

2016 Third Quarter Results

November, 2016

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 information provided in this release.

Highlights FY16Q3

■ 3Q16 Revenue 7.9 trillion KRW(+2.0% YoY)

- Domestic : Dept. store operation maintained solid SSSG(Same store sales growth) trend
Hypermarket indicated weak SSSG due to sluggish industry and renewal construction impact
 - SSSG: [Dept. stores +2.2%] / [Hypermarket -2.4%]
- Overseas : Dept. store – Strong sales growth continued in all countries
Hypermarket – Weak sales continued in China due to competitive market environment
 - SSSG: [Dept. store +9.2%] / [Hypermarket -5.1%]

■ 3Q Operating Profit 176 billion KRW(-10.1% YoY)

- Domestic : Dept. store indicated decreased operating profit
Hypermarket indicated decreased operating profit due to poor sales and increased SG&A cost
- Overseas : Operating loss improved by store efficiency enhancement in both dept. store and hypermarket business
- Others : Increased operating profit contribution from Cinema, CVS, and Electronics business
- Labor cost increased due to one-off special incentive paid to all LOTTE group employees(differ by business units)

■ 3Q Net Profit 78.2 billion KRW(+203.9% YoY)

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1. Consolidated Financial Results

(Unit: billion KRW)

	3Q 2015	3Q 2016	YoY	1Q-3Q 2015	1Q-3Q 2016	YoY
Gross Sales	7,719	7,871	2.0%	22,348	22,836	2.2%
Operating Profit	195	176	-10.1%	665	555	-16.5%
EBITDA	400	378	-5.6%	1,279	1,158	-9.4%
Profit before tax	85	138	62.4%	451	418	-7.5%
Net Profit	26	78	203.9%	237	227	-4.3%

* Number of consolidated affiliates: 71

2. Financial Summary by Division

(Unit : billion KRW, %)

	3Q 2015		3Q 2016		YoY	1Q-3Q 2015		1Q-3Q 2016		YoY
Revenue	7,719	(100.0%)	7,871	(100.0%)	2.0%	22,348	(100.0%)	22,836	(100%)	2.2%
Department stores	1,929	(25.0%)	1,973	(25.1%)	2.3%	6,080	(27.2%)	6,266	(27.4%)	3.1%
Hypermarkets	2,249	(29.1%)	2,184	(27.7%)	-2.9%	6,503	(29.1%)	6,445	(28.2%)	-0.9%
Electronics	1,063	(13.8%)	1,122	(14.3%)	5.5%	2,890	(12.9%)	2,960	(13.0%)	2.4%
Finance	477	(6.2%)	500	(6.4%)	4.9%	1,360	(6.1%)	1,384	(6.1%)	1.8%
CVS	942	(12.2%)	994	(12.6%)	5.6%	2,512	(11.2%)	2,768	(12.1%)	10.2%
Others*	1,059	(13.7%)	1,098	(13.9%)	3.6%	3,003	(13.5%)	3,013	(13.2%)	0.3%
Operating Profit	195	2.5%	176	2.2%	-10.1%	665	3.0%	555	2.4%	-16.5%
Department Stores	64	3.3%	62	3.1%	-2.3%	282	4.6%	297	4.7%	5.2%
Hypermarkets	3	0.1%	-27	-	-	-31	-	-87	-	-
Electronics	56	5.3%	66	5.9%	18.2%	134	4.6%	135	4.6%	1.1%
Finance	22	4.7%	21	4.1%	-7.8%	144	10.6%	115	8.3%	-20.2%
CVS	16	1.7%	24	2.4%	48.5%	48	1.9%	43	1.6%	-9.0%
Others*	35	3.3%	30	2.7%	-15.4%	88	2.9%	52	1.7%	-41.2%

*Includes consolidated adjustments

Department Stores

(Unit : billion KRW)

	3Q 2015		3Q 2016		YoY	1Q-3Q 2015		1Q-3Q 2016		YoY
Sales Revenue	1,929	(100.0%)	1,973	(100.0%)	2.3%	6,080	(100.0%)	6,266	(100.0%)	3.1%
Domestic	1,896	(98.3%)	1,941	(98.4%)	2.4%	5,984	(98.4%)	6,165	(98.4%)	3.0%
Overseas	33	(1.7%)	32	(1.6%)	-4.5%	96	(1.6%)	101	(1.6%)	5.9%
Operating Profit	63	3.3%	62	3.1%	-2.3%	282	4.6%	297	4.7%	5.2%
Domestic	90	4.8%	80	4.1%	-12.0%	359	6.0%	360	5.8%	0.2%
Overseas	-27	-	-18	-	-	-77	-	-63	-	-
EBITDA	151	7.8%	148	7.5%	-2.3%	543	8.9%	555	8.9%	2.2%
Domestic	167	8.8%	156	8.0%	-6.8%	588	9.8%	586	9.5%	-0.4%
Overseas	-16	-	-8	-	-	-45	-	-31	-	-

