

# 2015 Third Quarter Results

November, 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. 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 FY15Q3

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## ■ 3Q15 Revenue 7.7 trillion KRW(+6.9% YoY)

- Domestic: Dept. store and hypermarket sales slowly recovering from MERS crisis(2Q)
  - SSSG(3Q): Dept. store -1.4%, Hypermarket -0.1%
- Overseas : Steady sales growth in department stores led by new store openings/  
Weak SSSG trend continued in China hypermarkets
  - SSSG(3Q): Dept. store +14.2%, Hypermarket -3.1%

## ■ 3Q15 Operating profit 195.3 billion KRW(-35.9% YoY)

- Domestic : Increased SG&A due to new store openings and sales & leaseback resulted decreased operating profit(dept. stores & hypermarkets)
- Overseas : Dept. store : Operating loss reduced due to strong SSSG and improved efficiency  
Hypermarket : Increased operating loss due to one-off China store closing cost

## ■ 3Q15 Net profit down by -90.8% YoY

- 3Q14 included one-off gain regarding disposition of tangible asset('14.8 Sales & leaseback) and equity method income(Acquisition of Lotte International share)

# Table of Contents

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1. Q2 FY2015 Consolidated Financial Results
2. Q2 FY2015 Consolidated Financial Results by Division
3. Non-Operating Profit Analysis

# 1. Consolidated Financial Results

(Unit : billion KRW)

	3Q 2014	3Q 2015	YoY	1Q-3Q 2014	1Q-3Q 2015	YoY
<b>Gross Sales</b>	<b>7,218</b>	<b>7,719</b>	<b>6.9%</b>	<b>21,452</b>	<b>22,348</b>	<b>4.2%</b>
<b>Operating Profit</b>	<b>305</b>	<b>195</b>	<b>-35.9%</b>	<b>957</b>	<b>665</b>	<b>-30.5%</b>
<b>EBITDA</b>	<b>488</b>	<b>400</b>	<b>-18.0%</b>	<b>1,505</b>	<b>1,279</b>	<b>-15.1%</b>
<b>Profit before tax</b>	<b>411</b>	<b>85</b>	<b>-79.3%</b>	<b>1,023</b>	<b>451</b>	<b>-55.9%</b>
<b>Net Profit</b>	<b>280</b>	<b>26</b>	<b>-90.8%</b>	<b>673</b>	<b>237</b>	<b>-64.8%</b>

\*Number of consolidated affiliates: 56

## 2. Financial Summary by Division

(Unit : billion KRW)

	3Q 2014		3Q 2015		YoY	1Q-3Q 2014		1Q-3Q 2015		YoY
<b>Revenue</b>	<b>7,218</b>	<b>(100.0%)</b>	<b>7,719</b>	<b>(100.0%)</b>	<b>6.9%</b>	<b>21,452</b>	<b>(100.0%)</b>	<b>22,348</b>	<b>(100%)</b>	<b>4.2%</b>
Department Stores	1,866	(25.9%)	1,929	(25.0%)	3.4%	6,066	(28.3%)	6,080	(27.2%)	0.2%
Hypermarkets	2,182	(30.2%)	2,237	(29.0%)	2.5%	6,406	(29.9%)	6,472	(29.0%)	1.0%
Electronics	1,016	(14.1%)	1,063	(13.8%)	4.6%	2,799	(13.0%)	2,890	(12.9%)	3.3%
Finance	400	(5.5%)	477	(6.2%)	19.3%	1,285	(6.0%)	1,360	(6.1%)	5.8%
CVS	724	(10.0%)	942	(12.2%)	30.2%	1,987	(9.3%)	2,512	(11.2%)	26.4%
Others*	1,030	(14.3%)	1,071	(13.8%)	3.9%	2,909	(13.5%)	3,034	(13.6%)	4.2%
<b>Operating Profit</b>	<b>305</b>	<b>4.2%</b>	<b>195</b>	<b>2.5%</b>	<b>-35.9%</b>	<b>957</b>	<b>4.5%</b>	<b>665</b>	<b>3.0%</b>	<b>-30.5%</b>
Department Stores	105	5.6%	63	3.3%	-39.4%	426	7.0%	282	4.6%	-33.7%
Hypermarkets	51	2.3%	6	0.3%	-87.2%	102	1.6%	-18	-	-
Electronics	58	5.7%	56	5.3%	-2.3%	115	4.1%	134	4.6%	16.6%
Finance	35	8.7%	22	4.7%	-35.5%	172	13.4%	144	10.6%	-16.2%
CVS	15	2.0%	16	1.7%	8.8%	31	1.6%	48	1.9%	54.4%
Others*	41	4.1%	32	2.9%	-27.6%	111	3.8%	75	2.5%	-32.2%

