</b>	<b>1.0%</b>	<b>-64.3%</b>
Domestic	61	3.9%	37	2.5%	-39.2%	316	4.9%	224	3.7%	-29.2%
Overseas	-41	-	-56	-	-	-83	-	-141	-	-
<b>EBITDA</b>	<b>72</b>	<b>3.3%</b>	<b>36</b>	<b>1.7%</b>	<b>-50.1%</b>	<b>443</b>	<b>4.8%</b>	<b>298</b>	<b>3.5%</b>	<b>-32.8%</b>
Domestic	100	6.4%	76	5.1%	-23.2%	467	7.2%	378	6.3%	-19.0%
Overseas	-28	-	-40	-	-	-24	-	-80	-	-

※ 265 Stores: Korea 114, China 103, Indonesia 38, Vietnam 10

## Domestic

- ◆ **SSSG: -3.8% (4Q)/ -3.6%(FY14)**
  - Revenue growth excluding electronics: -1.5%(4Q)/ -3.7%(FY)
  - 4Q SSSG: Fresh(-3.0%), Processed food(-9.1%), Living(-3.9%), Apparel(-5.9%), Electronics(+14.0%)
- ◆ **No. of 2 days-off stores per month: 112 stores (10 voluntary/ 102 forced)**
- ◆ **No. of leased stores increased**  
(rental expense +10.3bn KRW, +11 stores, YoY)
- ◆ **2015 strategy**
  - Enhance competitiveness of fresh produce
  - Omni-channel strategy: VIC Market online mall, mobile app(for ToysRus), online-exclusive DC(Gimpo in Nov, 15)

## Overseas

- ◆ **Negative SSSG continued in China**  
**Vietnam and Indonesia are recovering**
  - 4Q SSSG: China: -9.9%, Indonesia: +7.7%, Vietnam: +3.5%
- ◆ **Progress of China business turnaround**
  - Improve products category  
: 2615 categories(end of '13) → 2780 categories(end of '14)
  - Inventory innovation  
: reduce inventory(-105.7bn KRW) and inventory days(-13.3 days)
- ◆ **3 stores opened in 4Q: 1 in China, 2 in Vietnam**  
**1 store closure in China**

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# Electronics

(Unit : billion KRW)

	4Q 2013		4Q 2014		YoY	FY2013		FY2014		YoY
<b>Sales Revenue</b>	<b>925</b>	<b>100%</b>	<b>955</b>	<b>100%</b>	<b>3.3%</b>	<b>3,519</b>	<b>100%</b>	<b>3,754</b>	<b>100%</b>	<b>6.7%</b>
<b>Operating Profit</b>	<b>30</b>	<b>3.2%</b>	<b>30</b>	<b>3.1%</b>	<b>-0.3%</b>	<b>185</b>	<b>5.3%</b>	<b>144</b>	<b>3.8%</b>	<b>-21.9%</b>
<b>EBITDA</b>	<b>42</b>	<b>4.5%</b>	<b>42</b>	<b>4.4%</b>	<b>1.6%</b>	<b>230</b>	<b>6.5%</b>	<b>195</b>	<b>5.2%</b>	<b>-15.0%</b>
<b>Net Profit</b>	<b>19</b>	<b>2.1%</b>	<b>19</b>	<b>2.0%</b>	<b>-0.6%</b>	<b>129</b>	<b>3.7%</b>	<b>96</b>	<b>2.6%</b>	<b>-25.3%</b>

※ 436 Stores(End of FY14)

## Key Factors

### ◆ Gross revenue up by +3.3% in 4Q

- 436 stores in total, end of 4Q(77 new stores, YoY)
- High sales growth in white goods and small appliances
- New smartphone subsidy regulations negatively affected mobile phone sales/ Weak sales of seasonal products such as kimchi fridge

### ◆ Maintained similar OPM to 4Q 2013 despite weak sales growth

- Reduce cannibalization between Shop-in-shop and stand-alone store in overlapping area by MD differentiation

### ◆ 2015 strategy

- Enhance sourcing capability  
: Enhance direct and global sourcing and expand specialized vendor
- Develop new products  
: Premium home appliance, health care products etc.