※ 62 Department Stores : Domestic 54 stores (including 19 Outlets) / Overseas 8 stores(China 5, Indonesia 1, Vietnam 2)

Domestic

- ◆ **Domestic SSSG : +2.2%(3Q) (Total managerial revenue : +3.2%)**
 - Women's wear +2.0%, Men's wear -2.3%, Accessories +1.6%, Food +6.2%, Global fashion+5.1%, Home appliances/Electronics +6.9%
- ◆ **Operating profit decreased due to reduced gross profit margin and SG&A cost increase**
 - GPM decreased due to strong growth in lower-margin categories (food, electronics, etc.)
 - SG&A cost increased(labor cost, online sales commission fee)
- ◆ **2H2016 Openings: +3 outlet malls**
 - Uijungbu(August), Jinju(September), Namak(4Q)

Overseas

- ◆ **Overseas SSSG : +9.2%**
 - China +6.7%, Indonesia +27.0%, Vietnam +8.7%
- ◆ **3Q Operating loss improved by 9.4bn KRW**
 - Store efficiency enhancement through SG&A optimization
 - Depreciation cost decreased(2 Tianjin Stores, etc.)
 - Real estate rental fee decreased through new contract negotiation
- ◆ **Key strategy**
 - Operation contract of Shanghai shopping mall through joint venture with Choongsin Group(2017)

Hypermarkets

(Unit : billion KRW)

	3Q 2015		3Q 2016		YoY	1Q-3Q 2015		1Q-3Q 2016		YoY
Sales Revenue	2,249	(100.0%)	2,184	(100.0%)	-2.9%	6,503	(100.0%)	6,445	(100.0%)	-0.9%
Domestic	1,582	(70.4%)	1,568	(71.8%)	-0.9%	4,529	(69.7%)	4,502	(69.9%)	-0.6%
Overseas	667	(29.6%)	616	(28.2%)	-7.5%	1,974	(30.3%)	1,943	(30.1%)	-1.6%
Operating Profit	3	0.1%	-27	-	-	-31	-	-87	-	-
Domestic	42	2.6%	2	0.1%	-96.1%	71	1.6%	2	0.0%	-97.9%
Overseas	-39	-	-29	-	-	-102	-	-89	-	-
EBITDA	59	2.6%	30	1.4%	-49.3%	137	2.1%	80	1.2%	-41.2%
Domestic	82	5.1%	42	2.6%	-49.0%	191	4.2%	120	2.7%	-36.9%
Overseas	-23	-	-12	-	-	-54	-	-40	-	-

※ 290 Stores: Domestic 118 stores, Overseas 172 stores(China 116, Indonesia 43, Vietnam 13)

Domestic

- ◆ **Domestic SSSG: -2.4% (Gross managerial revenue -2.1%)**
 - Fresh food -1.9%, Processed food -0.6%, Living -4.8%, Apparel&Accessories -4.5%
 - Poor sales from living category due to chemical product crisis (Oxy/toothpaste)
 - Disruption impact from store renewal(12 stores in 3Q)
- ◆ **Decreased OP due to weak sales trend and increased SG&A cost**
 - Increased labor and advertising cost(online coupon, promotion)
- ◆ **Key Strategy**
 - Specialty store enhancement through implementing F2C structure
 - Expansion of exclusive product SKU through product sourcing improvement

Overseas

- ◆ **Overseas SSSG: -5.1%**
 - China -9.3%, Indonesia -2.4%, Vietnam +4.3%
- ◆ **OP loss improvement +11bn KRW**
 - China : OP loss improved due to base effect from loss generating stores closure in Shandong province(3Q15)
 - Indonesia: Decreased OP due to maintenance of sales structure (elimination of low-margin sales events) and store renewal
 - Vietnam : Strong sales growth with new store openings and same stores' growth
- ◆ **4Q New Store Openings : +3 stores in Indonesia**
(2 wholesale stores, 1 retail store)

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Electronics

(Unit : billion KRW)

	3Q 2015			3Q 2016			1Q-3Q 2015			1Q-3Q 2016		
					YoY						YoY	
Sales Revenue	1,063		1,122		5.5%	2,890		2,960		2.4%		
Operating Profit	56	5.3%	66	5.9%	18.2%	134	4.6%	135	4.6%	1.1%		
EBITDA	68	6.4%	78	7.0%	14.0%	171	5.9%	171	5.8%	-0.3%		
Net Profit	40	3.7%	46	4.1%	15.7%	93	3.2%	94	3.2%	1.0%		

※ 448 Stores(End of 3Q16)

