

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 disciplined 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)

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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% |

- Income Statement
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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 |