2015 First Quarter Results

May, 2015

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 FY15Q1

- **Revenue 7,178 billion KRW(+1.4% YoY)**
  - **Domestic : Sluggish economy resulting slow revenue growth**
    - **Dept. Store/Hypermarket – Posted negative SSSG**
    - **CVS/Electronics – New store openings and efficiency improvement maintained revenue growth**
  - **Overseas dept. stores maintaining strong sales / Overseas hypermarkets sales indicated recovery trend**

- **Operating profit 267 billion KRW(-21.3% YoY)**
  - **Domestic : Decreased OP caused by weak sales and increased cost(rent, etc.)**
    - **Dept. Store/Hypermarket – New store openings and sales & leaseback increased SG&A**
    - **Financial business division – YoY marketing cost increased compared to temporary business suspension period during 1Q14**
  - **Overseas : Cost reduction and gross profit improvement resulting profitability enhancement in existing stores**

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1. Consolidated Financial Results

(Unit: billion KRW)

	Q1 FY'14	Q1 FY'15	YoY
Gross Sales	7,080	7,178	1.4%
Operating Profit	339	267	-21.3%
EBITDA	521	470	-9.8%
Profit before tax	252	192	-23.8%
Net Profit	144	115	-19.8%

* Number of consolidated affiliates: 57

2. Analysis by Divisions

(Unit : billion KRW, %)

	1Q 2014		1Q 2015		YoY
Revenue	**7,080**	**(100.0%)**	**7,178**	**(100.0%)**	**1.4%**
Department stores	2,136	(30.2%)	2,095	(29.2%)	-1.9%
Hypermarkets	2,192	(31.0%)	2,154	(30.0%)	-1.8%
Electronics	805	(11.4%)	859	(12.0%)	6.7%
Finance	425	(6.0%)	410	(5.7%)	-3.4%
Others*	1,522	(21.4%)	1,660	(23.1%)	9.1%
Operating Profit	**339**	**4.8%**	**267**	**3.7%**	**-21.3%**
Department stores	191	8.9%	144	6.8%	-24.8%
Hypermarkets	42	1.9%	15	0.7%	-65.1%
Electronics	20	2.5%	35	4.1%	77.7%
Finance	62	14.6%	43	10.4%	-31.3%
Others*	24	1.6%	30	1.9%	25.7%

*Includes consolidated adjustments

Department Stores

(Unit : billion KRW)

		1Q 2014		1Q 2015		YoY
Sales Revenue		**2,136**		**2,095**		**-1.9%**
	Domestic	2,115	(99.0%)	2,063	(98.5%)	-2.4%
	Overseas	21	(1.0%)	32	(1.5%)	47.7%
Operating Profit		**191**	**8.9%**	**144**	**6.8%**	**-24.8%**
	Domestic	212	10.0%	169	8.2%	-20.3%
	Overseas	-21	-	-25	-	-
EBITDA		**263**	**12.3%**	**230**	**11.0%**	**-12.6%**
	Domestic	278	13.1%	245	11.9%	-11.7%
	Overseas	-15	-	-15	-	-

※ 57 Lotte Department Stores : Domestic 49 stores (including 14 Outlets) / Overseas 8 stores(China 5, Indonesia 1, Vietnam 2)

Key Factors

- **Domestic SSSG: -4.4%(1Q15) (Dept. stores -5.0%, Outlets -0.9%)**
  - **Gross revenue including new stores(managerial standard): +4.3%**
  - Women's wear (-5.5%), Men's wear(-4.1%), Luxuries(-6.6%), Accessories(-6.3%), Electronics(-2.7%)
- **Domestic operating profit decreased in 1Q15 (-20.3% YoY)**
  - New store openings increased SG&A (rental expense, outsourcing service fees and depreciation costs)
  - Sales & leaseback within 4 stores in '14)
- **Overseas SSSG: 14.9%(1Q15)**
- **New store opening plan in 2015**
  - 1 Dept. store : Masan(2Q),ff 2 Outlets: Hang-dong(2Q), Gwanggyo(2H)
  - 1 Overseas dept. store : Diamond Plaza in Vietnam(opened in March)
- **Expansion and Renewal Schedule**
  - Renewal opening: Jamsil(Premium lifestyle shop, opened in February '15)
  - Expansion plan: Seoul main store, Busan, Daegu, Gangnam (complete in '16)

Hypermarkets

(Unit : billion KRW)

	1Q 2014		1Q 2015		YoY
Sales Revenue	**2,192**		**2,154**		**-1.8%**
Domestic	1,542	(70.3%)	1,509	(70.1%)	-2.1%
Overseas	650	(29.7%)	645	(29.9%)	-0.9%
Operating Profit	**42**	**1.9%**	**15**	**0.7%**	**-65.1%**
Domestic	76	4.9%	38	2.5%	-50.4%
Overseas	-34	-	-23	-	-
EBITDA	**95**	**4.4%**	**69**	**3.2%**	**-27.3%**
Domestic	113	7.4%	76	5.1%	-32.8%
Overseas	-18	-	-7	-	-

