

2016 Fourth Quarter Results

February, 2017

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 FY16Q4

- **4Q Revenue 8.0 trillion KRW(+1.9% YoY), FY16 Revenue 30.8 trillion KRW (+2.1% YoY)**
 - Domestic: Dept. store/Hypermarket indicated weak SSSG(same store sales growth) due to sluggish consumer sentiment
 - SSSG: [Dept. store -4.3%(4Q), +0.3%(FY16)] / [Hypermarket -3.3%(4Q), -1.7%(FY16)]
 - Overseas : Strong SSSG in dept. stores/ Weak SSSG trend continued in China hypermarket
 - SSSG: [Dept. store +13.3%(4Q), +8.6%(FY16)] / [Hypermarket -3.8%(4Q), -2.3%(FY16)]

- **4Q Operating profit 386 billion KRW(+104.1% YoY), FY16 940 billion KRW(+10.1% YoY)**
 - Domestic : Operating profit improvement in major business units(dept. store and hypermarket)/ Increased operating profit contribution from other affiliated companies
 - Overseas : Operating loss improved by store efficiency enhancement in both dept. store and hypermarket business
 - ※ Gain from VAT refund scheme through rectification(137 billion KRW) and comprehensive real estate tax return(24 billion KRW)

- **4Q Net profit 19 billion KRW, FY16 246 billion KRW**
 - 4Q16 One-off non-operating losses: Goodwill impairment losses -155 billion KRW, miscellaneous losses(regarding humidifier sterilizer) -20 billion KRW, etc.

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1. Consolidated Financial Results

(Unit : billion KRW)

	4Q 2015	4Q 2016	YoY	FY2015	FY2016	YoY
Gross Sales	7,808	7,958	1.9%	30,156	30,794	2.1%
Operating Profit	189	386	104.1%	854	940	10.1%
EBITDA	394	593	50.6%	1,672	1,751	4.7%
Profit before tax	-531	71	-	- 80	488	-
Net Profit	-582	19	-	-346	246	-

*Number of consolidated affiliates: 74

2. Financial Summary by Division

(Unit : billion KRW)

	4Q 2015		4Q 2016		YoY	FY2015		FY2016		YoY
Revenue	7,808	(100.0%)	7,958	(100.0%)	1.9%	30,156	(100.0%)	30,794	(100%)	2.1%
Department Store	2,586	(33.1%)	2,557	(32.1%)	-1.1%	8,666	(28.7%)	8,823	(28.7%)	1.8%
Hypermarket	2,044	(26.2%)	2,063	(25.9%)	0.9%	8,547	(28.3%)	8,508	(27.6%)	-0.5%
Electronics	1,006	(12.9%)	980	(12.3%)	-2.6%	3,896	(12.9%)	3,940	(12.8%)	1.1%
Finance	430	(5.5%)	403	(5.1%)	-6.4%	1,790	(5.9%)	1,787	(5.8%)	-0.2%
CVS	803	(10.3%)	937	(11.8%)	16.7%	3,315	(11.0%)	3,704	(12.0%)	11.7%
Others*	939	(12.0%)	1,018	(12.8%)	8.5%	3,942	(13.2%)	4,032	(13.1%)	2.3%
Operating Profit	189	2.4%	386	4.8%	104.1%	854	2.8%	940	3.1%	10.1%
Department Store	231	8.9%	318	12.4%	37.4%	513	5.9%	614	7.0%	19.7%
Hypermarket	-31	-	-9	-	-	-61	-	-97	-	-
Electronics	26	2.6%	39	4.0%	48.6%	160	4.1%	175	4.4%	9.0%
Finance	22	5.1%	23	5.7%	5.4%	166	9.3%	138	7.7%	-16.9%
CVS	-2	-	6	0.7%	-	46	1.4%	49	1.3%	8.4%
Others*	-57	-	9	0.9%	-	30	0.8%	61	1.5%	99.8%

