

2016 First Quarter Results

May, 2016

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 FY16Q1

- **Revenue 7,461 billion KRW(+3.9% YoY)**
 - Domestic : Dept. store/Hypermarket indicated moderate recovery
CVS/Finance showed meaningful sales growth
 - SSSG: Dept. store +2.1% YoY/ Hypermarket +2.2% YoY
 - Overseas : Dept. store–Strong sales growth continued in all countries
Hypermarket–Weak sales in China, but steady sales growth in Vietnam/Indonesia
 - SSSG: Dept. store +9.6% YoY/ Hypermarket -1.1% YoY

- **Operating profit 208 billion KRW(-22.1% YoY)**
 - Domestic : Dept. store–Improved profit driven by steady SSSG
Hypermarket–Decreased in OP due to decline in GPM and increased SG&A proportion
 - Overseas : Dept. store–Operating loss reduced by efficiency improvement
Hypermarket–Operating loss increased due to immature profit structure in Huadong
 - Operating profit decline in major affiliated companies(finance, homeshopping, etc.)

- **Net Profit 66 billion KRW(-42.8% YoY)**

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1. Consolidated Financial Results

(Unit: billion KRW)

	1Q 2015	1Q 2016	YoY
Gross Sales	7,178	7,461	3.9%
Operating Profit	267	208	-22.1%
EBITDA	470	409	-13.0%
Profit before tax	192	130	-32.2%
Net Profit	115	66	-42.8%

* Number of consolidated affiliates: 70

2. Financial Summary by Division

(Unit : billion KRW, %)

	1Q 2015		1Q 2015		YoY	
Revenue	7,178	(100.0%)	7,461	(100.0%)	3.9%	
Department stores	2,095	(29.2%)	2,166	(29.1%)	3.4%	
Hypermarkets	2,154	(30.0%)	2,181	(29.2%)	1.2%	
Electronics	859	(12.0%)	888	(11.9%)	3.4%	
Finance	410	(5.7%)	435	(5.8%)	6.0%	
CVS	703	(9.8%)	831	(11.1%)	18.2%	
Others*	957	(13.3%)	960	(12.9%)	0.4%	
Operating Profit	267	3.7%	208	2.8%	-22.1%	
Department Stores	144	6.8%	145	6.7%	1.2%	
Hypermarkets	15	0.7%	6	0.3%	-62.5%	
Electronics	35	4.1%	28	3.2%	-20.9%	
Finance	43	10.4%	33	7.5%	-23.4%	
CVS	9	1.3%	2	0.2%	-82.9%	
Others*	21	2.2%	-6	-	-	

*Includes consolidated adjustments

Department Stores

(Unit : billion KRW)

	1Q 2015		1Q 2016		YoY
Sales Revenue	2,095	(100.0%)	2,166	(100.0%)	3.4%
Domestic	2,063	(98.5%)	2,131	(98.3%)	3.3%
Overseas	32	(1.5%)	35	(1.7%)	12.6%
Operating Profit	144	6.8%	145	6.7%	1.2%
Domestic	169	8.2%	170	8.0%	0.5%
Overseas	-25	-	-25	-	-
EBITDA	230	11.0%	232	10.7%	0.9%
Domestic	245	11.9%	245	11.5%	-0.1%
Overseas	-15	-	-13	-	-

※ 61 Department Stores : Domestic 53 stores (including 17 Outlets) / Overseas 8 stores(China 5, Indonesia 1, Vietnam 2)

Domestic

- ◆ **1Q SSSG: +2.1% (Gross managerial revenue +4.6%)**
 - Clothing -0.7%, Food +4.8%, Accessories +2.3%, Global fashion +11.3%, Electronics +6.7%
 - Significant growth in tourist's sales (3.7%(Mar. '15) → 4.3%(Mar. '16))
- ◆ **Operating profit increased (+0.5% YoY)**
 - SG&A stabilization(advertising fee, depreciation cost, etc.) of same stores
 - Increased cost driven by new store openings(+4 stores)
- ◆ **Grand opening of EL Cube(the industry's first compact-type fashion specialized store (March '16))**

