

2013 Fourth Quarter Results

Feb, 2014

LOTTE SHOPPING CO., LTD

INVESTOR RELATIONS

Disclaimer

The financial information in this document are consolidated earnings results based on K-IFRS. The previous earnings results have also been stated in compliance with 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 Q4 FY13

- **Poor revenue growth led to a decline in operating profit**
- **Revenue up by +4.8%(4Q), +13.3%(FY13) YoY**
 - Department stores : Domestic - Outlets maintained high sales growth / Overseas - Posted high SSS growth
 - [Domestic SSSG : +2.1%(4Q), +2.8%(FY13)] / [Overseas SSSG : +11.0%(4Q), +19.0%(FY13)]
 - Hypermarkets : Domestic - Sluggish growth due to regulatory issues / Overseas – Poor performance in China business led to negative SSSG
 - [Domestic SSSG : -3.1%(4Q), -4.8%(FY13)] / [Overseas SSSG : -0.6%(4Q), +3.0%(FY13)]
- **Operating profit down by -15.5%(4Q), +1.2%(FY13) YoY**
 - Department stores(4Q) : Domestic – Posted operating profit growth of +0.8% / Overseas – Operating loss increased due to new store openings
 - Hypermarkets(4Q) : Domestic - Increased cost burden due to new stores & heavy promotions led to negative operating profit growth of -34.3%
Overseas – Weak sales & one-off disposal of non-moving obsolete inventory in China increased operating losses
 - Electronics(4Q) : Costs related to aggressive new store openings resulted in operating profit to decline -11.2%
- **Net profit down by -73.5%(4Q), -23.5%(FY13) YoY**
 - One-off issues such as goodwill impairment losses on overseas hypermarkets & additional tax decreased net profit

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1. Summary Financial Results

(Unit : billion KRW)

	Q4 FY'12	Q4 FY'13	YoY	FY'12	FY'13	YoY
Gross Sales	7.3 Trillion	7.7 Trillion	+4.8%	25.8 Trillion	29.3 Trillion	+13.3%
Operating Profit (EBITDA)	454 (612)	383 (565)	-15.5% (-7.8%)	1,467 (2,046)	1,485 (2,182)	+1.2% (+6.7%)
Profit before tax	560	261	-53.5%	1,631	1,325	-18.8%
Net Profit	391	103	-73.5%	1,158	886	-23.5%

*Number of consolidated affiliates: 56

2. Financial Summary by Major Divisions

(Unit : billion KRW)

	Q4 2012		Q4 2013		YoY	FY 2012		FY 2013		YoY
Revenue	7,342	(100%)	7,697	(100%)	4.8%	25,848	(100%)	29,297	(100%)	13.3%
Department Stores	2,574	(35.1%)	2,558	(33.2%)	-0.6%	8,667	(33.5%)	8,623	(29.4%)	-0.5%
Hypermarkets	2,216	(30.2%)	2,169	(28.2%)	-2.1%	9,069	(35.1%)	9,215	(31.5%)	1.6%
Electronics**	605	(8.2%)	925	(12.0%)	52.9%	605	(2.3%)	3,519	(12.0%)	482.0%
Finance	465	(6.3%)	457	(5.9%)	-1.7%	1,673	(6.5%)	1,694	(5.8%)	1.3%
Others*	1,482	(20.2%)	1,588	(20.6%)	7.2%	5,834	(22.6%)	6,246	(21.3%)	7.1%
Operating Profit	454	6.2%	383	5.0%	-15.5%	1,467	5.7%	1,485	5.1%	1.2%
Department Stores	265	10.3%	258	10.1%	-2.8%	746	8.6%	709	8.2%	-5.1%
Hypermarkets	62	2.7%	14	0.6%	-77.9%	319	3.5%	233	2.5%	-27.0%
Electronics**	33	5.4%	29	3.2%	-11.2%	33	5.4%	185	5.3%	461.0%
Finance	50	10.7%	43	9.5%	-13.4%	219	13.1%	201	11.9%	-8.5%
Others*	44	3.0%	39	2.5%	-12.4%	150	2.6%	157	2.5%	5.4%