\* includes consolidation adjustments

# Department Stores

(Unit : billion KRW)

	3Q 2014		3Q 2015		YoY	1Q-3Q 2014		1Q-3Q 2015		YoY
<b>Revenue</b>	<b>1,866</b>	<b>(100.0%)</b>	<b>1,929</b>	<b>(100.0%)</b>	<b>3.4%</b>	<b>6,066</b>	<b>(100.0%)</b>	<b>6,080</b>	<b>(100.0%)</b>	<b>0.2%</b>
Domestic	1,839	(98.6%)	1,896	(98.3%)	3.1%	5,997	(98.9%)	5,984	(98.4%)	-0.2%
Overseas	27	(1.4%)	33	(1.7%)	24.5%	69	(1.1%)	96	(1.6%)	38.4%
<b>Operating Profit</b>	<b>105</b>	<b>5.6%</b>	<b>63</b>	<b>3.3%</b>	<b>-39.4%</b>	<b>426</b>	<b>7.0%</b>	<b>282</b>	<b>4.6%</b>	<b>-33.7%</b>
*Domestic	135	7.3%	90	4.8%	-32.7%	505	8.4%	359	6.0%	-28.8%
Overseas	-30	-	-27	-	-	-79	-	-77	-	-
<b>EBITDA</b>	<b>179</b>	<b>9.6%</b>	<b>151</b>	<b>7.8%</b>	<b>-15.5%</b>	<b>646</b>	<b>10.6%</b>	<b>543</b>	<b>8.9%</b>	<b>-15.8%</b>
Domestic	200	10.9%	167	8.8%	-16.6%	702	11.7%	588	9.8%	-16.2%
Overseas	-21	-	-16	-	-	-56	-	-45	-	-

※ 60 Department Stores(as of 3Q15) : Domestic 52 stores(including 16 outlets) / Overseas 8 stores (China 5, Indonesia 1, Vietnam 2)

## Domestic

- ◆ **Domestic 3Q SSSG: -1.4% (Managerial gross revenue +7.9%)**
  - Clothing -2.5% Food +0.0%, Accessories -4.8%, Global fashion -1.4%, Home appliances +9.1%
- ◆ **Decreased OP due to sales & leaseback and new store openings**
- ◆ **4Q15 Outlook**
  - Strong SSSG lead by better consumer sentiment and government policy to promote consumption(Black Friday, etc.)
  - Tourists related sales recovered after MERS issue in August
  - Improved profit driven by base effect from new store openings and sales & leaseback in 4Q14
- ◆ **New openings in 3Q15 : 1 Dept. store: Masan(July), 1 Outlet: Gwanggyo(Sept.)**

## Overseas

- ◆ **Overseas SSSG: +14.2% (3Q15)**
  - Steady SSSG in China(+16.4%) and Indonesia(+3.0%)
- ◆ **Improved store efficiency reduced operating loss of both same stores(+1.4 bn KRW) and new stores(+1.4 bn KRW)**
- ◆ **Key Strategy**
  - Korean wave marketing: Pop-up sales event(Lock&Lock), Launch popular Korean brands
  - Enhance customer-attracting MD & Employee-participation in CSR

# Hypermarkets

(Unit : billion KRW)

