



2018 Fourth Quarter Results

February, 2019

LOTTE SHOPPING CO., LTD.
INVESTOR RELATIONS



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 nor revise the preliminary information provided in this release.

Highlights (FY2018 4th Quarter)

- **4Q18 : Revenue 4.4 trillion KRW (-7.6% YoY), FY18 : 17.8 trillion KRW (-0.6% YoY)**
 - Domestic : Dept. Stores indicated flattish SSSG (Same Store Sales Growth) due to sluggish sales in fashion categories
Hypermarkets showed weak SSSG due to difference in Korean thanksgiving period YoY and undergoing MD restructuring
 - SSSG: [Dept. Stores -0.8%(4Q), +1.2%(FY18)] / [Hypermarkets -6.9%(4Q), -2.5%(FY18)]
 - Overseas : Weak SSSG trend continued in China Dept. Stores due to store closure impact in Tianjin
However, South-East Asia Dept. Stores & Hypermarkets continued to achieve solid SSSG
 - SSSG: Dept. Stores -6.5%(4Q) [China -12.9%, Indonesia +5.9%, Vietnam +4.9%] / -1.5%(FY18) [China -6.4%, Indonesia +9.7%, Vietnam +7.8%]
Hypermarkets +5.3%(4Q) [Indonesia +3.3% (Wholesale +5.4%, Retail -3.9%), Vietnam +11.2%]
+5.6%(FY18) [Indonesia +3.2% (Wholesale +6.4%, Retail -6.8%), Vietnam +13.1%]
- **4Q18 : Operating Profit 90.3 billion KRW (-73.0% YoY), FY18 : 597 billion KRW (-25.5% YoY)**
 - [Adjusted Operating Profit] 4Q18 : 181.7 billion KRW (-32.1% YoY), FY18 : 695.5 billion KRW (-6.0% YoY)
 - ※ Adjusted Operating Profit : Excluding one-off factors and store restructuring related costs
 - ※ One-off factors : -92.2 billion KRW (Chengdu HK : [4Q17] +66.2 billion KRW → [4Q18] -26 billion KRW)
Store restructuring related costs : -65.4 billion KRW (Domestic Dept. Stores -18.8 billion KRW, China Dept. Stores -46.6 billion KRW)
 - Domestic : Dept. Stores – Operating Profit decreased due to costs related to store restructuring
Hypermarkets – Operating loss due to sluggish SSSG trend
 - Overseas : Dept. Stores – Operating Loss increased due to store closure related costs in China
Hypermarkets – Operating Loss turn around to profit generation driven by strong SSSG
- **4Q18 Net Profit : -448.6 billion KRW, FY18 : -464.4 billion KRW**
 - Impairment losses : -536.1 billion KRW
 - Goodwill impairment losses : -348.8 bn KRW (Himart -271.2 bn KRW, CS Retail -46.9 bn KRW, etc.)
Asset impairment losses : -187.3 bn KRW [Dept. Store (Incheon, etc.) -93.1 bn KRW, Hypermarket -53.7 bn KRW, etc.]
 - ※ 4Q17 One-off gain : Settlement gains of +377.5 bn KRW via revaluation of fair value and stock transfer regarding Lotte Holding company establishment

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1. Consolidated Financial Results



(Unit: billion KRW)

	4Q 2017	4Q 2018	YoY	2017	2018	YoY
Revenue	4,761	4,398	-7.6%	17,926	17,821	-0.6%
(Gross Sales)	6,586	6,133	-6.9%	24,356	24,082	-1.1%
Operating Profit	334	90	-73.0%	801	597	-25.5%
EBITDA	505	256	-49.2%	1,519	1,263	-16.8%
Profit Before Tax	345	-448	-	254	-94	-
Continuing Operations (Profit & Loss)	133	-459	-	-19	-254	-
Discontinued Operations* (Profit & Loss)	263	11	-96.0%	-1	-211	-
Net Profit	396	-449	-	-21	-464	-

* Profit & Loss of China Hypermarket is classified as discontinued operations due to completion of sales and store closures