* includes consolidation adjustments

Department Stores

(Unit : billion KRW)

	4Q 2015		4Q 2016		YoY	FY2015		FY2016		YoY
Revenue	2,586	(100.0%)	2,557	(100.0%)	-1.1%	8,666	(100.0%)	8,823	(100.0%)	1.8%
Domestic	2,554	(98.8%)	2,523	(98.7%)	-1.2%	8,538	(98.5%)	8,688	(98.5%)	1.8%
Overseas	32	(1.2%)	34	(1.3%)	5.8%	128	(1.5%)	135	(1.5%)	5.9%
Operating Profit	231	8.9%	318	12.4%	37.4%	513	5.9%	614	7.0%	19.7%
*Domestic	259	10.1%	337	13.4%	30.1%	618	7.2%	697	8.0%	12.7%
Overseas	-28	-	-19	-	-	-105	-	-83	-	-
EBITDA	320	12.4%	404	15.8%	26.5%	863	10.0%	960	10.9%	11.2%
Domestic	337	13.2%	414	16.4%	23.0%	925	10.8%	1,001	11.5%	8.2%
Overseas	-17	-	-10	-	-	-62	-	-41	-	-

※ 63 Department Stores(as of 4Q16) : Domestic 55 stores(including 20 outlets) / Overseas 8 stores (China 5, Indonesia 1, Vietnam 2)

Domestic

- ◆ **Domestic SSSG: -4.3%(4Q) / +0.3%(FY16)**
 - 4Q SSSG: Women's wear -5.2%, Men's wear -5.3%, Food +2.1%, Accessories -5.0%, Global fashion -0.5%, Home appliances -8.1%
- ◆ **Operating profit increased by improved gross profit margin and strict SG&A management**
- ◆ **2017 Strategy**
 - New outlet stores and compact-size specialty stores openings
 - Expansion of OPS(Off-Price Store) business(LOTTE TOPS)

Overseas

- ◆ **Overseas SSSG: +13.3%(4Q)/ +8.6%(FY16)**
 - 4Q SSSG: China +11.8%, Indonesia +22.6%, Vietnam +13.5%
- ◆ **Operating loss improved by sales growth and improved SG&A management +9bn KRW**
- ◆ **2017 Strategy**
 - China: Operation of Shanghai shopping mall through JV with CITIC group('17.3~)
 - Vietnam: Mass attraction factor enhancement(F&B), Review for new store openings and space expansion of existing stores
 - Indonesia: Enhancement through renewal and efficient MD

Hypermarkets

(Unit : billion KRW)

	4Q 2015		4Q 2016		YoY	FY2015		FY2016		YoY
Revenue	2,044	(100.0%)	2,063	(100.0%)	0.9%	8,547	(100.0%)	8,508	(100.0%)	-0.5%
Domestic	1,447	(70.8%)	1,489	(72.2%)	3.0%	5,976	(69.9%)	5,992	(70.4%)	0.3%
Overseas	597	(29.2%)	574	(27.8%)	-4.0%	2,571	(30.1%)	2,516	(29.6%)	-2.1%
Operating Profit	-31	-	-9	-	-	-61	-	-97	-	-
Domestic	15	1.0%	26	1.7%	70.2%	87	1.5%	27	0.5%	-68.5%
Overseas	-46	-	-35	-	-	-148	-	-124	-	-
EBITDA	25	1.2%	50	2.4%	98.5%	162	1.9%	130	1.5%	-19.6%
Domestic	56	3.8%	69	4.6%	23.4%	246	4.1%	189	3.2%	-23.3%
Overseas	-31	-	-19	-	-	-84	-	-59	-	-

※ 290 Stores: Domestic 120, Overseas 174(China 115 stores, Indonesia 46, Vietnam 13)