	3Q 2014		3Q 2015		YoY	1Q-3Q 2014		1Q-3Q 2015		YoY
<b>Revenue</b>	<b>2,182</b>	<b>(100.0%)</b>	<b>2,237</b>	<b>(100.0%)</b>	<b>2.5%</b>	<b>6,406</b>	<b>(100.0%)</b>	<b>6,472</b>	<b>(100.0%)</b>	<b>1.0%</b>
Domestic	1,533	(70.2%)	1,582	(70.7%)	3.2%	4,505	(70.3%)	4,529	(70.0%)	0.5%
Overseas	649	(29.8%)	655	(29.3%)	0.9%	1,901	(29.7%)	1,943	(30.0%)	2.2%
<b>Operating Profit</b>	<b>51</b>	<b>2.3%</b>	<b>6</b>	<b>0.3%</b>	<b>-87.2%</b>	<b>102</b>	<b>1.6%</b>	<b>-18</b>	<b>-0.3%</b>	<b>-</b>
Domestic	78	5.1%	41	2.6%	-46.4%	187	4.1%	72	1.6%	-61.6%
Overseas	-27	-	-35	-	-	-85	-	-90	-	-
<b>EBITDA</b>	<b>103</b>	<b>4.7%</b>	<b>62</b>	<b>2.8%</b>	<b>-39.6%</b>	<b>261</b>	<b>4.1%</b>	<b>148</b>	<b>2.3%</b>	<b>-43.4%</b>
Domestic	116	7.6%	81	5.1%	-29.7%	301	6.7%	191	4.2%	-36.7%
Overseas	-13	-	-19	-	-	-40	-	-43	-	-

※ 281 Stores: Domestic 116, Overseas 165(China 116 stores(including 16 supermarkets), Indonesia 39, Vietnam 10)

## Domestic

- ◆ **Domestic 3Q SSSG: -0.1% (Managerial gross revenue +4.8%)**
  - Fresh food +7.0%, Processed food -1.7%, Households -1.0%, Apparel -3.5%, Electronics -3.1%
  - SSSG recovery led by improvement of fresh category and strong sales during Chuseok holiday
- ◆ **Lowered operating profit due to increase in rental expense and fresh food innovation adjustment**
- ◆ **Fresh food innovation progress and agenda**
  - Quality improvement through higher quality inspection standard
  - Product diversification, adjustment of food category along with changing food consumption trend
- ◆ **Key Strategy: Product differentiation and online competitiveness**
  - Enhance lifestyle MD: Hav'eat(organic/health), It.Street(apparel/accessories)
  - Online distribution center: Gimpo(Feb. '16), Gwangmyeong('16)

## Overseas

- ◆ **Weak SSSG in China/ Ramadan seasonal effect(2Q) in Indonesia**
    - **3Q SSSG:** China: -4.1%, Indonesia: -2.8%, Vietnam: +1.7%
  - ◆ **Cost related to China store closure(July) increased operating loss**
    - 5 stores closed in Shandong area
    - Closing cost : 8bn KRW  
(lease cancellation fee, employee compensation, etc.)
  - ◆ **Focus concentration in key region(Shanghai&Beijing)**
    - Store renewal(18 stores in 2015, 15 stores in 2016)
    - Low-temperature fresh distribution center opened in Beijing
    - O2O business with local online mall
- ※ Stores by area: Shanghai 74 stores, Beijing 12 stores, Chungqing 6 stores, Shenyang 8 stores



# Electronics

(Unit : billion KRW)

	3Q 2014		3Q 2015		YoY	1Q-3Q 2014		1Q-3Q 2015		YoY
<b>Revenue</b>	<b>1,016</b>	<b>100.0%</b>	<b>1,063</b>	<b>100.0%</b>	<b>4.6%</b>	<b>2,799</b>	<b>100.0%</b>	<b>2,890</b>	<b>100.0%</b>	<b>3.3%</b>
<b>Operating Profit</b>	<b>58</b>	<b>5.7%</b>	<b>56</b>	<b>5.3%</b>	<b>-2.3%</b>	<b>115</b>	<b>4.1%</b>	<b>134</b>	<b>4.6%</b>	<b>16.6%</b>
<b>EBITDA</b>	<b>70</b>	<b>6.9%</b>	<b>68</b>	<b>6.4%</b>	<b>-2.7%</b>	<b>153</b>	<b>5.5%</b>	<b>171</b>	<b>5.9%</b>	<b>11.8%</b>
<b>Net Profit</b>	<b>40</b>	<b>4.0%</b>	<b>40</b>	<b>3.7%</b>	<b>-1.8%</b>	<b>77</b>	<b>2.8%</b>	<b>93</b>	<b>3.2%</b>	<b>19.8%</b>