※ Gross Sales = Net Sales + Cost of Goods (Cost of Goods are included in revenue regarding certain product categories)

※ Number of consolidated affiliates: 45

2. Consolidated Financial Results by Divisions

(Unit: billion KRW)

	4Q 2017		4Q 2018		YoY	2017		2018		YoY
Revenue	4,761	(100.0%)	4,398	(100.0%)	-7.6%	17,926	(100.0%)	17,821	(100.0%)	-0.6%
Department Stores	927	(19.5%)	894	(20.3%)	-3.6%	3,204	(17.9%)	3,232	(18.1%)	0.9%
Hypermarkets	1,544	(32.4%)	1,498	(34.1%)	-3.0%	6,322	(35.3%)	6,317	(35.4%)	-0.1%
Electronics	963	(20.2%)	960	(21.8%)	-0.3%	4,099	(22.9%)	4,113	(23.1%)	0.3%
Supermarkets	492	(10.3%)	461	(10.5%)	-6.4%	2,071	(11.6%)	1,975	(11.1%)	-4.6%
Others*	834	(17.6%)	585	(13.3%)	-29.9%	2,229	(12.3%)	2,184	(12.3%)	-2.0%
Gross Sales	6,586	(100.0%)	6,133	(100.0%)	-6.9%	24,356	(100.0%)	24,082	(100.0%)	-1.1%
Department Stores	2,431	(36.9%)	2,388	(38.9%)	-1.8%	8,408	(34.5%)	8,474	(35.2%)	0.8%
Hypermarkets	1,828	(27.8%)	1,703	(27.8%)	-6.8%	7,380	(30.3%)	7,170	(29.8%)	-2.8%
Electronics	963	(14.6%)	960	(15.7%)	-0.3%	4,099	(16.8%)	4,113	(17.1%)	0.3%
Supermarkets	524	(8.0%)	491	(8.0%)	-6.2%	2,200	(9.0%)	2,099	(8.7%)	-4.6%
Others*	840	(12.7%)	590	(9.6%)	-29.7%	2,269	(9.4%)	2,226	(9.2%)	-1.9%
Operating Profit	334	7.0%	90	2.1%	-73.0%	801	4.5%	597	3.4%	-25.5%
Department Stores	185	20.0%	136	15.2%	-26.7%	396	12.3%	425	13.1%	7.4%
Hypermarkets	17	1.1%	-8	-	-	40	0.6%	8	0.1%	-79.0%
Electronics	29	3.0%	13	1.4%	-53.5%	207	5.1%	186	4.5%	-10.1%
Supermarkets	-7	-	-23	-	-	-5	-	-62	-	-
Others*	110	13.2%	-28	-	-	163	7.3%	39	1.8%	-75.7%

* Includes consolidated adjustments

① Department Store

(Unit: billion KRW)

	4Q 2017		4Q 2018		YoY	2017		2018		YoY
Revenue	927	(100.0%)	894	(100.0%)	-3.6%	3,204	(100.0%)	3,232	(100.0%)	0.9%
Domestic	898	(96.9%)	867	(97.0%)	-3.5%	3,088	(96.4%)	3,120	(96.5%)	1.0%
Overseas	29	(3.1%)	27	(3.0%)	-5.3%	116	(3.6%)	112	(3.5%)	-3.5%
China	18	(1.9%)	17	(1.9%)	-6.7%	76	(2.4%)	73	(2.2%)	-4.3%
Indonesia	6	(0.7%)	6	(0.7%)	-3.6%	24	(0.7%)	23	(0.7%)	-3.0%
Vietnam	5	(0.5%)	4	(0.5%)	-1.9%	16	(0.5%)	16	(0.5%)	-0.8%
Operating Profit	185	20.0%	136	15.2%	-26.7%	396	12.3%	425	13.1%	7.4%
[Adjusted*]	185	20.0%	201	22.5%	8.6%	396	12.3%	492	15.2%	24.4%
Domestic	201	22.4%	196	22.6%	-2.5%	474	15.3%	534	17.1%	12.8%
[Adjusted]	201	22.4%	215	24.8%	6.9%	474	15.3%	555	17.8%	17.2%
Overseas	-16	-	-61	-	-	-78	-	-110	-	-
[Adjusted]	-16	-	-14	-	-	-78	-	-63	-	-
China	-17	-	-60	-	-	-70	-	-104	-	-
Indonesia	1	15.5%	-1	-	-	-7	-	-3	-	-
Vietnam	0	-	0	-	-	-1	-	-2	-	-
EBITDA	265	28.5%	207	23.2%	-21.7%	731	22.8%	720	22.3%	-1.6%
Domestic	272	30.3%	262	30.3%	-3.7%	772	25.0%	800	25.6%	3.7%
Overseas	-8	-	-55	-	-	-40	-	-81	-	-
China	-11	-	-56	-	-	-41	-	-84	-	-
Indonesia	2	31.4%	0	5.7%	-82.6%	-3	-	0	0.5%	-
Vietnam	1	22.6%	1	17.0%	-26.0%	4	22.1%	3	19.4%	-12.8%