Domestic

- ◆ **Domestic SSSG: -3.3%(4Q)/-1.7%(FY16)**
 - 4Q SSSG: Fresh food +0.6%, Processed food -0.7%, Living -6.9%, Apparel&accessories -7.9%
- ◆ **Operating profit increased**
 - Gross profit margin improved through margin enhancement of fresh food category
 - Increased labor and advertising cost(online coupon, promotion, marketing expense of newly opened stores, etc.)
- ◆ **2017 Strategy**
 - Specialty store renewal: +29 stores (Suwon, Yeosu, etc.)
 - Mobile business enhancement: SKU expansion, additional opening of distribution center, implantation of customized service
 - F2C based PB products/Sourcing innovation → Profit structure improvement through cost reduction

Overseas

- ◆ **Overseas SSSG: -3.8%(4Q)/ -2.3%(FY16)**
 - 4Q SSSG: China -14.2%, Indonesia +6.8%, Vietnam +2.9%
- ◆ **Operating loss improved(+11bn KRW) due to China's cost reduction and strong sales growth from Indonesia and Vietnam +11 bill KRW**
- ◆ **2017 Strategy**
 - Financial structure improvement through efficiency enhancement of same stores and new growth driver development
 - China: Improvement of poor performing stores(super-compressed cost management), innovation of fresh food category
 - Indonesia: Expansion of wholesale business and profit structure enhancement of retail business
 - Vietnam: Enhancement of investment efficiency and online business

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Electronics

(Unit : billion KRW)

	4Q 2015		4Q 2016		YoY	FY2015		FY2016		YoY
Revenue	1,006		980		-2.6%	3,896		3,940		1.1%
Operating Profit	26	2.6%	39	4.0%	48.6%	160	4.1%	175	4.4%	9.0%
EBITDA	39	3.8%	51	5.2%	31.7%	210	5.4%	221	5.6%	5.6%
Net Profit	14	1.4%	28	2.8%	99.1%	107	2.7%	121	3.1%	13.9%

※ 457 stores (as end of 2016)

Key Factors

◆ 4Q Gross revenue growth: -2.6% (YoY)

- 457 stores in total (+17 new stores YoY)
- Weak sales trend of white electronics and mobile handset category/
Favorable sales growth from home appliances
- Weak sales trend of Kimchi fridge due to gov't policy to provide subsidies(3Q16)
- Contraction of mobile category market due to sales termination of Samsung Galaxy Note 7
- Strong growth from online sales

◆ 4Q Operating profit growth: +48.6% (YoY)

- Gross profit margin increased through product margin improvement
- Stabilized profit structure with efficient execution of SG&A cost

◆ 2017 Strategy

- Store efficiency enhancement through "Build & Scrap" strategy
 - 11 additional stores in 2017(new store opening +17, closure ▲6)
- Enhancement of online(omni-channel) biz and SKU expansion strategy
 - Opening of online distribution center
 - Expansion of omni-zone(tablet PC zone)
 - Product diversification through SKU expansion
- Customer relationship through transition to "Home & Life Retailer"
 - Expansion of home care service(home appliances cleaning and maintenance service, etc.)

Finance

Summary Income Statement

(Unit: billion, %)	4Q FY'15	4Q FY'16	YoY	FY'15	FY'16	YoY
Operating Revenue	430	403	▲6.4	1,790	1,787	▲0.2
Credit Purchase	232	242	4.7	870	903	3.8
Card Loan & Cash Advance	138	133	▲3.9	542	538	▲0.7
Others*	61	28	▲54.5	378	346	▲8.4
Operating Expense	408	380	▲6.9	1,624	1,649	1.5
SG&A	35	37	4.7	129	134	4.5
Finance Expense	43	44	2.2	171	175	2.5
Loan Loss Provision	64	52	▲17.9	216	215	▲0.6
Card Expense	215	242	12.5	822	906	10.3
General Expense*	51	4	▲92.3	287	219	▲23.7
Operating Profit	22	23	5.4	166	138	▲16.9