* includes consolidation adjustments

** Earnings in 2012 are consolidated from November to December only

Department Stores

(Unit : billion KRW)

	Q4 FY'12		Q4 FY'13		YoY	FY'12		FY'13		YoY
Revenue	2,574	(100%)	2,558	(100%)	-0.6%	8,667	(100%)	8,623	(100%)	-0.5%
Domestic	2,565	(99.7%)	2,536	(99.1%)	-1.2%	8,643	(99.7%)	8,565	(99.3%)	-0.9%
Overseas	9	(0.3%)	22	(0.9%)	-	23	(0.3%)	58	(0.7%)	-
Operating Profit	265	10.3%	258	10.1%	-2.8%	746	8.6%	709	8.2%	-5.1%
Domestic	283	11.0%	285	11.2%	0.8%	787	9.1%	793	9.3%	0.9%
Overseas	-18	-	-27	-	-	-40	-	-85	-	-
EBITDA	325	12.6%	330	12.9%	1.5%	959	11.1%	978	11.3%	2.0%
Domestic	339	13.2%	351	13.8%	3.3%	993	11.5%	1,046	12.2%	5.3%
Overseas	-14	-	-21	-	-	-34	-	-68	-	-

*47 Lotte Department Stores : Domestic 42 stores (including 10 Outlets) / Overseas 5 stores(4 stores in China, 1 store in Indonesia)

Key Factors

- ◆ **Recovery in consumer sentiment and high winter apparel sales resulted in gross revenue growth of +5.3%**
- ◆ **SSSG : +2.1% (4Q) / +2.8% (FY13)**
 - 4Q: Women's wear -1.5%, Men's wear -4.5%, Leisure sports +20.7%
 - Global Fashion +6.6%, Groceries +2.9%, Accessories -2.0%
 - Household appliances +7.1%
- ◆ **Improved operating profit margin for domestic same stores**
 - 4Q: 11.3% → 12.9%
- ◆ **Tianjin stores in China were able to manage to reduce operating losses by efficient cost control(Dongmalu store, Cultural Center store)**
- ◆ **Recorded gross sales of KRW1.5tn from 10 outlet malls in FY13**
 - Maintained high SSSG +16.6%(4Q) / +19.5%(FY13)
 - 3 outlet malls were opened in 2013(Seoul station, Buyeo, Icheon)
- ◆ **2014 Store opening schedule:**
 - 2 dept. stores & 4 outlet malls(domestic) / 2 stores(overseas)
 - (Domestic) Dept. stores: Avenuel World Tower(2Q), Suwon(3Q)
 - Outlet malls: Goyang, Guri, Gwangmyeong, Busan
 - (Overseas) China: Shenyang(2Q) / Vietnam: Hanoi(3Q)

Hypermarkets

(Unit : billion KRW)

	Q4 FY'12		Q4 FY'13		YoY	FY'12		FY'13		YoY
Revenue	2,216	(100%)	2,169	(100%)	-2.1%	9,069	(100%)	9,215	(100%)	1.6%
Domestic	1,601	(72.2%)	1,561	(72.0%)	-2.4%	6,465	(71.3%)	6,460	(70.1%)	-0.1%
Overseas	615	(27.8%)	608	(28.0%)	-1.2%	2,603	(28.7%)	2,755	(29.9%)	5.8%
Operating Profit	62	2.8%	14	0.6%	-77.9%	319	3.5%	233	2.5%	-27.0%
Domestic	79	5.0%	55	3.5%	-30.6%	359	5.5%	316	4.9%	-11.9%
Overseas	-17	-	-41	-	-	-40	-1.5%	-83	-	-
EBITDA	111	5.0%	66	3.1%	-40.5%	513	5.7%	443	4.8%	-13.6%
Domestic	114	7.1%	93	6.0%	-18.0%	492	7.6%	466	7.2%	-5.2%
Overseas	-3	-0.4%	-27	-4.5%	-	21	0.8%	-23	-0.9%	-216.0%