* Adjusted Operating Profit : Excluding store restructuring related costs

※ 65 Department Stores (as end of 4Q18): 57 Domestic stores (including 22 outlets), 8 Overseas stores (China 4, Indonesia 1, Vietnam 2, Russia 1)

Domestic Department Store

- ▶ **Domestic SSSG: -0.8% YoY (4Q) / +1.2% YoY (FY18)**
 - ※ Difference in Korean thanksgiving period YoY effect : -0.2%
 - Global Fashion +9.1%, Home Appliances & Electronics +3.3%, Men's & Sports Wear -1.1%, Women's Wear -1.3%, Food -3.6%, Accessories -7.0%
- ▶ **Despite the efficient SG&A management effort (SG&A -27.1 bn KRW YoY), Operating Profit decreased due to store restructuring related costs**
 - Store restructuring related costs -18.8 bn KRW (Daegu Young Plaza store -12.7 bn KRW, Uijeongbu Outlet -4.6 bn KRW, etc.)
 - **Adjusted OP(Excluding store restructuring costs) : 215.1 bn KRW(+6.9% YoY)**

Overseas Department Store

- ▶ **Overseas SSSG: -6.5% YoY (4Q) / -1.5% YoY (FY18)**
 - China -12.9%, Indonesia +5.9%, Vietnam +4.9%
- ▶ **Operating Loss increased**
 - China : Operating Loss increased due to restructuring costs of 3 stores (-46.6 bn KRW)
 - **Adjusted OP(Excluding store restructuring costs) : +2.1 bn KRW(-16.1 bn KRW → -14.0 bn KRW)**
 - ※ Store Closures in China : Tianjin Dongmalu(Dec, 2018), Tianjin Cultural Center(1st Half, 2019), Weihai(1st Half, 2019)
 - Indonesia/Vietnam : Operating Loss maintained at YoY flat level