※ 437 stores (as of 3Q15)

## Key Factors

- ◆ **3Q Gross revenue growth: 4.6% (YoY)**
  - 437 stores in total (+4 new stores YoY)
  - Steady 3Q15 SSSG
    - : White goods and home appliances maintained steady sales, strong sales of seasonal products due to 3Q carryover effect
- ◆ **3Q Operating profit growth: -2.3% (YoY)**
  - Slightly decreased due to one-off gain on mobile category in 3Q14 and increased SG&A
- ◆ **Online shopping mall renewal open('15.10)**
  - **Omni-channel** : Smartpick, GPS-based marketing, omni-sales, etc.
  - **Customer convenience**: integrated payment, individual quotation, product recommendation service, etc.
- ◆ **4Q15 forecast**
  - Strong sales maintained with promotional events
    - : Black Friday (10.1~10), Nationwide discount promotion(Nov.)
  - Expansion of pilot shops along with SKU expansion strategy
    - : 23 stores renewal (Sept.), 30 stores to open by end of 2015
  - Base effect from smartphone subsidy regulation in Oct. 2014

# Finance

## Summary Income Statement

(Unit: billion, %)	3Q FY'14	3Q FY'15	YoY	1Q-3Q FY'14	1Q-3Q FY'15	YoY
<b>Operating Revenue</b>	400	477	19.3	1,285	1,360	5.8
Credit Purchase	199	217	9.0	593	639	7.7
Card Loan & Cash Advance	136	136	0.2	397	404	1.7
Others*	65	123	91.0	294	317	7.7
<b>Operating Expense</b>	365	455	24.5	1,113	1,216	9.2
SG&A	30	31	3.0	89	93	4.4
Finance Expense	44	43	-3.6	139	128	-8.2
Loan Loss Provision	58	51	-13.3	142	152	6.8
Card Expense	202	215	6.4	538	607	12.9
General Expense*	30	115	253.9	204	236	11.4
<b>Operating Profit</b>	35	22	-35.5	172	144	-16.2

\* Finance division includes 4 Electronic Cash Business affiliates

\* Other Operating Revenue & General Expense includes gain & loss on derivative asset transaction

## Transaction Volume & Other Highlights

(Unit: tr. KRW, thousand, %)	FY'13	FY'14	1Q FY'15	2Q FY'15	3Q FY'15
Transaction Volume	54.1	53.5	13.3	14.3	14.2
No. of Holders	8,078	7,225	7,213	7,197	7,258
Delinquency Rate	1.94	1.48	1.75	1.59	1.62

## Earning Asset Portfolio

(Unit: %)	FY'13	FY'14	1Q FY'15	2Q FY'15	3Q FY'15
Credit Purchase	60.3	59.6	58.0	58.2	56.4
Card Loan	24.0	25.8	26.5	27.4	26.7
Cash Advance	11.2	9.5	9.2	8.8	8.0
Installment & lease	4.5	5.1	6.3	5.5	8.9

## Key Factors

### ◆ Operating Profit

- Credit purchase +18bn KRW(+9.0%), Card Loan & Cash Advance +0.2bn KRW(+0.2%), Foreign currency translation/derivative asset +2.4bn KRW(+126.3%) one-off loss on EB card 6 bn KRW
- Lotte Chilsung stake sold in 3Q14(+18bn KRW)  
→ Operating profit excluding one-off cost : +6 bn KRW(+16.9%, YoY)

### ◆ Gov't cut credit card fees for smaller merchants

- Lower credit card fees by 0.3%~0.7% for mom-and-pop stores and restaurant starting 2016

### ◆ New business model development

- Business field diversification(direct-management store, student visa agency, funeral related service, etc)

(단위 : 십억원)