* Finance division includes 4 Electronic Cash Business affiliates

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

Key Factors

◆ Operating Profit

- 4Q Credit purchase +4.7%, Card loan & Cash advance -3.9%, Others -54.5%(Gain on foreign currency and derivative asset transaction)
- Impact from gov't enforced card transaction fee discount -12bn KRW (FY16 -39bn KRW)

◆ Operating Expense

- Card expense +27bn KRW (customer recruitment cost +7bn KRW, marketing expenses 23bn KRW)
- Loan loss provision -12bn KRW, General expense -47bn KRW (Cost regarding foreign currency and derivative asset transaction)

Transaction Volume & Other Highlights

(Unit: tr. KRW, thousand, %)	FY'15	FY'16				Total
		1Q	2Q	3Q	4Q	
Transaction Volume	56.6	14.0	15.2	15.7	16.5	61.3
No. of Holders	7,255	7,232	7,263	7,380	7,470	7,470
Delinquency Rate	1.68	1.58	1.60	1.71	1.62	1.62

Earning Asset Portfolio

	(Unit: %)		
	FY'14	FY'15	FY'16
Credit Purchase	59.6	58.6	58.2
Card Loan	25.8	27.0	26.2
Cash Advance	9.5	7.8	7.0
Installment & lease	5.1	6.6	8.5

◆ 2017 Strategy

- Fin-tech market dominance and business portfolio diversification
- Standardization of mobile platform for customer convenience
- Introduction of new biz model(car-care service, credit loan for non-members, etc.)
- Optimization of cost management
- Reformation of product portfolio related to credit card
- Efficient recruitment cost management through online channel expansion

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	4Q 2015		4Q 2016		YoY	FY2015		FY2016		YoY
Revenue	803		937		16.7%	3,315		3,704		11.7%
Operating Profit	-2	-	6		0.7%	46	1.4%	49	1.3%	8.4%
EBITDA	13	1.6%	22		2.3%	105	3.2%	107	2.9%	1.9%

※ 8,556 stores (as end of 4Q16)

Key Factors

◆ 4Q Revenue: +16.7%(YoY)

- 8,556 stores in total (+556 new 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 driven by cost-efficiency focused consumption trend

◆ Operating profit increased

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

◆ 2016 Strategy

- Introduction of new products through consumer preference analysis
 - PB products diversification(collaboration with top-tier B/Ds, etc.)
 - Development of toy and food category along with Kidult trend
- Enhancement of product and service targeting single and two-member households
 - Diversification of small-packaging HMR products
 - Lifestyle service(laundry service, etc.)
- Seven Café promotion
 - New concept store development
 - Focus on improving poor performing stores

Other Business Units

(Unit : billion KRW)

	4Q 2015	4Q 2016	YoY	FY2015	FY2016	YoY
Revenue	939	1,018	8.5%	3,942	4,032	2.3%
Lotte Super	544	574	5.7%	2,332	2,332	0.0%
Lotte Home Shopping	245	258	5.3%	887	917	3.4%
*Others	150	186	23.7%	723	783	8.3%
Operating Profit	-57	9	-	30	61	99.8%
Lotte Super	-6	3	-	11	1	-87.3%
Lotte Home Shopping	10	24	149.1%	72	78	7.7%
Others	-61	-18	-	-53	-18	-

3. Non-Operating Profit Analysis

(Unit : billion KRW)

	4Q 2015	4Q 2016	YoY	FY'15	FY'16	YoY
Operating Profit	189	386	104.1%	854	940	10.1%
Net Interest Income/Expense	-39	-35	-	-162	-150	-
Gains on Foreign Currency & Derivative Asset	2	0	-	-21	3	-
Other non-operating profit	-684	-321	-	-758	-365	-
Equity Method Gain & Loss	1	41	8,608.6%	7	60	774.1%
Profit Before Tax	-531	71	-	-80	488	-
Corporate tax	51	52	1.1%	266	242	-8.6%
Net Profit	-582	19	-	-346	246	-