② Hypermarket - 1

	4Q 2017		4Q 2018		YoY	2017		2018		YoY
		(%)		(%)	(%)		(%)		(%)	(%)
Revenue	1,544	(100.0%)	1,498	(100.0%)	-3.0%	6,322	(100.0%)	6,317	(100.0%)	-0.1%
Domestic	1,232	(79.8%)	1,176	(78.5%)	-4.5%	4,956	(78.4%)	4,974	(78.7%)	0.4%
Overseas	312	(20.2%)	322	(21.5%)	3.3%	1,367	(21.6%)	1,343	(21.3%)	-1.7%
Indonesia	249	(16.1%)	251	(16.7%)	0.6%	1,104	(17.5%)	1,060	(16.8%)	-4.0%
Wholesale	196	(12.7%)	203	(13.5%)	3.3%	857	(13.6%)	850	(13.5%)	-0.9%
Retail	53	(3.4%)	48	(3.2%)	-9.3%	247	(3.9%)	210	(3.3%)	-15.1%
Vietnam	63	(4.1%)	71	(4.8%)	13.8%	262	(4.2%)	283	(4.5%)	7.9%
Operating Profit	17	1.1%	-8	-	-	40	0.6%	8	0.1%	-79.0%
Domestic	20	1.6%	-8	-	-	22	0.4%	-16	-	-
Overseas	-3	-	0	-	-	18	1.3%	25	1.8%	34.4%
Indonesia	-3	-	-2	-	-	11	1.0%	10	0.9%	-9.9%
Wholesale	-1	-	1	0.6%	-	15	1.7%	16	1.9%	6.8%
Retail	-2	-	-4	-	-	-4	-	-6	-	-
Vietnam	0	-	2	3.1%	-	8	2.9%	15	5.3%	97.9%
EBITDA	63	4.1%	40	2.7%	-37.2%	238	3.8%	200	3.2%	-16.2%
Domestic	60	4.9%	34	2.9%	-43.8%	191	3.9%	149	3.0%	-22.1%
Overseas	4	1.2%	6	2.0%	72.7%	47	3.5%	51	3.8%	7.6%
Indonesia	1	0.5%	1	0.5%	13.7%	28	2.6%	25	2.4%	-11.6%
Wholesale	2	0.9%	4	1.8%	92.4%	25	2.9%	25	3.0%	1.4%
Retail	-1	-	-2	-	-	3	1.4%	0	-	-
Vietnam	2	3.9%	5	6.9%	101.9%	19	7.2%	26	9.1%	36.8%

※ 184 Stores (as end of 4Q18): 124 Domestic stores, 60 Overseas stores (Indonesia 47, Vietnam 13)

Domestic Hypermarket

▶ Domestic SSSG: -6.9% YoY (4Q) / -2.5% YoY (FY18)

- ※ Difference in Korean thanksgiving period YoY effect : -4.0%
- Fresh Food -2.5%, Meal Solution(HMR) +1.7%, Processed Food -1.1%, Home Furnishing -8.2%, Personal Care (Health Supplements) -14.0%, Hobby -18.7%, Fashion & Accessories -14.0%
- Sales decline in Personal Care category due to major tenants withdrawal and difference in thanks giving period YoY
- Decreased sales in Hobby, Fashion&Accessories categories due to MD restructuring impact (Direct-operating area reduction → Expansion of lease out to mass attracting tenants, and SKU reduction, etc.)

▶ Operating profit turned into operating loss due to sluggish SSSG trend and increased SG&A (+5.3 bn KRW)

- Labor Cost&Service Fee +5.7 bn KRW (Rise in minimum wage effect), etc.

Overseas Hypermarket

▶ Overseas SSSG: +5.3% YoY (4Q) / +5.6% YoY (FY18)

- Indonesia +3.3% (Wholesale +5.4%, Retail -3.9%), Vietnam +11.2%

▶ Operating Loss improvement in Indonesia

(+0.5 bn KRW, -2.8 bn KRW → -2.3 bn KRW)

Operating Loss turned into operating profit in Vietnam

(+2.6 bn KRW, -0.4 bn KRW → 2.2 bn KRW)

- Indonesia : Operating Loss improvement through solid SSSG trend in wholesale operation and strict SG&A management of retail operation
- Vietnam : Operating Loss turned into profit generation driven by strong SSSG trend

※ Royalty fee payment to HQ (1.7 bn KRW) : Indonesia wholesale 1.3 bn KRW, Vietnam 0.4 bn KRW

2019 Business Strategy : Hypermarket

Domestic

● Profit Oriented Sourcing Enhancement

1. Fresh Food enhancement → Quality improvement

- [Fruit/Vegetables] Eco-friendly cultivation, direct-sourcing expansion
- [Livestock] Korean Beef nurturing & feeding supervision enhancement
- Customer experience enhancement on fresh food quality
- Grocerant (A term combining Grocery+Restaurant) store expansion

2. PB expansion : Cost & Quality differentiation (R&D)

3. Global sourcing expansion: Introduction of exclusive products

● Profitability Improvement Strategy

1. Direct-operating area reduction (20 candidate stores in 2019)

2. Expansion of lease-out to mass attracting tenants

[260 tenants in 2018 → 470 tenants in 2019 (+210 tenants)]