※ 266 Stores: Domestic 115 stores, Overseas 151 stores(China 103, Indonesia 38, Vietnam 10)

Domestic

- **Domestic SSSG: -4.3%**
  - Fresh-food -3.4%, Processed food -5.8%, Living -7.8%, Apparel -8.1%, Electronics +0.4%
- **Mandatory Sunday closures : 113 stores(103 forced, 10 voluntary)**
  - +6 YoY (+12 forced, -6 voluntary)
- **Weak sales and cost increase causing negative OPG(-50.4% YoY)**
  - Sustained GPM by discplined participation in low-price competition
  - New store openings and ABS scheme(sales & leaseback) in 2014 caused increase of labor and real-estate rental expenses
- **Develop "Easy & Slow Life" store**
  - Enhance product categories reflecting consumer's lifestyle

Overseas

- **High SSS growth in Vietnam and Indonesia, Negative growth in China**
  - **SSSG(1Q):** : Vietnam: +15.5%, Indonesia: +6.5%, China: -7.2%
- **Increased overseas operation efficiency**
  - **Deficit amount improved in China hypermarket** (cost savings in labor cost and marketing cost optimization)
- **China hypermarket strategy in 2015**
  - 2 low-temperature fresh distribution centers opened in 1Q15 → 7 within '16
  - Efficiency enhancement review for new store opening (In-depth area analysis and standard business model establishment)

Electronics

(Unit : billion KRW)

	1Q 2014		1Q 2015		증감
Sales Revenue	**805**		**859**		**6.7%**
Operating Profit	**20**	**2.5%**	**35**	**4.1%**	**77.7%**
EBITDA	**32**	**4.0%**	**48**	**5.6%**	**48.4%**
Net Profit	**13**	**1.6%**	**24**	**2.8%**	**89.4%**

※ 437 Stores(End of 1Q15)

Key Factors

- **Gross revenue growth: +6.7% (1Q15)**
  - Total: 437 stores, (42 new stores, YoY)
  - Home appliances +20%, White goods +9%, IT/Mobile +7%, A/V -11%
- **Operating profit growth: +77.7% (1Q15)**
  - Stabilization of profit structure in new stores(shop-in-shop)
  - Gross profit growth led by high-margin product categories
  - SG&A efficiency improvement(marketing fee reduction, etc.)
- **2Q Outlook**
  - Nationwide discount promotion (5.1~5.25)
  - Launching of new mobile products and low base effect of seasonal products expected to indicate YoY high growth rate
  - Efficiency improvement through shop-in-shop openings(within Lotte Mart)
- **Key Strategy**
  - Item diversification(increase SKU of home appliances and related goods)
  - Enhance global sourcing (Diversify the line-ups of foreign brands including TV, Mobile, Tablet PC, etc.)

Finance

Income Statement Summary

	1Q 2014	1Q 2015	YoY
Operating Revenue	425	410	-3.4%
Credit Purchase	200	206	3.1%
Card Loan & Cash Advance	131	134	2.3%
Others	94	70	-25.5%
Operating Expense	363	368	1.3%
Labor costs	30	32	6.7%
Finance Expense	49	43	13.0%
Loan Loss Provision	30	51	70.2%
Card Expense	175	187	6.5%
General Expense	79	55	29.8%
Operating Profit	62	43	-31.3%

* Finance division includes 4 Electronic Cast Business subsidiaries
* Other Operating Revenue & General Expense includes gain & loss on Derivative Asset Transaction

Transaction Volume & Other Highlights

(Unit : tr. KRW, thousand, %)

	FY'14				FY'15
	1Q	2Q	3Q	4Q	1Q
Transaction Volume	12.6	13.2	13.6	14.1	13.3
No. of Holders	7,488	7,298	7,298	7,225	7,213
Delinquency Rate	2.33	2.14	2.09	1.48	1.75

Earning Asset Portfolio

(Unit : %)

	FY'14				FY'15
	1Q	2Q	3Q	4Q	1Q
Credit Purchase	59.2	59.0	58.2	59.6	58.0
Card Loan	24.6	25.1	26.1	25.8	26.5
Cash Advance	11.4	11.0	10.4	9.5	9.2
Installment & lease	4.8	4.9	5.3	5.1	6.3