	3Q 2014		3Q 2015		YoY	1Q-3Q 2014		1Q-3Q 2015		YoY
Revenue	724	100.0%	942	100.0%	30.2%	1,987	100.0%	2,512	100.0%	26.4%
Operating Profit	15	2.0%	16	1.7%	8.8%	31	1.6%	48	1.9%	54.4%
EBITDA	30	4.1%	31	3.3%	4.5%	76	3.8%	93	3.7%	21.3%

※ 7,709 stores (as of 3Q15)

## Key Factors

### ◆ 3Q Revenue: +30.2%(YoY)

- 7,709 stores in total, end of 3Q (581 new stores YoY)
- Daily sales per store grew by +19.5% (1Q-3Q +17.0%)
- Strong sales due to increase in cigarette price and single household consumption

### ◆ 3Q Operating Profit: +8.8% (YoY)

- Strong revenue growth improved OP
- Improved profitability with food category (lunchbox, etc.)
- Government prohibited receiving rebate from VAN company

### ◆ 4Q15 Strategy

- Enhance food category competitiveness and differentiate items
  - Develop new PB lunchbox and improve food category
  - Expand Seven Café(Coffee machine-in-shop)
- Store opening strategy
  - Pre-acquisition of business area: innovative city, new town, etc.
  - Expand space area, increase item SKU, and improve customer convenience(ex. eating area)
- Enhance PB product category
  - Value-oriented products
  - Premium processed food(snack, etc.)

# Other Business Units

(Unit : billion KRW)

	3Q 2014	3Q 2015	YoY	1Q-3Q 2014	1Q-3Q 2015	YoY
<b>Revenue</b>	<b>1,030</b>	<b>1,071</b>	<b>3.9%</b>	<b>2,909</b>	<b>3,034</b>	<b>4.2%</b>
Lotte Super	614	626	1.9%	1,784	1,820	2.0%
Lotte Home Shopping	212	204	-3.8%	659	642	-2.6%
*Others	204	241	17.8%	466	572	22.5%
<b>Operating Profit</b>	<b>41</b>	<b>32</b>	<b>-27.6%</b>	<b>111</b>	<b>75</b>	<b>-32.2%</b>
Lotte Super	4	2	-57.3%	12	7	-40.5%
Lotte Home Shopping	18	15	-20.1%	78	63	-19.2%
*Others	19	15	-28.9%	21	5	-71.4%

# 3. Non-Operating Profit Analysis

(Unit : billion KRW)

	3Q FY'14	3Q FY'15	YoY	1Q-3Q FY'14	1Q-3Q FY'15	YoY
<b>Operating Profit</b>	<b>305</b>	<b>195</b>	<b>-35.9%</b>	<b>957</b>	<b>665</b>	<b>-30.5%</b>
Net Interest Income/Expense	-40	-44	-	-115	-122	-
Gains on Foreign Currency & Derivative Asset	-2	-8	-	18	-23	-
Other non-operating profit	88	-43	-	79	-76	-
Equity Method Gain & Loss	60	-15	-	84	7	-92.2%
<b>Profit Before Tax</b>	<b>411</b>	<b>85</b>	<b>-79.3%</b>	<b>1,023</b>	<b>451</b>	<b>-55.9%</b>
Corporate tax	131	59	-54.7%	350	214	-38.7%
<b>Net Profit</b>	<b>280</b>	<b>26</b>	<b>-90.8%</b>	<b>673</b>	<b>237</b>	<b>-64.8%</b>

\* 3Q14 One-off gain regarding disposition of tangible asset('14.8 Sales & leaseback +77bn KRW), gain on prepayment of CB(+17bn KRW)  
 3Q15 foreign currency translation loss related to loan in yen (-12bn KRW), loss on disposition of tangible asset regarding China hypermarket closure -7bn KRW

\*\* 3Q14 Equity method income from Lotte International increased(+55bn KRW)

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

# Income Statement (Consolidated K-IFRS)

(Unit : billion KRW)