● Digital & Mobile Business Enhancement

1. Smart store expansion

(New technology implemented store to achieve customer convenience improvement)

2. Expansion of mobile-only product SKU

※ 350 bn KRW in 2018 → 430 bn KRW in 2019 (+80 bn KRW)

Overseas

● Product Profitability Improvement

1. Fresh food direct-sourcing

(Contracted farm , direct-sourcing diversification)

2. PB expansion (Quality improvement, mega-hit product development)

3. Global sourcing expansion

(Sourcing diversification / direct sourcing from overseas factories)

● Online Business Expansion

1. [Indonesia] Expansion of available online delivery areas and partnership expansion with delivery specialist companies

※ Currently offering online service in Jakarta only

→ Planned to expand to other regional areas

2. [Vietnam] Direct management O2O service enhancement

→ Speedy delivery service expansion (1 hour delivery, early morning delivery)

※ Currently offering speedy delivery service for the first time in the Vietnam hypermarket industry as of Sept, 2018 through partnership with Grab

● Offline Business Strategy

1. [Indonesia] B2B business expansion of wholesale operation Review for store closure of underperforming stores and profit oriented management of retail operation

2. [Vietnam] Competitiveness enhancement in metropolitan area, and store-type diversification

③ Electronics

(Unit: billion KRW)

	4Q 2017		4Q 2018		YoY	2017		2018		YoY
Revenue	963		960		-0.3%	4,099		4,113		0.3%
Operating Profit	29	3.0%	13	1.4%	-53.5%	207	5.1%	186	4.5%	-10.1%
EBITDA	41	4.3%	25	2.6%	-38.6%	257	6.3%	234	5.7%	-8.7%
Net Profit	17	1.8%	-46	-	-	148	3.6%	81	2.0%	-45.3%

※ 463 Stores (as end of 4Q18)

Analysis

▶ 4Q Revenue growth: -0.3% YoY

- Total of 463 stores (+1 store YoY)
- Moderate sales growth in environment related home appliances (Dryer, Air purifier, etc.)
- Weak sales growth from electronic devices (PC, mobile, etc.), AV appliances (TV) and Kimchi refrigerator
- Strong sales growth in online +50% YoY (2018 online sales proportion : 9.0% out of revenue)

▶ 4Q Operating Profit growth: -53.5% YoY

- Decline in gross profit margin due to increased online sales and promotion events (Increase in cost of sales)
- Decline in operating profit due to increased SG&A (Labor cost increased due to 2018 basic salary increase and additional personnel employment regarding 52-hour maximum workweek introduction)

▶ 2018 Net Profit -45.3% YoY

- Good-will impairment Loss -52.4 bn KRW

Key Strategy

▶ Online business expansion

- Online Mall : Transformation from home appliance specialty mall into Home & Lifestyle general mall
 - Expansion of non-home appliances such as home interior items, etc.
- Infrastructure improvement such as app system speed enhancement, etc.

▶ Offline store repositioning strategy

- Sales channel diversification (Road shop, Omni-store, Shop-in-shop in Department Store, Hypermarket, etc.)

▶ Premium products enhancement focusing on large-size home appliances

- Product portfolio expansion including premium products

▶ Profitability improvement through exclusive product offerings

- HIMADE(PB) : Cooperation with superior manufacturers and safety improvement

- Exclusive products expansion (NPB, Global sourcing products)

▶ Offering residential related electronic&home appliances maintenance services (Home care services)

(20 service items in 2018 → 22 service items in 2019)

- Scheduled to expand more home renovation items

④ Supermarket

(Unit: billion KRW)

	4Q 2017	4Q 2018	YoY
Revenue	492	461	-6.4%
Operating Profit	-7	-23	-
EBITDA	-1	-15	-

	2017	2018	YoY
	2,071	1,975	-4.6%
	-5	-62	-
	20	-36	-

※ 557 Stores (as end of 4Q18)

Analysis

▶ SSSG: -1.9% YoY (4Q) / -1.6% YoY (FY18)

