

2017 First Quarter Results

May, 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 FY17Q1

■ 1Q17 Revenue 7.5 trillion KRW(+0.4% YoY)

- Domestic: Dept. stores/hypermarkets indicated weak SSSG(same store sales growth) due to sluggish consumer sentiment and slow economy
 - SSSG: [Dept. store -4.8%] / [Hypermarket -5.1%]
- Overseas : Weak SSSG in dept. stores/hypermarkets in China due to retaliation against THAAD issue
However, dept. stores/hypermarkets continued to achieve solid sales growth trend in Vietnam and Indonesia
 - SSSG: [Dept. store -4.2%] / [Hypermarket -11.0%]

■ 1Q17 Operating profit 207 billion KRW(-0.4% YoY)

- Domestic : Operating profit declined due to decreased sales revenue in the major business units (dept. store and hypermarket). Bigger and improved operating profit contribution from other business units and affiliated companies(Home Shopping, Electronics, Finance, etc)
- Overseas : Minor operating loss improvement through store efficiency enhancement in both dept. store and hypermarket businesses

■ 1Q17 Net profit 112 billion KRW(+68.9% YOY)

- Gains on foreign currency/derivative asset +12 billion KRW(YoY), equity method income +23 billion KRW(YoY), etc

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1. Consolidated Financial Results

(Unit : billion KRW)

	1Q 2016	1Q 2017	YoY
Gross Sales	7,461	7,492	0.4%
Operating Profit	208	207	-0.4%
EBITDA	409	407	-0.5%
Profit before tax	130	190	46.1%
Net Profit	66	111	68.9%

*Number of consolidated affiliates: 75

2. Financial Summary by Division

(Unit : billion KRW)

	1Q 2016		1Q 2017		YoY
Revenue	7,461	(100.0%)	7,492	(100.0%)	0.4%
Department stores	2,166	(29.1%)	2,073	(27.7%)	-4.3%
Hypermarkets	2,191	(29.4%)	2,075	(27.7%)	-5.3%
Electronics	888	(11.9%)	897	(12.0%)	1.0%
Finance	435	(5.8%)	561	(7.5%)	29.2%
CVS	831	(11.1%)	864	(11.5%)	4.0%
Others*	950	(12.7%)	1,022	(13.6%)	7.4%
Operating Profit	208	2.8%	207	2.8%	-0.4%
Department Stores	145	6.7%	114	5.5%	-21.4%
Hypermarkets	2	0.1%	-20	-	-
Electronics	28	3.2%	36	4.1%	30.1%
Finance	32	7.5%	55	9.9%	70.0%
CVS	2	0.2%	1	0.1%	-63.0%
Others*	-1	-	21	2.0%	-

* includes consolidation adjustments

Department Stores

(Unit : billion KRW)

		1Q 2016		1Q 2017		YoY
Sales Revenue		2,166	(100.0%)	2,073	(100.0%)	-4.3%
	Domestic	2,131	(98.3%)	2,041	(98.4%)	-4.2%
	Overseas	35	(1.7%)	32	(1.6%)	-9.1%
Operating Profit		145	6.7%	114	5.5%	-21.4%
	Domestic	170	8.0%	135	6.6%	-20.6%
	Overseas	-25	-	-21	-	-
EBITDA		232	10.7%	199	9.6%	-14.2%
	Domestic	245	11.5%	210	10.3%	-14.4%
	Overseas	-13	-	-11	-	-

※ 63 Department Stores(as of 1Q17) : Domestic 55 stores(including 20 outlets) / Overseas 8 stores (China 5, Indonesia 1, Vietnam 2)

Domestic

- ◆ **Domestic SSSG: -4.8%**
 - Apparel -5.6%, Accessories -6.7%, Global fashion -1.6%, Food -3.4%, Home appliances -1.0%
 - Sluggish sales revenue due to decrease in number of business days and decline of inbound tourists number
- ◆ **Operating profit decreased (-20.6% YoY)**
 - SG&A ratio increased by weak SSSG trend
- ◆ **2017 Strategy**
 - Expansion of compact-size specialty stores openings(Elcube): SeJong(Home appliances specialized store, March), Busan, etc
 - Development of AI-based retail service: Partnership with 'IBM WATSON'