### ◆ 2015 Expectation

- Due to low base effect, white goods and seasonal products(A/C) are expected to record high growth rate
- Shop-in-shop(opened in FY14 within Lotte Mart) are to reach BEP and improve OP margin

# Finance

## Income Statement Summary

(Unit : billion KRW)	4Q FY'13	4Q FY'14	YoY	FY'13	FY'14	YoY
<b>Operating Revenue</b>	457	476	4.2	1,694	1,761	3.9
Credit Purchase	223	217	▲3.0	857	810	▲5.4
Card Loan & Cash Advance	135	138	2.3	514	535	4.1
Others	99	121	22.2	323	416	28.8
<b>Operating Expense</b>	414	445	7.5	1,493	1,558	4.4
Labor costs	28	35	28.0	114	124	9.2
Finance Expense	50	44	▲12.4	201	183	▲8.8
Loan Loss Provision	57	69	20.8	169	211	25.4
Card Expense	204	193	▲5.4	777	731	▲5.9
General Expense	75	104	14.3	232	309	33.2
<b>Operating Profit</b>	43	31	▲28.5	201	203	0.9

\* 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'13	FY'14				Total
		1Q	2Q	3Q	4Q	
Transaction Volume	54.1	12.6	13.2	13.6	14.1	53.5
No. of Holders	8,078	7,488	7,298	7,298	7,225	7,225
Delinquency Rate	1.94	2.33	2.14	2.09	1.48	1.48

## Earning Asset Portfolio

(Unit : %)

	FY'12	FY'13	FY'14
Credit Purchase	61.4	60.3	59.6
Card Loan	20.8	24.0	25.8
Cash Advance	12.9	11.2	9.5
Installment & lease	4.9	4.5	5.1

## Key Factors

### ◆ Operating Revenue

- Card loan & Cash advance grew by 8.7bn KRW
- Other revenue(inbound, installment finance) also increased
- Credit purchase decreased by 6.5bn KRW due to customer defects related to customer data leakage in 1H

### ◆ Operating Profit

- Subsidy of switching to IC terminal +9.6bn KRW (apply to all card companies)
- Depreciation costs increased by 2.6bn KRW due to the launch of next-generation IT system

### ◆ Efficiency-oriented management

- Monthly card usage per person (725k KRW→766k KRW) and usage rate (70.8%→72.8%)
- Reduced delinquency rate(1.94%→1.48%) reflects healthiness of asset profile

### ◆ 2015 strategy

- Acquire and retain more active customers, increase purchase per person and usage rate
- Expand services such as installment finance, prepaid card, etc.

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# Other Business Units

(Unit : billion KRW)

	4Q 2013	4Q 2014	YoY	FY2013	FY2014	YoY
<b>Sales Revenue</b>	<b>1,588</b>	<b>1,663</b>	<b>4.7%</b>	<b>6,246</b>	<b>6,559</b>	<b>5.0%</b>
Lotte Super	574	571	-0.6%	2,335	2,355	0.9%
Lotte Homeshopping	246	255	3.4%	855	914	7.0%
Korea Seven	635	699	10.0%	2,554	2,686	5.1%
Others	133	138	4.3%	502	604	20.2%
<b>Operating Profit</b>	<b>43</b>	<b>13</b>	<b>-68.5%</b>	<b>169</b>	<b>155</b>	<b>-7.6%</b>
Lotte Super	8	-6	-	36	6	-82.6%
Lotte Homeshopping	31	21	-32.7%	75	98	30.5%
Korea Seven	5	7	23.4%	56	38	-32.8%
Others	-1	-9	-	2	13	695.9%

# 3. Non-Operating Profit

(Unit : billion KRW)

	4Q FY'13	4Q FY'14	YoY	FY'13	FY'14	YoY
<b>Operating Profit</b>	403	232	-42.4%	1,485	1,188	-20.0%
Net Interest Income/Expense	-36	-40	-	-155	-155	-
Gains on Foreign Currency & Derivative Asset	31	-11	-	73	7	-90.5%
Other non-operating profit	-146	-95	-	-90	-14	-
Equity Method Gain & Loss	22	-27	-	5	56	1143.8%
<b>Profit Before Tax</b>	274	59	-78.4%	1,318	1,082	-17.9%
Corporate tax	160	115	-28.2%	438	465	6.2%
<b>Net Profit</b>	114	-56	-	881	618	-29.9%

# Appendix

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

# Income Statement (Consolidated K-IFRS)

(Unit: billion KRW)