*258 Stores: Domestic 109 / Overseas 149(China 107, Indonesia 36, Vietnam 6)

Domestic

- ◆ **SSSG : -3.1% (4Q) / -4.8% (FY13)**
 - 4Q: Fresh +0.1%, Processed -4.5%, Apparel -6.8%, Living -4.4%, Electronics +11.2%
- ◆ **No. of store closures(twice per month) end of FY13**
 - 107ea: 34 voluntary closures/ 73 forced closures
- ◆ **Enhance e-commerce**
 - Solid online revenue growth of +52.4%(total revenue contribution increased from 2.0% in 2012 to 3.5% end of 2013)
- ◆ **Increased cost burden due to new stores & heavy promotions led to negative operating profit growth**

Overseas

- ◆ **China's economic slowdown led to weak revenue growth In Indonesia & Vietnam, stabilized business operations led to high revenue growth**
 - SSSG(4Q) : -4.8%(China), +5.9%(Indonesia), +7.6%(Vietnam)
- ◆ **Stricter Chinese govt. policy to eradicate corruption has negatively affected overall retail industry**
- ◆ **One-off disposal of non-moving obsolete inventory increased operating loss by KRW-16bn**
- ◆ **Strong growth showed from Indonesia & Vietnam due to favorable business conditions and stable operating activities**

Electronics

(Unit : billion KRW)

	Q4 FY'12			Q4 FY'13			FY'12			FY'13		
Revenue	862	(100%)		925	(100%)	7.3%	3,221	(100%)		3,519	(100%)	9.2%
Operating Profit	31	3.6%		29	3.2%	-5.2%	161	5.0%		185	5.3%	14.4%
EBITDA	42	4.9%		41	4.5%	-1.5%	205	6.4%		231	6.6%	12.6%
Net Profit	5	0.6%		19	2.0%	286.1%	70	2.2%		129	3.7%	85.5%

*359 Stores(End of Dec. 2013)

**Himart's earnings in FY13 is provided for comparison(Actual consolidation began from Nov., 2012)

Key Factors

- ◆ **Multiple new store openings: 37ea in FY13**
 - 30 stores opened in 2nd half(Q3 : 14ea, Q4 : 16ea)
 - 10 new roadshops, 26 stores in Lotte Mart, 1 store in Lotte Fitin
- ◆ **Due to aggressive store openings compared to previous years (around 10 stores per year), costs associated with new store openings increased**
 - Increased fixed costs such as rent fees(+34%) & depreciation costs (+9%) led to negative operating profit growth
- ◆ **Product mix(4Q) :**
 - Solid growth of white goods(Kimchi Refridges)
 - Weak TV sales continued due to high base(conversion from analog to Digital finished in 2012), cutdown in LED TV ASP

- ◆ **About 35 stores scheduled to open in Q1, FY14**
- ◆ **New store additions & turn-around of TV sales are expected in FY14**
 - Enhance marketing efforts to leverage 3 major sports events will benefit TV sales in FY14
 - Plan to launch the first PB brand 'ELEXION' in February