Overseas

- ◆ **Overseas SSSG: -4.2%**
 - China -7.4%, Indonesia +9.7%, Vietnam +6.8%
- ◆ **Continuous operating loss improvement (+4 billion KRW)**
 - Store efficiency enhancement through SG&A optimization
- ◆ **2017 Strategy by region**
 - China: Strict SG&A management system focused on profit and minimize negative impact by THAAD issue
 - Vietnam/Indonesia: Enhancement through differentiated MD development and mass attraction based MD arrangement

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Hypermarkets

(Unit : billion KRW)

	1Q 2016		1Q 2017		YoY
Sales Revenue	2,191	(100.0%)	2,075	(100.0%)	-5.3%
Domestic	1,537	(70.1%)	1,514	(72.9%)	-1.5%
*Overseas	654	(29.9%)	561	(27.1%)	-14.2%
Operating Profit	2	0.1%	-20	-	-
Domestic	30	1.9%	8	0.5%	-72.7%
*Overseas	-28	-	-28	-	-
EBITDA	58	2.6%	35	1.7%	-38.4%
Domestic	69	4.5%	48	3.2%	-30.2%
*Overseas	-11	-	-13	-	-

※ 291 Stores: Domestic 121, Overseas 170(China 112 stores, Indonesia 45, Vietnam 13)

Domestic

- ◆ **Domestic SSSG: -5.1%**
 - Fresh food -2.5%, Processed food -4.4%, Living -5.1%, Apparel & accessories -9.5%
 - Weak SSSG due to competitors promotion effect
- ◆ **Operating profit declined(-72.7% YoY)**
 - Weak SSSG trend and increased cost driven by new store openings
※ 4 new stores in 2016 (JinJu, Siheung, Eunpyeong, Namak)
- ◆ **2017 Strategy**
 - Continuation of Fresh Food Innovation: product development in response to customer behavior change, unsold fresh food wastage volume reduction
 - Launching 'Only Price'(PB brand): Higher quality, lower price products (Approximately 850 SKU this year)
 - Restructuring of underperforming stores: fixed costs reduction, inventory stocks reduction

Overseas

- ◆ **Overseas SSSG: -11.0%**
 - China -23.7%, Indonesia +1.6%, Vietnam +3.6%
 - THAAD issue impact in China: suspension: 75 stores
temporary closed: 12 stores (as of the end of March)
- ◆ **Maintained overall operating loss at YoY level with improved profitability in Vietnam/Indonesia operations**
- ◆ **China hypermarket strategy: "Re-open and restructuring"**
 - Focus on normalizing business
 - Efficient Management: Minimize cash outflow with strict management of unnecessary cost control
 - Communication enhancement with local community and customers: Preparation of social contribution programs for relationship recovery

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Electronics

	1Q 2016		1Q 2017		YoY
Sales Revenue	888	100%	897	100%	1.0%
Operating Profit	28	3.2%	36	4.1%	30.1%
EBITDA	40	4.5%	48	5.3%	19.4%
Net Profit	19	2.1%	25	2.8%	33.9%

(Unit : billion KRW)

※ 457 stores (as of 1Q17)

Key Factors

◆ Gross revenue growth: +1.0% YoY

- 457 stores in total (+19 new store openings YoY)
- Strong sales growth from online sales
- Higher growth from new categories(Laundry drying machine)
- Weak sales trend of mobile handset category

◆ Operating profit growth: +30.1% (YoY)

- Gross profit margin improvement driven by higher margin product sales (24.2% → 25.9%)

◆ 2Q Outlook

- Expected sales growth from mobile categories through introduction of Samsung Galaxy S8

◆ 2017 Strategy

- Store efficiency enhancement through "Build & Scrap" strategy
- Enhancement of online(omni-channel) biz and SKU expansion
- Customer relationship development to become "Home & Life Retailer"