	4Q FY'13		4Q FY'14		YoY	FY'13		FY'14		YoY
<b>Revenue</b>	7,697		7,687		-0.1%	29,297		29,139		-0.5%
<b>Gross Profit</b>	2,274	(29.5%)	2,292	(29.8%)	0.8%	8,665	(29.6%)	8,763	(30.1%)	1.1%
<b>SG&amp;A</b>	1,871	(24.3%)	2,061	(26.8%)	10.1%	7,179	(24.5%)	7,575	(26.0%)	5.5%
<b>Operating Profit</b>	403	(5.2%)	232	(3.0%)	-42.4%	1,485	(5.1%)	1,188	(4.1%)	-20.0%
<b>EBITDA</b>	584	(7.6%)	431	(5.6%)	-26.2%	2,182	(7.4%)	1,936	(6.6%)	-11.3%
<b>Profit before tax</b>	274	(3.6%)	59	(0.8%)	-78.4%	1,318	(4.5%)	1,082	(3.7%)	-17.9%
<b>Net Profit</b>	114	(1.5%)	- 56	-	-	881	(3.0%)	618	(2.1%)	-29.9%
<b>Net Income of Controlling Company</b>	98	(1.3%)	-72	-	-	788	(2.7%)	528	(1.8%)	-33.0%
<b>Net income of minority interest equity</b>	16	(0.2%)	17	-	6.3%	92	(0.3%)	89	(0.3%)	-3.3%

# Balance Sheet (Consolidated K-IFRS)

(Unit: billion KRW)

	3Q '13	4Q '13	1Q '14	2Q '14	3Q '14	4Q '14
<b>Total assets</b>	<b>37,879</b>	<b>38,973</b>	<b>38,702</b>	<b>39,022</b>	<b>39,183</b>	<b>40,072</b>
Cash & Cash Equivalent	1,767	2,018	2,121	2,410	2,183	2,641
Inventories	3,027	3,115	3,114	2,899	3,145	3,161
<b>Liabilities</b>	<b>21,386</b>	<b>22,048</b>	<b>21,694</b>	<b>21,788</b>	<b>21,641</b>	<b>22,530</b>
Borrowings & Bonds	12,347	12,675	12,619	12,952	12,145	12,727
<b>Equity</b>	<b>16,493</b>	<b>16,925</b>	<b>17,008</b>	<b>17,234</b>	<b>17,542</b>	<b>17,542</b>
Share Capital	158	158	158	158	158	158

# Regional Sales of Lotte Marts Overseas

(Unit : billion KRW)

	No. of Stores	4Q FY'13	4Q FY'14	YoY	YoY*	FY'13	FY'14	YoY	YoY*
<b>China</b>	<b>103</b>	<b>348</b>	<b>324</b>	<b>-7.0%</b>	<b>-9.5%</b>	<b>1,584</b>	<b>1,346</b>	<b>-15.0%</b>	<b>-11.8%</b>
<b>Indonesia</b>	<b>38</b>	<b>227</b>	<b>244</b>	<b>7.2%</b>	<b>9.6%</b>	<b>1,065</b>	<b>1,013</b>	<b>-4.8%</b>	<b>13.8%</b>
<b>Vietnam</b>	<b>10</b>	<b>32</b>	<b>49</b>	<b>50.5%</b>	<b>48.9%</b>	<b>106</b>	<b>158</b>	<b>48.4%</b>	<b>45.4%</b>
<b>Total</b>	<b>151</b>	<b>608</b>	<b>616</b>	<b>1.4%</b>	<b>1.3%</b>	<b>2,755</b>	<b>2,517</b>	<b>-8.6%</b>	<b>0.1%</b>

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



# Store Network

		2011	2012	2013	2014				2014	2015
		Year End	Year End	Year End	Openings				Year End	Year End
		Total	Total	Total	Q1	Q2	Q3	Q4	Total	Total (E)
Department Store	full-line store	24	29	29				2	31	31
	franchise store	6	2	2					2	3
	young plaza	2	2	2					2	2
	outlet mall	6	7	10				4	14	17
Hypermarket		95	103	109			1	4	114	125

		2011	2012	2013	2014				2014	2015
		Year End	Year End	Year End	Openings				Year End	Year End
		Total	Total	Total	Q1	Q2	Q3	Q4	Total	Total (E)
Department Store	Russia	1	1	1					1	1
	China	2	3	4		1			5	5
	Vietnam	-	-	-			1		1	2
	Indonesia	-	-	1					1	1
Hypermarket	China	94	102	107	-2	-3	3/-2	1/-1	103	109
	Vietnam	2	4	6	1		1	2	10	13
	Indonesia	28	31	36		1	1		38	47