Overseas

- ◆ **Overseas SSSG: +9.6%**
 - China +7.3%, Indonesia +16.9%, Vietnam +23.7%
- ◆ **Operating loss(+0.9bn KRW) reduced by strong SSSG and store efficiency improvement**
- ◆ **Strategy by country**
 - China: Improve profit through differentiated MD and promotional events
 - Indonesia: Optimization of same stores through marketing localization
 - Vietnam: Develop next-level of MD and establish VIP lock-in strategy

Hypermarkets

(Unit : billion KRW)

	1Q 2015		1Q 2016		YoY
Sales Revenue	2,154	(100.0%)	2,181	(100.0%)	1.2%
Domestic	1,509	(70.1%)	1,537	(70.5%)	1.8%
*Overseas	645	(29.9%)	644	(29.5%)	-0.1%
Operating Profit	15	0.7%	6	0.3%	-62.5%
Domestic	38	2.5%	30	1.9%	-21.2%
*Overseas	-23	-	-24	-	-
EBITDA	69	3.2%	61	2.8%	-12.5%
Domestic	76	5.1%	69	4.5%	-9.5%
*Overseas	-7	-	-8	-	-

※ 285 Stores: Domestic 117 stores, Overseas 168 stores(China 116, Indonesia 41, Vietnam 11)

* Including 16 supermarkets in China : '16.1Q Overseas Revenue 654bn, Operating loss 27.5bn KRW('15.1Q Overseas Revenue 654bn, Operating loss 27.4bn KRW)

Domestic

- ◆ **Domestic SSSG: +2.2% (Gross managerial revenue +3.4%)**
 - Fresh-food +5.6%, Processed food +0.6%, Living -2.1%, Apparel +1.9%
- ◆ **Operating loss -21.2% YoY**
 - GPM slightly decreased and marketing cost increased
 - : Online marketing enhancement(increase in advertisement cost)
- ◆ **Lifestyle specialized stores in progress**
 - Successful renewal of specialized shops in Bupyeong and Seoul station(+62.1%)
 - 30 more shops to be on renewal or open by end of 2016
- ◆ **Grand opening of Gimpo online distribution center (May '16)**

Overseas

- ◆ **Overseas SSSG : China -4.0%, Indonesia +0.7%, Vietnam +6.7%**
 - Weak SSSG caused by slowdown in China hypermarket industry and increased consumption through online channel
 - Indonesia and Vietnam sales improving with favorable condition
- ◆ **Increased operating loss due to the slump of China operation**
 - China : Weak SSSG in Huadong province(-6.2%), and fresh food innovation resulting increased OP loss(low-temperature distribution center operation cost, increase in burden of inventory with expansion of direct sourcing)
 - Indonesia/Vietnam : Improved GPM offset increased SG&A

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Electronics

(Unit : billion KRW)

	1Q 2015		1Q 2016		YoY
Sales Revenue	859	100.0%	888	100.0%	3.4%
Operating Profit	35	4.1%	28	3.2%	-20.9%
EBITDA	48	5.6%	40	4.5%	-16.8%
Net Profit	24	2.8%	19	2.1%	-22.0%

※ 438 Stores(End of 1Q15)

Key Factors

◆ Gross revenue growth: +3.4% (1Q15)

- Total: 438 stores, (+1 new store, YoY)
- Steady growth in Home appliances
- Mobile category showed strong growth led by newly released handsets (Samsung Galaxy S7, LG G5)

◆ Operating profit growth: -20.9% (1Q15)

- Gross profit margin decreased due to strong sales from low-margin product category(mobile, etc.)