- ※ Difference in Korean thanksgiving period YoY effect : -0.9%
- Convenience Food +13.9%, Daily Food +1.1%, Agricultural Food -1.2%, Fresh Meat -1.6%, Seafood -2.4%, Processed Food -3.0%, Household goods -10.7%
- Decrease in number of business days effect (-2.5%) due to store renovation and store closures among underperforming stores
 - ※ Store Count : -15 stores YoY (4Q17 572 → 4Q18 557)
 - ※ Renovation completed stores (4Q18) : 6 stores (80 business days decline YoY)

▶ Operating Loss increased

- Operating loss increased due to sluggish SSSG trend and increased SG&A
- Increase in SG&A ratio (+3.1%p)
(Labor cost +1.2%p, service fee +0.4%p, depreciation cost +0.4%p, etc.)
- ▶ **Aim to improve Operating Loss by reducing number of renovation candidate stores**
 - Focusing on in-store MD restructuring rather than store renovation to minimize decline in number of business days effect

Key Strategy

▶ Sales recovery strategy

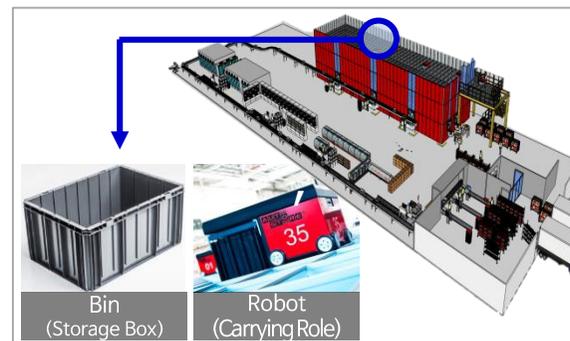
- Offline : Everyday low price strategy
 - Competitiveness enhancement in the market and new customer attraction
- Online : Expansion of online distribution center and early morning delivery service
 - 8 additional online distribution centers (15 centers in 2018 → 23 centers in 2019)
 - Aim to achieve 2,000 cases a day, and 94 million KRW revenue a day

▶ Premium store expansion

- MD balance improvement between premium and non-premium contents to lower customer entry barrier
- New store opening strategy
 - Review for new store openings in various commercial districts and complexed mall, etc.

▶ Automatic online distribution center

- Efficiency improvement through automatic logistics management system implementation
- ① Online distribution center capacity expansion
- ② Delivery time reduction
 - Schedule to open 1st center in Mar, 2019



▶ Profitability improvement through cost structure innovation

- Workforce relocation : HQ staff relocation
 - On-site management reinforcement
- Store closures & renewal plans among underperforming stores
- Strict SG&A management

Accounts	Description
Labor Cost	<ul style="list-style-type: none"> • ESL (Electronic Shelf Label), self-check out POS implementation • T/O management → Total cost management
Depreciation Cost	<ul style="list-style-type: none"> • Store closure plan of underperforming stores (40 stores or more)
Service Fee	<ul style="list-style-type: none"> • Streamlining store delivery service
Logistics Fee	<ul style="list-style-type: none"> • Expansion of integrated delivery services among small size stores (46 stores → 76 stores)

⑤ Other Business Units

(Unit: billion KRW)

	4Q 2017	4Q 2018	YoY	2017	2018	YoY
Revenue	834	585	-29.9%	2,229	2,184	-2.0%
Lotte Home Shopping	252	248	-1.5%	925	909	-1.7%
Lotte Cultureworks	196	187	-4.9%	709	774	9.2%
Others	386	150	-61.1%	596	501	-15.9%
Operating Profit	110	-28	-	163	39	-75.7%
Lotte Home Shopping	29	26	-11.4%	113	99	-12.1%
Lotte Cultureworks	13	-2	-	29	25	-12.8%
Others	67	-52	-	22	-84	-

Home Shopping Analysis

(Unit: billion KRW)

	4Q17	4Q18	YoY
Revenue	252	248	-1.5%
Commission Sales	139	126	-9.0%
Direct Sourcing Sales	47	44	-6.0%
Special Contract Sales	38	49	30.4%
Others	28	29	7.7%
Gross Profit	209	209	-0.0%
SG&A	179	183	1.9%
Broadcasting Fee	62	68	10.3%
Operating Profit	29	26	-11.4%