Finance

Summary Income Statement

(Unit: billion, %)	1Q FY'16	1Q FY'17	YoY
Operating Revenue	435	561	29.2
Credit Purchase	212	230	8.2
Card Loan & Cash Advance	136	130	▲4.2
Others	87	202	132.5
(Gains on Foreign Currency)	18	107	
Operating Expens	403	506	25.8
Labor costs	33	32	▲2.8
Finance Expense	44	44	1.5
Loan Loss Provision	59	57	▲3.7
Card Expense	205	233	13.8
General Expense	62	140	127.0
(Loss on valuation of derivatives)	18	107	
Operating Profit	32	55	70.0

* 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'16				FY' 17
	1Q	2Q	3Q	4Q	1Q
Transaction Volume	14.0	15.2	15.7	16.5	16.0
No. of Holders	7,232	7,263	7,380	7,470	7,466
Delinquency Rate	1.58	1.60	1.71	1.62	1.54

Earning Asset Portfolio

(Unit: %)

	FY'15	FY'16	FY'17.1Q
Credit Purchase	58.6	58.2	56.4
Card Loan	27.0	26.2	26.8
Cash Advance	7.8	7.0	7.0
Installment & lease	6.6	8.5	9.8

Key Factors

◆ Operating Profit

- Credit purchase (+17bn KRW, +8.2%),
- Card loan & Cash advance (-5.8bn KRW, -4.2%)
- ※ Credit purchase transaction volume:12.9tn KRW (+2tn KRW,+18.3% YoY)

◆ Operating Expense

- Card expense: Customer recruitment fee +7.8bn KRW(YoY)
- Marketing expenses 17.7bn KRW(YoY)

◆ 2017 Strategy

- New customer attraction and marketing cost efficiency improvement
 - Enhance activities with affiliate companies and low-cost recruitment channel
 - Management of lower margin products, marketing cost efficiency through expansion of high-spending loyal customers
- New business expansion
 - Non-member credit loan products development
 - Establishment of mobile based platform, Fin-tech market dominance through implementation of Bio-scan payment service

(Unit : billion KRW)

	1Q 2016		1Q 2017		증감
Revenue	831	100.0%	864	100.0%	4.0%
Operating Profit	2	0.2%	1	0.1%	-63.0%
EBITDA	15	1.8%	14	1.7%	-5.4%

※ 8,679 stores (as end of 1Q17)

Key Factors

◆ 1Q Revenue: +4.0%(YoY)

- 8,679 stores in total (+546 new stores YoY)
- Average daily sales per store -1.0%
(general products +3.5%, tobacco -6.1%)

◆ 1Q Operating profit: -63.0% (YoY)

- Increase in rents due to increased number of direct-managed stores and consignment stores
- Increase in expenses due to credit card purchase growth
(Rise in credit payment commission)

◆ 2017 Strategy

- Strengthen substantial management focused on profit
 - Focused management of poor performing stores
 - Profit oriented new store openings
- Development of new trend leading products
 - Combination of new and existing products
 - YOLO: Consumption for satisfaction and health(Ex: Premium dessert)
- Preparation of future growth strategy
 - Creation of fun store(partnership with Pokemongo – obtainment of characters in advance, popular computer/video game related marketing)

Other Business Units

(Unit : billion KRW)

	1Q 2016	1Q 2017	YoY
Sales Revenue	950	1,022	7.4%
Lotte Super	577	566	-1.9%
Lotte Homeshopping	206	230	11.3%
Others	167	226	34.7%
Operating Profit	-1	21	-
Lotte Super	1	2	51.0%
Lotte Homeshopping	10	29	197.3%
Others	-12	-10	-

3. Non-Operating Profit Analysis

(Unit : billion KRW)

	1Q 2016	1Q 2017	YoY
Operating Profit	208	207	-0.4%
Net Interest Income/Expense	-42	-38	-
Gains on Foreign Currency & Derivative Asset	1	13	-
Other non-operating profit	-34	-12	-
Equity Method Gain & Loss	-3	20	-
Profit Before Tax	130	190	46.1%
Corporate Tax	64	79	22.7%
Net Profit	66	111	68.9%

Appendix

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

Income Statement (Consolidated K-IFRS)

(Unit : billion KRW)