9 - One-off gain on mobile category in 1Q15 induced high base effect

◆ 2Q Outlook

- Base effect from MERS outbreak in 2Q15
- Sales recovery from AV and seasonal products(A/C, dehumidifier) category
- Steady growth in online shopping mall

◆ Key Strategy

- Item diversification(increase SKU of home appliances and related goods)
- Expansion of pilot shops along with SKU expansion strategy

Finance

Income Statement Summary

	1Q 2015	1Q 2016	YoY
Operating Revenue	410	435	6.0
Credit Purchase	206	212	2.9
Card Loan & Cash Advance	134	136	1.2
Others	70	87	24.3
Operating Expense	369	402	9.4
Labor costs	32	32	▲0.7
Finance Expense	43	44	1.6
Loan Loss Provision	51	59	15.5
Card Expense	187	205	9.8
General Expense	56	62	10.7
Operating Profit	43	33	▲23.4

* Finance division includes 4 Electronic Cash Business affiliates

* Other Operating Revenue & General Expense includes gain & loss on Derivative Asset Transaction

Transaction Volume & Other Highlights

	FY'15				FY'16
	1Q	2Q	3Q	4Q	1Q
Transaction Volume	13.3	14.3	14.2	14.8	14.0
No. of Holders	7,213	7,197	7,258	7,255	7,232
Delinquency Rate	1.75	1.59	1.53	1.68	1.58

Earning Asset Portfolio

	FY'15				FY'16
	1Q	2Q	3Q	4Q	1Q
Credit Purchase	58.0	58.2	56.5	58.6	56.9
Card Loan	26.5	27.4	26.7	27.0	28.0
Cash Advance	9.2	8.8	8.0	7.8	7.9
Installment & lease	6.3	5.5	8.8	6.6	7.2

Key Factors

◆ Operating Revenue

- Credit purchase(+5.9bn KRW, +2.9%) : individual +4.7bn KRW, corporate +1.2bn KRW
- Card loan & cash advance(+1.6bn KRW), other revenue(+7.5bn KRW)
- * Other revenue includes inbound revenue(+1.5bn KRW), life support service (2.8bn KRW)

◆ Operating Profit

- Increased loan loss provision(+7.9bn KRW, +15.5%) : change in the provision rate on allowance for bad debts
- Increased marketing expenses: recruitment(+4.5bn KRW), marketing fee(+7.2bn KRW)

◆ Strategy against gov't cutting card transaction fee

- Enhance marketing efficiency
 - Product portfolio diversification(promote Lotte signature card)
 - Efficient marketing through personalized platform based on big data
- Optimize Cost efficiency
 - Diversification of online membership recruitment
 - SG&A stabilization (VAN fee reduction, expansion of online billing)

(Unit : billion KRW)

	1Q 2015		1Q 2016		YoY
Revenue	703	100.0%	831	100.0%	18.2%
Operating Profit	9	1.3%	2	0.2%	-82.9%
EBITDA	24	3.4%	15	1.8%	-36.6%

※ 8,133 stores (as end of 1Q16)

Key Factors

◆ 1Q Revenue: +18.2% YoY

- 8,133 stores in total (+806 new stores YoY)
- Daily sales per store grew by +12.1% YoY
- Steady sales growth driven by due to increase in cigarette price and single household consumption

◆ 1Q Operating profit -82.9% YoY

- Increased SG&A cost (credit card transaction proportion increase and increase in the number of direct-management stores)
- high-base effect from one-off cigarette appraisal profit and VAN rebate

◆ 2016 Strategy

- Enhance PB management
 - Collaborate with top-tier brands
- Establishment of "Convenience Food Store" concept
 - Enhance lunchbox category
 - Promotes Seven Café

Other Business Units

(Unit : billion KRW)

	1Q 2015	1Q 2016	YoY
Sales Revenue	957	960	0.4%
Lotte Super	572	577	0.9%
Lotte Homeshopping	225	206	-8.5%
Others	160	177	11.3%
Operating Profit	21	-6	-
Lotte Super	2	1	-18.1%
Lotte Homeshopping	25	10	-59.9%
Others	-6	-17	-