Key Factors

◆ 3Q Gross revenue growth : +5.5% YoY

- Total : 448 stores, (+11 stores YoY)
- Favorable sales growth in main product categories(white goods, home appliances, etc.)
- Strong growth from online mall

◆ 3Q Operating profit growth : +18.2% YoY

- Improved gross profit margin(25.2%→26.4%) due to increased sales from higher-margin product categories
- Stabilized profit structure with efficient execution of SG&A cost

◆ 4Q Outlook

- Strong growth in online/mobile shopping sales along with SKU expansion
 - Online/offline synergy (Smartpick, omni-sales, etc.) enhancement
- Increased sales and margin through expansion of products manufactured by global and small/medium companies
- Benefit from favorable real estate transaction trend in 2H16
- Benefit from new store openings (+8 stores YoY)

Finance

Income Statement Summary

	3Q FY'15	3Q FY'16	YoY	1Q-3Q FY'15	1Q-3Q FY'16	YoY
Operating Revenue	477	500	4.9	1,360	1,384	1.8
Credit Purchase	217	225	3.8	639	661	3.4
Card Loan & Cash Advance	136	135	▲0.9	404	405	0.3
Others	123	140	13.4	317	318	0.4
Operating Expense	455	479	5.3	1,216	1,269	4.4
Labor costs	31	33	5.5	93	97	4.4
Finance Expense	43	44	4.0	128	131	2.6
Loan Loss Provision	51	49	▲2.7	152	162	6.7
Card Expense	215	234	8.7	607	664	9.4
General Expense	115	119	2.8	236	214	▲9.2
Operating Profit	22	21	▲7.8	144	115	▲20.2

* 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'14	FY'15	1Q FY'16	2Q FY'16	3Q FY'16
Transaction Volume	53.5	56.6	14.0	15.2	15.7
No. of Holders	7,225	7,255	7,232	7,263	7,380
Delinquency Rate	1.48	1.68	1.58	1.60	1.71

Earning Asset Portfolio

(Unit : %)

	FY'14	FY'15	1Q FY'16	2Q FY'16	3Q FY'16
Credit Purchase	59.6	58.6	56.9	56.9	57.0
Card Loan	25.8	27.0	28.0	27.7	27.3
Cash Advance	9.5	7.8	7.9	7.5	7.3
Installment & lease	5.1	6.6	7.2	8.0	8.4

Key Factors

◆ Operating Revenue

- Credit purchase (+8.2bn KRW, +3.8%),
Card loan & Cash advance (-1.2bn KRW, -0.9%)
- Impact from gov't enforced card transaction fee discount -11.4 bn KRW

◆ Operating Expense

- Increase in marketing expenses (+13.4bn KRW)
- Customer recruitment cost (+4.8bn KRW)
- Labor cost related to 3Q one-off special incentive +1.5bn KRW

◆ 2H Key Strategy

- Profit structure diversification and Fin-tech market dominance
 - Introduction of new biz model(credit loan for nonmember, etc.)
 - Promotion of fin-tech competitiveness(mobile channel integration, biometric payment system, etc.)
- Optimization of cost management
 - Reformation of product portfolio related to credit card(systematization of credit card service cost management)
 - Efficient recruitment cost management through expansion of online channel

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(Unit : billion KRW)

	3Q 2015		3Q 2016		YoY	1Q-3Q 2015		1Q-3Q 2016		YoY
Revenue	942		994		5.6%	2,512		2,768		10.2%
Operating Profit	16	1.7%	24	2.4%	48.5%	48	1.9%	43	1.6%	-9.0%
EBITDA	31	3.3%	38	3.8%	23.6%	93	3.7%	86	3.1%	-7.5%

※ 8,405 stores (as of 3Q16)

Key Factors

◆ 3Q Revenue +5.6%, YoY

- 8,405 stores in total (+696 stores YoY)
- Improved daily sales per store
 - Sales growth in HMR category due to increase in single household consumption
 - Sales growth in PB and coffee category due to cost-effectiveness oriented consumption trend

◆ 3Q Operating profit +48.5%, YoY

- Gross profit margin improvement due to food and PB categories sales growth
- Improved efficiency through closure of poor performing stores

◆ 4Q Key Strategy

- PB products development
 - Collaborate with top-tier B/Ds
 - Develop exclusive products through trend analysis(ex. modi-sumer)
- Food products development and renewal
 - Develop new product lineups through analysis of customer preference
- Diversification of small-packaging product for single household
- Promotion of 'smartpick' service with LOTTE affiliated companies

Other Business Units

(Unit : billion KRW)