	1Q FY'16		1Q FY'17		YoY
Revenue	7,461		7,492		0.4%
Gross Profit	2,221	(29.8%)	2,282	(30.5%)	2.7%
SG&A	2,013	(27.0%)	2,075	(27.7%)	3.1%
Operating Profit	208	(2.8%)	207	(2.8%)	-0.4%
EBITDA	409	(5.5%)	407	(5.4%)	-0.5%
Profit before tax	130	(1.7%)	190	(2.5%)	46.1%
Net Profit	66	(0.9%)	111	(1.5%)	68.9%
Net Income of Controlling Company	58	(0.8%)	22	(0.3%)	-62.2%
Net income of minority interest equity	8	(0.1%)	89	(1.2%)	1,012.4%

Balance Sheet (Consolidated K-IFRS)

(Unit : billion KRW)

	1Q '16	2Q '16	3Q '16	4Q '16	1Q '17
Total assets	40,357	40,350	40,992	41,914	42,045
Cash & Cash Equivalent	2,799	2,618	3,076	3,185	3,821
Inventories	3,333	3,289	3,414	3,324	3,221
Land & Buildings	13,005	13,041	13,124	13,115	13,092
Liabilities	23,300	23,252	23,843	24,652	24,786
Borrowings & Bonds	13,807	13,953	13,851	14,483	14,998
Equity	17,057	17,098	17,149	17,262	17,259
Share Capital	158	158	158	158	158

Regional Sales of Lotte Marts in Overseas

(Unit : billion KRW)

	No. of Stores	Revenue			
		1Q FY'16	1Q FY'17	YoY	YoY**
China	112*	335	226	-32.6%	-24.1%
Indonesia	45	256	264	3.1%	6.5%
Vietnam	13	63	72	13.5%	24.8%
Total	170	654	562	-14.2%	-6.8%

* Includes 13 supermarkets in China

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

Store Network

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

* Unified operation of Jamsil & Avenuel world tower

Overseas		2015 Year End	2016 Year End	2017 Openings				2017 Year End
		Total	Total	1Q	2Q(E)	3Q(E)	4Q(E)	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	13					13
	Indonesia	41 (2)	46 (2)	-1			2	47 (2)

**Including equity method stores

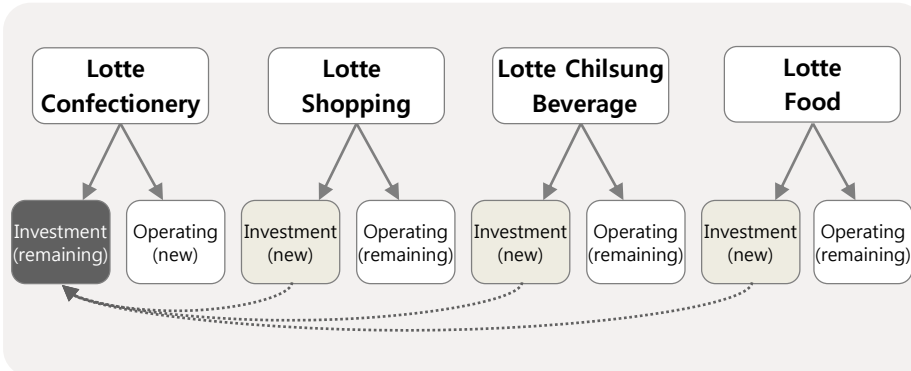
*** Including 13 overseas supermarkets in China

Lotte Group: Initiate holding company structure

The conversion into a holding company has begun with the simultaneous spin-off/merger transactions of the investment entities among four listed Lotte companies

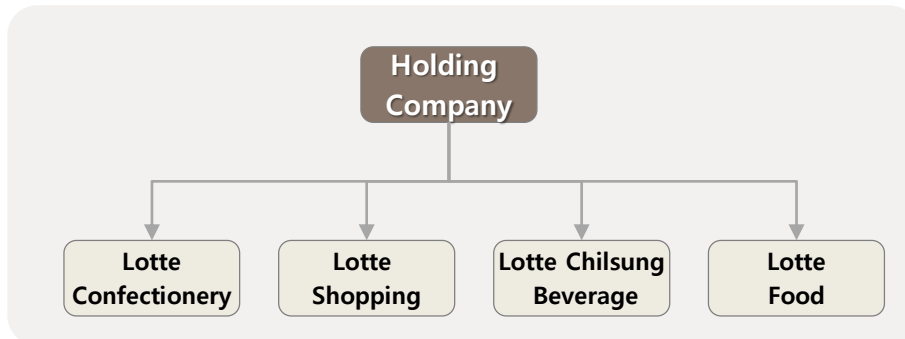
Process

① Four companies: split into operating and investment entities



② Merging Shopping, Beverage, and Food investment entities into the investment entity of Lotte Confectionery