	3Q FY'14		3Q FY'15		YoY	1Q-3Q FY'14		1Q-3Q FY'15		YoY
<b>Revenue</b>	7,218		7,719		6.9%	21,452		22,348		4.2%
<b>Gross Profit</b>	2,176	(30.1%)	2,240	(29.0%)	2.9%	6,471	(30.2%)	6,668	(29.8%)	3.0%
<b>SG&amp;A</b>	1,871	(25.9%)	2,045	(26.5%)	9.3%	5,514	(25.7%)	6,003	(26.9%)	8.9%
<b>Operating Profit</b>	305	(4.2%)	195	(2.5%)	-35.9%	957	(4.5%)	665	(3.0%)	-30.5%
<b>EBITDA</b>	488	(6.8%)	400	(5.2%)	-18.0%	1,505	(7.0%)	1,279	(5.7%)	-15.1%
<b>Profit before tax</b>	411	(5.7%)	85	(1.1%)	-79.3%	1,023	(4.8%)	451	(2.0%)	-55.9%
<b>Net Profit</b>	280	(3.9%)	26	(0.3%)	-90.8%	673	(3.1%)	237	(1.1%)	-64.8%
<b>Net Income of Controlling Company</b>	252	(3.5%)	2	(0.0%)	-99.3%	601	(2.8%)	173	(0.8%)	-71.3%
<b>Net income of minority interest equity</b>	28	(0.4%)	24	(0.3%)	-14.8%	72	(0.3%)	64	(0.3%)	-11.3%

# Balance Sheet (Consolidated K-IFRS)

(Unit: billion KRW)

	3Q '14	3Q '14	4Q '14	1Q '15	2Q '15	3Q '15
<b>Total assets</b>	<b>39,022</b>	<b>39,183</b>	<b>40,072</b>	<b>39,750</b>	<b>39,785</b>	<b>41,387</b>
Cash & Cash Equivalent	2,410	2,183	2,671	2,096	2,117	2,934
Inventories	2,899	3,145	3,161	3,268	3,138	3,336
Land & Buildings	12,318	12,466	13,170	13,302	13,174	13,114
<b>Liabilities</b>	<b>21,788</b>	<b>21,641</b>	<b>22,528</b>	<b>22,189</b>	<b>22,113</b>	<b>23,663</b>
Borrowings & Bonds	12,952	12,145	12,727	12,424	13,123	13,731
<b>Equity</b>	<b>17,234</b>	<b>17,542</b>	<b>17,544</b>	<b>17,561</b>	<b>17,672</b>	<b>17,724</b>
Share Capital	158	158	158	158	158	158



# Regional Sales of Lotte Marts in Overseas

(Unit : billion KRW)

	No. of stores	2Q FY'14	2Q FY'15	YoY	YoY**
<b>China</b>	<b>116*</b>	<b>338</b>	<b>345</b>	<b>2.1%</b>	<b>-4.3%</b>
<b>Indonesia</b>	<b>39</b>	<b>271</b>	<b>256</b>	<b>-5.7%</b>	<b>-2.6%</b>
<b>Vietnam</b>	<b>10</b>	<b>40</b>	<b>55</b>	<b>36.3%</b>	<b>27.5%</b>
<b>Total</b>	<b>165</b>	<b>649</b>	<b>655</b>	<b>0.9%</b>	<b>-1.1%</b>

\* Includes 16 supermarkets in China

\*\* Store level sales revenue in local currencies (Currency effect excluded)

# Store Network

		2012	2013	2014	2015				2015
		Year End	Year End	Year End	Openings				Year End
		Total	Total	Total	1Q	2Q	3Q	4Q(E)	Total(E)
Department Store	full-line store	29	29	31					31
	franchise store	2	2	2			1		3
	young plaza	2	2	2					2
	outlet mall	7	10	14		1	1		16
Hypermarket		103	109	114	1	1		1	117

		2012	2013	2014	2015				2015
		Year End	Year End	Year End	Openings				Year End
		Total	Total	Total	1Q	2Q	3Q	Q4(E)	Total(E)
Department Store	Russia	1	1	1					1
	China	3	4	5					5
	Vietnam	-	-	1	1				2
	Indonesia	-	1	1					1
Hypermarket (Supermarket)	China	106 (4)	120 (13)	119 (16)		1	1/-5	1/-1	116* (16)
	Vietnam	4	6	10				1	11
	Indonesia	31	36	38 (1)		1 (1)		2	41 (2)

\* Including overseas supermarkets