→ Cost competitive product with high quality



※ 3 major sports event: Winter Olympics, World Cup, Asian Games

◆ '14

◆ '14

- '1

- '1

→

※ 3

Finance

Summary Income Statement

(Unit : billion KRW, %)	4Q 2012	4Q 2013	YoY	FY'12	FY'13	YoY
Operating Revenue	465	457	▲1.7	1,673	1,694	1.3
Credit Purchase	211	219	3.9	797	842	5.6
Card Loan & Cash Advance	129	135	4.2	500	514	2.7
Others*	124	103	▲17.2	376	339	▲10.0
Operating Expense	415	414	▲0.3	1,454	1,493	2.7
SG&A	34	28	▲18.6	118	114	▲3.6
Finance Expense	54	50	▲7.1	219	201	▲8.2
Loan Loss Provision	52	57	9.1	154	169	9.3
Card Expense	162	192	18.8	624	735	17.7
General Expense*	113	87	▲23.2	339	274	▲19.2
Operating Profit	50	43	▲13.4	219	201	▲8.5

Finance division includes 4 Electronic Cash Business affiliates

* Gain & loss on Derivative Asset Transaction and revenue from e-card biz affiliates are included in other Operating Revenue & General Expenses

Transaction Volume & Other Highlights

(Unit : tr. KRW, thousand, %)

	FY'12	FY'13				Total
		Q1	Q2	Q3	Q4	
Transaction Volume	50.7	12.9	13.7	13.5	14.0	54.1
No. of Holders	8,058	8,125	8,266	8,223	8,078	8,078
Delinquency Rate	2.23	2.22	2.19	2.28	1.94	1.94

Earning Asset Portfolio

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

Key Factors

◆ Operating Revenue

- Due to lowering of merchant fees for small merchants, credit purchase revenue increased only by +3.9% while transaction volume grew +5.7%
- Operating revenue rose by +7.3% from KRW401bn(FY12) to KRW430bn(FY13) excluding gains/losses on derivatives
- ※ Gains/losses on derivatives : Neutral impact on P&L(costs related to hedge F/X risks for foreign currency denominated debts)

◆ Operating Profit

- Card expenses increased due to increased marketing activities(membership point costs : +9.2billion & promotion costs: +7.4 billion)

Other Business Units

(Unit : billion KRW)

	Q4 FY'12	Q4 FY'13	YoY	FY'12	FY'13	YoY
Revenue	1,482	1,588	7.2%	5,834	6,246	7.1%
Lotte Super	551	574	4.3%	2,310	2,334	1.1%
Lotte Home Shopping	218	246	13.0%	758	855	12.8%
Korea Seven	614	635	3.4%	2,449	2,554	4.3%
Others	99	133	33.4%	317	503	58.5%
Operating Profit	44	39	-12.4%	150	157	5.4%
Lotte Super	7	8	12.8%	56	35	-37.0%
Lotte Home shopping	35	30	-13.2%	71	75	5.8%
Korea Seven	7	5	-17.8%	65	56	-14.3%
Others	-5	-4	-	-42	-9	-

3. Non-Operating Profit Analysis

(Unit : billion KRW)

	Q4 FY'12	Q4 FY'13	YoY	FY'12	FY'13	YoY
Operating Profit	454	383	-15.5%	1,467	1,485	1.2%
Interest Income / Expense	-32	-36	-	-91	-155	-
Gains on Foreign Exchange & Derivative Asset	83	31	-62.9%	118	73	-38.6%
Others*	32	*-145	-	67	-89	-
Equity Method Gain & Loss	24	28	17.5%	70	11	-84.7%
Profit Before Tax	560	261	-53.5%	1,631	1,325	-18.8%

* Includes goodwill impairment losses on overseas hypermarkets & cost of closing stores in Q4 FY13: KRW130bn

Appendix

- Income Statement (K-IFRS)
- Balance Sheet (K-IFRS)
- Lotte Marts in Overseas
- CAPEX
- Store Network

Income Statement (Consolidated K-IFRS)

(Unit: billion KRW)