* 15.4Q intangible asset impairment losses -616.9bn KRW (Times -249.4bn KRW, GS Square/hypermarket -140.9bn KRW, Lucky Pai -120.1bn KRW, Macro(Beijing) -87.9bn KRW)

* 16.4Q intangible asset impairment losses -125.3bn KRW (GS Mart -83.3bn KRW, Hi-mart -39.7bn KRW, etc.), tangible asset impairment losses -73.5bn KRW, miscellaneous losses(regarding humidifier sterilizer) -20bn KRW1

Appendix

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

Income Statement (Consolidated K-IFRS)

(Unit : billion KRW)

	4Q FY'15		4Q FY'16		YoY	FY'15		FY'16		YoY
Revenue	7,808		7,958		1.9%	30,156		30,794		2.1%
Gross Profit	2,243 (28.7%)		2,539 (31.9%)		13.2%	8,911 (29.5%)		9,371 (30.4%)		5.2%
SG&A	2,054 (26.3%)		2,153 (27.1%)		4.9%	8,057 (26.7%)		8,431 (27.4%)		4.6%
Operating Profit	189 (2.4%)		386 (4.8%)		104.1%	854 (2.8%)		940 (3.1%)		10.1%
EBITDA	394 (5.0%)		593 (7.5%)		50.6%	1,672 (5.5%)		1,751 (5.7%)		4.7%
Profit before tax	-531 -		71 (0.9%)		-	-80 -		488 (1.6%)		-
Net Profit	-582 -		19 (0.2%)		-	-346 -		246 (0.8%)		-
Net Income of Controlling Company	-555 -		-4 -		-	-383 -		167 (0.5%)		-
Net income of minority interest equity	-27 -		23 -		-	37 -		79 (0.3%)		-

Balance Sheet (Consolidated K-IFRS)

(Unit : billion KRW)

	3Q '15	4Q '15	1Q '16	2Q '16	3Q '16	4Q '16
Total assets	41,387	40,693	40,357	40,350	40,992	41,914
Cash & Cash Equivalent	2,934	3,033	2,796	2,615	3,071	3,175
Inventories	3,336	3,266	3,333	3,289	3,414	3,324
Land & Buildings	13,114	13,052	13,005	13,041	13,124	13,115
Liabilities	23,663	23,605	23,300	23,252	23,843	24,652
Borrowings & Bonds	13,731	14,084	13,807	13,953	13,851	14,483
Equity	17,724	17,088	17,057	17,098	17,149	17,262
Share Capital	158	158	158	158	158	158

Regional Sales of Lotte Marts in Overseas

(Unit : billion KRW)

	No. of Stores	4Q FY'15	4Q FY'16	YoY	YoY**
China	115*	303	235	-22.4%	-14.1%
Indonesia	44	236	269	14.2%	12.2%
Vietnam	13	59	69	17.9%	21.8%
Total	172	598	573	-4.0%	0.6%

* Includes 16 supermarkets in China

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

Store Network

		2015	2016				2016	2017
		Year End	Openings				Year End	Year End
Domestic		Total	1Q	2Q	3Q	4Q	Total	Total(E)
Department Store	full-line store	31					*30	31
	franchise store	3					3	3
	young plaza	2					2	2
	outlet mall	17			2	1	20	21
Hypermarket		117			1	3/-1	120	126

* Unified operation of Jamsil & Avenuel world tower

		2015	2016				2016	2017
		Year End	Openings				Year End	Year End
Overseas		Total	1Q	2Q	3Q	4Q	Total	Total(E)
Department Store	Russia**	1					1	1
	China	5					5	5
	Vietnam**	2					2	2
	Indonesia	1					1	1
Hypermarket (Supermarket)	China***	116 (16)					115 (16)	112 (13)
	Vietnam	11		1	1		13	13
	Indonesia	41 (2)		2		3	46 (2)	47 (2)

**Including equid method stores

*** Including 16 overseas supermarkets in China