3. Non-Operating Profit

(Unit : billion KRW)

	1Q 2014	1Q 2015	YoY
Operating Profit	267	208	-22.1%
Net Interest Income/Expense	-40	-42	-
Gains on Foreign Currency & Derivative Asset	-17	0	-
Other non-operating profit	-18	-33	-
Equity Method Gain & Loss	0	-3	-
Profit Before Tax	192	130	-32.2%
Corporate tax	77	64	-16.1%
Net Profit	115	66	-42.8%

- Income Statement
- Balance Sheet
- Lotte Marts in Overseas
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Income Statement (Consolidated K-IFRS)

(Unit: billion KRW)

	1Q 2015		1Q 2016		YoY
Revenue	7,178		7,461		3.9%
Gross Profit	2,170	(30.2%)	2,221	(29.8%)	2.3%
SG&A	1,903	(26.5%)	2,013	(27.0%)	5.8%
Operating Profit	267	(3.7%)	208	(2.8%)	-22.1%
EBITDA	470	(6.5%)	409	(5.5%)	-13.0%
Profit before tax	192	(2.7%)	130	(1.7%)	-32.2%
Net Profit	115	(1.6%)	66	(0.9%)	-42.8%
Net Income of Controlling Company	106	(1.5%)	58	(0.8%)	-45.4%
Net income of minority interest equity	9	(0.1%)	8	(0.1%)	-12.9%

Balance Sheet (Consolidated K-IFRS)

(Unit: billion KRW)

	1Q '15		2Q '15	3Q '15	4Q '15	1Q '16
Total assets	40,072	39,750	39,785	41,387	40,693	40,357
Cash & Cash Equivalent	2,671	2,096	2,117	2,934	3,033	2,796
Inventories	3,161	3,268	3,138	3,336	3,266	3,333
Land & Buildings	13,170	13,302	13,174	13,114	13,052	13,005
Liabilities	22,528	22,189	22,113	23,663	23,605	23,300
Borrowings & Bonds	12,727	12,424	13,123	13,731	14,084	13,807
Equity	17,544	17,561	17,672	17,724	17,088	17,057
Share Capital	158	158	158	158	158	158

Regional Sales of Lotte Marts Overseas

(Unit : billion KRW)

	No. of Stores	1Q 2014	1Q 2015	YoY	YoY**
China	116*	352	325	-7.7%	-6.3%
Indonesia	41	240	256	6.6%	3.4%
Vietnam	11	53	63	19.2%	13.2%
Total	168	645	644	-0.1%	-0.8%

* Includes 16 supermarkets in China

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

Store Network

		2012	2013	2014	2015	2016				2016
		Year End	Year End	Year End	Year End	Openings				Year End
		Total	Total	Total	Total	Q1	Q2(E)	Q3(E)	Q4(E)	Total(E)
Domestic	Department Store									
	full-line store	29	29	31	31					*30
	franchise store	2	2	2	3					3
	young plaza	2	2	2	2					2
	outlet mall	7	10	14	17		2	2	3	24
Hypermarket		103	109	114	119		1		5	123

* Unified operation of Jamsil & Avenuel world tower

		2012	2013	2014	2015	2016				2016
		Year End	Year End	Year End	Year End	Openings				Year End
		Total	Total	Total	Total	Q1	Q2(E)	Q3(E)	Q4(E)	Total(E)
Overseas	Department Store									
	Russia	1	1	1	1					1
	China	3	4	5	5					5
	Vietnam	-	-	1	2					2
	Indonesia	-	1	1	1					1
Hypermarket		102	107	103	110			1		117*
(Supermarket)		(16)	(16)							(16)
	Vietnam	4	6	10	13		1	1		13
	Indonesia	31	36	38	47		2		3	46
		(1)	(2)							(2)

* Including overseas supermarkets