	Q4 FY'12			Q4 FY'13			YoY			FY'12			FY'13			YoY		
Revenue	7,342			7,697			4.8%			25,848			29,297			13.3%		
Gross Profit	2,179	(29.7%)		2,275	(29.6%)		4.3%			7,628	(29.5%)		8,665	(29.6%)		13.6%		
SG&A	1,725	(23.5%)		1,891	(24.6%)		9.6%			6,161	(23.8%)		7,180	(24.5%)		16.5%		
Operating Profit	454	(6.2%)		383	(5.0%)		-15.5%			1,467	(5.7%)		1,485	(5.1%)		1.2%		
EBITDA	612	(8.3%)		565	(7.3%)		-7.8%			2,046	(7.9%)		2,182	(7.4%)		6.7%		
Profit before tax	560	(7.6%)		261	(3.4%)		-53.5%			1,631	(6.3%)		1,325	(4.5%)		-18.8%		
Net Profit	391	(5.3%)		103	(1.3%)		-73.5%			1,158	(4.5%)		886	(3.0%)		-23.5%		
Net Income of Controlling Company	369	(5.0%)		88	(1.1%)		-76.0%			1,080	(4.2%)		793	(2.7%)		-26.6%		
Net income of minority interest equity	22	(0.3%)		15	(0.2%)		-32.0%			78	(0.3%)		93	(0.3%)		19.2%		

Balance Sheet (Consolidated K-IFRS)

(Unit: billion KRW)

	4Q '12	1Q '13	2Q '13	3Q '13	4Q '13
Total assets	36,857	37,713	38,105	37,883	38,950
Cash & Cash Equivalent	1,675	2,057	2,050	1,767	2,018
Inventories	2,750	2,913	2,906	3,027	3,115
Liabilities	21,139	21,787	21,793	21,375	22,036
Borrowings & Bonds	12,125	12,342	12,761	12,347	12,675
Equity	15,718	15,926	16,312	16,508	16,914
Share Capital	145	158	158	158	158

Lotte Marts in Overseas

(Unit : billion KRW)

	No. of stores	4Q FY'12	4Q FY'13	YoY	YoY*	FY'12	FY'13	YoY	YoY*
China	107	358	348	-2.7%	-1.1%	1,501	1,584	+5.6%	6.1%
Indonesia	36	238	227	-4.4%	16.7%	1,035	1,065	+2.9%	15.4%
Vietnam	6	20	32	+64.3%	56.2%	68	106	+56.4%	55.7%
Total	149	615	608	-1.2%	7.4%	2,603	2,755	5.8%	11.1%

* Revenue growth in local currencies (F/X effect excluded)

Capex

(단위 : 십억)

	FY10	FY11	FY12	FY13
Department store	1,188	669	724	1,027
Hypermarket	1,175	333	*1,659	293
Other	168	262	409	116
Overseas	222	196	304	149
Total	2,753	1,460	3,096	1,585

Store Network

		2010	2011	2012	2013				2013	2014
		Year End	Year End	Year End	Openings				Year End	Year End
		Total	Total	Total	Q1	Q2	Q3	Q4	Total	Total (E)
Domestic	Department Store									
	full-line store	23	24	*29					29	31
	franchise store	6	6	2					2	
	young plaza	3	3	3					3	
	outlet mall	4	6	7	1		1	1	10	14
Hypermarket		90	95	103	** -2/+2	1	2	3	109	118

		2010	2011	2012	2013				2013	2014
		Year End	Year End	Year End	Openings				Year End	Year End
		Total	Total	Total	Q1	Q2	Q3	Q4	Total	Total (E)
Overseas	Department Store									
	Russia	1	1	1					1	1
	China	1	2	3		1	1		***4	5
	Indonesia					1			1	1
	Vietnam									1
Hypermarket										
	China	82	94	102	3	-2/+2	-1	-4/+7	107	108
	Vietnam	2	2	4				2	6	10
	Indonesia	22	28	31	1		2	2	36	41

* Acquired GS Square(3 stores) in August, 2012. Merged Midopa(1 store) in January, 2013

** 2 old stores(Yeongdeungpo, Dobong) closed and re-opened to VIC market stores

*** Beijing store closed