Key Factors

- **Operating Revenue**
  - Credit purchase and Card loan & Cash advance grew by 14bn KRW
  - Operating revenue(excluding derivative asset) +2.5% (397bn→407bn KRW)
- **Operating Profit**
  - Operating expenses temporarily decreased in 1Q14 due to business suspension
  ※Cost normalization after temporary suspension period(February ~ May '14)
- **Membership expansion and increase usage rate**
  - focus sales of promoting card through concentrated advertisement
  - more synergy with affiliates (K7, KT Rental, etc.)
- **Big data · FinTech strategy**
  - Big data : Utilization of Big data in Lotte Membership to enhance marketing efficiency
  - FinTech : Develop overseas direct purchase service by Appcard and expand partnership with payment gateway

Other Business Units

(Unit : billion KRW)

	1Q 2014	1Q 2015	증감
Sales Revenue	**1,522**	**1,660**	**9.1%**
Lotte Super	574	581	1.3%
Lotte Homeshopping	216	225	4.3%
Korea Seven	590	703	19.2%
Others	142	151	6.1%
Operating Profit	**24**	**30**	**25.7%**
Lotte Super	-3	-1	-
Lotte Homeshopping	25	25	-
Korea Seven	3	9	228.3%
Others	-1	-3	-

3. Non-Operating Profit

(Unit : billion KRW)

	1Q FY'14	1Q FY'15	YoY
Operating Profit	**339**	**267**	**-21.3%**
Net Interest Income/Expense	**-38**	**-40**	**-**
Gains on Foreign Currency & Derivative Asset	**-18**	**-17**	**-**
Other non-operating profit	**-26**	**-18**	**-**
Equity Method Gain & Loss	**-5**	**0**	**-**
Profit Before Tax	**252**	**192**	**-23.8%**
Corporate tax	108	77	-29.2%
Net Profit	**144**	**115**	**-19.8%**

LOTTE SHOPPING CO., LTD

Appendix

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

Income Statement (Consolidated K-IFRS)

(Unit: billion KRW)

	1Q 2014		1Q 2015		YoY
Revenue	7,080		7,178		1.4%
Gross Profit	2,125	(30.0%)	2,170	(30.2%)	2.1%
SG&A	1,786	(25.2%)	1,903	(26.5%)	6.6%
Operating Profit	339	(4.8%)	267	(3.7%)	-21.3%
EBITDA	521	(7.4%)	470	(6.5%)	-9.8%
Profit before tax	252	(3.6%)	192	(2.7%)	-23.8%
Net Profit	144	(2.0%)	115	(1.6%)	-19.8%
Net Income of Controlling Company	129	(1.8%)	106	(1.4%)	-17.7%
Net income of minority interest equity	15	(0.2%)	9	(0.2%)	-38.2%

Balance Sheet (Consolidated K-IFRS)

(Unit: billion KRW)

	1Q '14	2Q '14	3Q '14	4Q '14	1Q '15
Total assets	**38,702**	**39,022**	**39,183**	**40,072**	**39,750**
Cash & Cash Equivalent	2,121	2,410	2,183	2,671	2,096
Inventories	3,114	2,899	3,145	3,161	3,268
Land & Buildings	12,909	12,318	12,466	13,170	13,302
Liabilities	**21,694**	**21,788**	**21,641**	**22,528**	**22,189**
Borrowings & Bonds	12,619	12,952	12,145	12,727	12,424
Equity	**17,008**	**17,234**	**17,542**	**17,544**	**17,561**
Share Capital	158	158	158	158	158

Regional Sales of Lotte Marts Overseas

(Unit : billion KRW)

	No. of Stores	1Q FY'14	1Q FY'15	YoY	YoY*
China	103	385	352	-8.6%	-5.5%
Indonesia	38	234	240	2.5%	7.9%
Vietnam	10	32	53	68.2%	67.6%
Total	151	651	645	-0.9%	3.8%

* Revenue growth in local currency(excluding currency effect)

Store Network

Domestic		2011	2012	2013	2014	2015				2015
		Year End	Year End	Year End	Year End	Openings				Year End
		Total	Total	Total	Total	Q1	Q2(E)	Q3(E)	Q4(E)	Total(E)
Department Store	full-line store	24	29	29	31					31
	franchise store	6	2	2	2		1			3
	young plaza	2	2	2	2					2
	outlet mall	6	7	10	14			1	1	17
Hypermarket		95	103	109	114	1	1	1	2	119

Overseas		2011	2012	2013	2014	2015				2015
		Year End	Year End	Year End	Year End	Openings				Year End
		Total	Total	Total	Total	Q1	Q2(E)	Q3(E)	Q4(E)	Total(E)
Department Store	Russia	1	1	1	1					1
	China	2	3	4	5					5
	Vietnam	-	-	-	1	1				2
	Indonesia	-	-	1	1					1
Hypermarket	China	94	102	107	103		2	3	2	110
	Vietnam	2	4	6	10			1	2	13
	Indonesia	28	31	36	38		2	2	5	47