③ Investment entity of Lotte confectionery becomes a holding company



Investment entity and operating entity separation of Lotte Shopping

※ Separation Standard

1. Correlation to retail business operation
2. Subsidiaries those jointly owned among various Lotte companies sorted into the investment entity

Investment entity	Operating entity
Lotte Food	FRL Korea
Lotte Trading	Woori Home Shopping
Lotte Giants.	D-Cinema of Korea
Lotteria	Lotte Gimhae Development
Daehong Communications	NCF
Lotte Station Building	Lotte Suwon Station Shopping Town
Lotte.com	Lotte Songdo Shopping Town
Lotte Logistics	Korea STL
Korea Seven	CS Mart
Lotte Asset Development	Lotte Himart
Lotte Incheon Development	Eunpyeong PFV
Lotte Incheon Town	Lotte Department Store Masan
Lotte Global Logistics	Lotte Town Dongtan
Lotte Members	Lotte Ulsan Development
Lotte Accelerator	IGIS I
Lotte Card	Global Affiliates
Lotte Capital	

Lotte Shopping Spin-off/Merger Structure

Approximate split ratio of 1:9 between investment and operating entities

- Investment entity: Newly established
- Operation entity: Remaining company

Split ratio	New company : (Investment)	$\frac{\text{New company net assets (1.66 trillion KRW)} + \text{treasury stock of new company(190 million KRW)}}{\text{Net assets before spinoff(15.51 trillion KRW)} + \text{treasury stock before spinoff(1.81 billion KRW)}} = 0.1069784$			
	Remaining company (Operation)	: 1 – Net asset ratio of new company(Investment)			

Split/Merger ratio

According to the intrinsic value of each investments entities, the shareholders of four listed companies will receive stocks of the holding company in proportion to their respective shareholding ratio as the result of the spinoff/merger

Classification	Lotte Confectionery (Merger)	Lotte Shopping (merged)	Lotte Chilsung (merged)		Lotte Food (merged)
			Common stock	Preferred stock	
A. Intrinsic value (100 million KRW)	19,527	29,119	8,066	350	1,857
- Composition Ratio	33.1%	49.4%	13.7%	0.6%	3.2%
B. Number of shares before split	35,535,000	31,490,892	1,237,203	120,000	1,369,436
C. Split ratio per share	70.4%	10.7%	35.4%	35.4%	17.3%
D. Number of shares after spin-off (B x C)	25,012,241	3,368,845	437,857	42,469	237,566
E. Intrinsic value per share (A/D), (KRW)	78,070	864,374	1,842,221	823,202	781,717
F. Merger ratio per share (merged corporation value per share/Merger corporation value per share)	1.00	11.07	23.60	23.60	10.01
G. Spin-off/Merger ratio (C x F)	1.00	1.18	8.35	8.35	1.74
H. Number of shares issued(B x G)	25,012,241	37,299,024	10,332,128	1,002,143	2,378,750

Key events

The split/merger execution date is planned for October 1st 2017, and will be decided through the temporary shareholders' meeting on August 29th 2017.

Agenda	Date
B.D resolutions	2017-04-26
spin-off plan announcement	2017-04-26
Key Issues report submission to relevant authorities	2017-04-26
Shareholders' list fix date regarding general shareholders meeting on spin-off transaction	2017-05-31
Submission of securities reporting	2017-07-05
General Shareholders Meeting	2017-08-29
Spin-off date	2017-10-01
Spin-off/Merger completion announcement	2017-10-02
Registration	2017-10-02
Change listing and Re-listing	2017-10-30