	3Q 2015	3Q 2016	YoY	1Q-3Q 2015	1Q-3Q 2016	YoY
Sales Revenue	1,059	1,098	3.6%	3,003	3,013	0.3%
Lotte Super	614	603	-1.8%	1,788	1,757	-1.7%
Lotte Homeshopping	204	228	11.7%	642	660	2.7%
Others	241	267	10.7%	573	596	4.2%
Operating Profit	35	30	-15.4%	88	52	-41.2%
Lotte Super	6	-2	-	17	-2	-
Lotte Homeshopping	15	16	5.7%	63	54	-13.8%
Others	14	16	8.5%	8	0	-

3. Non-Operating Profit

(Unit : billion KRW)

	3Q 2015	3Q 2016	YoY	1Q-3Q 2015	1Q-3Q 2016	YoY
Operating Profit	195	176	-10.1%	665	555	-16.5%
Net Interest Income/Expense	-44	-38	-	-122	-115	-
Gains on Foreign Currency & Derivative Asset	-8	-15	-	-23	3	-
Other non-operating profit	-43	1	-	-75	-45	-
Equity Method Gain & Loss	-15	14	-	6	20	206.4%
Profit Before Tax	85	138	62.4%	451	418	-7.5%
Corporate tax	59	60	1.0%	214	191	-10.9%
Net Profit	26	78	203.9%	237	227	-4.3%

Appendix

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

Income Statement (Consolidated K-IFRS)

(Unit : billion KRW)

	3Q FY'15		3Q FY'16		YoY	1Q-3Q FY'15		1Q-3Q FY'16		YoY
Revenue	7,719		7,871		2.0%	22,348		22,836		2.2%
Gross Profit	2,240	(29.0%)	2,330	(29.6%)	4.0%	6,668	(29.8%)	6,831	(29.9%)	2.5%
SG&A	2,045	(26.5%)	2,154	(27.4%)	5.4%	6,003	(26.9%)	6,276	(27.5%)	4.6%
Operating Profit	195	(2.5%)	176	(2.2%)	-10.1%	665	(3.0%)	555	(2.4%)	-16.5%
EBITDA	400	(5.2%)	378	(4.8%)	-5.6%	1,279	(5.7%)	1,158	(5.1%)	-9.4%
Profit before tax	85	(1.1%)	138	(1.8%)	62.4%	451	(2.0%)	418	(1.8%)	-7.5%
Net Profit	26	(0.3%)	78	(1.0%)	203.9%	237	(1.1%)	227	(1.0%)	-4.3%
Net Income of Controlling Company	2	(0.0%)	48	(0.6%)	2,601.2%	173	(0.8%)	171	(0.7%)	-1.1%
Net income of minority interest equity	24	(0.3%)	30	(0.4%)	27.0%	64	(0.3%)	56	(0.2%)	-12.9%

Balance Sheet (Consolidated K-IFRS)

(Unit: billion KRW)

	3Q '15	4Q '15	1Q '16	2Q '16	3Q '16
Total assets	41,387	40,693	40,357	40,350	40,992
Cash & Cash Equivalent	2,934	3,033	2,796	2,615	3,071
Inventories	3,336	3,266	3,333	3,289	3,414
Land & Buildings	13,114	13,052	13,005	13,041	13,124
Liabilities	23,663	23,605	23,300	23,252	23,843
Borrowings & Bonds	13,731	14,084	13,807	13,953	13,851
Equity	17,724	17,088	17,057	17,098	17,149
Share Capital	158	158	158	158	158

Regional Sales of Lotte Marts Overseas

(Unit : billion KRW)

	No. of Stores	3Q FY'15	3Q FY'16	YoY	YoY**
China	116*	356	285	-20.0%	-10.0%
Indonesia	43	256	264	3.3%	1.8%
Vietnam	13	55	67	23.2%	32.9%
Total	172	667	616	-7.5%	-1.0%

* Includes 16 supermarkets in China

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

Store Network

		2014	2015	2016				2016
		Year End	Year End	Openings				Year End
Domestic		Total	Total	1Q	2Q	3Q(E)	4Q(E)	Total(E)
		Department Store	full-line store	31	31			
	franchise store	2	3					3
	young plaza	2	2					2
	outlet mall	14	17			2	1	20
Hypermarket		114	117			1	3	121

* Unified operation of Jamsil & Avenuel world tower

		2014	2015	2016				2016
		Year End	Year End	Openings				Year End
Overseas		Total	Total	1Q	2Q	3Q(E)	4Q(E)	Total(E)
		Department Store	Russia	1	1			
	China	5	5					5
	Vietnam	1	2					2
	Indonesia	1	1					1
Hypermarket		119	116*					116*
	(Supermarket)	(16)	(16)					(16)
	Vietnam	10	11		1	1		13
	Indonesia	38	41		2		3	46
		(1)	(2)					(2)

* Including China supermarkets(16 stores)