▶ **Despite the increase in gross sales, net revenue declined due to increase sales in lower-margin products**

- Gross sales +11.3% YoY (924.2 bn KRW → 1,028.8 bn KRW)

▶ **Operating Profit decreased due to increased broadcasting fee**
(Broadcasting fee +6.4 bn KRW)

※ IPTV +3.9 bn KRW, OneTV +3.2 bn KRW, CATV -0.6 bn KRW

Cultureworks (Cinema) Analysis

▶ **[Domestic]**

- **4Q Revenue growth -5.6% YoY**

※ Total 95 movie theaters (+3 theaters YoY)

• Movie theater business : Decreased box office sales (-5.4%) due to difference in Korean thanksgiving period YoY
(Number of visitors to domestic movie theaters -9.3% YoY)

• Investment & distribution business : Decreased revenue (-6.4%) due to high base effect

- **4Q Operating profit decreased**

• Decreased number of visitors

• High base effect (Major hits from invested films in 4Q17)

▶ **[Overseas]**

- **4Q Revenue growth +13.2% YoY**

※ Total 41 movie theaters (+8 theaters YoY)

• Increased revenue in Vietnam (+9.9%) induced by new store openings

- **4Q Operating loss increased**

• Operating Loss increased due to increased SG&A from newly opened branches in Vietnam (+8 stores YoY)

▶ **2019 1Q Outlook**

- [Domestic] 2 new branches opening (1 directly managed, 1 consignment)

- [Overseas] Expected profit growth with local movie releases and 2 new branches opening

3. Non-Operating Profit

(Unit: billion KRW)

	4Q 2017	4Q 2018	YoY	2017	2018	YoY
Operating Profit	334	90	-73.0%	801	597	-25.5%
Net Interest Income & Expense	-36	-36	-	-140	-144	-
Gains on Foreign Currency & Derivative Asset	6	-8	-	33	14	-56.0%
Other Non-Operating Profit	-11	-550	-	-508	-650	-
Equity Method Gain & Loss	53	55	3.2%	68	89	29.6%
Profit Before Tax	345	-448	-	254	-94	-
Corporate Tax	213	11	-94.7%	273	160	-41.6%
Discontinued Operation	263	11	-96.0%	-1	-211	-
Net Profit	396	-449	-	-21	-464	-

Non-Operating Profit

- ▶ **Gain & Loss on foreign currency & Derivative asset**
 - Gains on foreign currency of Japanese Yen borrowings -10.3 bn KRW, etc.
 ※ Yen borrowings amount : 10 bn JPY
 (JPY F/X rate : 4Q16 1,059.2 KRW → 4Q17 980.62 KRW → 4Q18 999.4 KRW)
- ▶ **Other Non-Operating Profit**
 - Good-will & Asset impairment loss in 4Q18 : -536.1 bn KRW
 ※ Good-will impairment loss : -348.8 bn KRW
 (Hi-Mart: -271.2 bn KRW, CS Retail -46.9 bn KRW, Supermarket -22.9 bn KRW, etc.)
 ※ Asset Impairment Loss : -187.3 bn KRW
 Department store -93.1 bn KRW (Incheon, etc.),
 Domestic Hypermarket -53.7 bn KRW, Supermarket -25.3 bn KRW,
 LOHBS(H&B) -4.1 bn KRW, etc.)

- ▶ **Corporate Tax**
 - Decline in corporate tax due to decreased operating profit YoY
- ▶ **Profit & Loss of discontinued operations**
 - **4Q17 : 262.7 bn KRW**
 ※ Settlement gains of +377.5 bn KRW via revaluation of fair value regarding Lotte Holding company establishment
 Net loss from China Hypermarket -127.7 bn KRW
 - **4Q18 : 10.6 bn KRW**
 ※ Provisions reversal regarding store closures in China Hypermarket +23.9 bn KRW

4. Equity Method Gain & Loss (Major Companies) LOTTE SHOPPING

(unit : billion KRW)

		2015	2016	4Q 2017	4Q 2018	YoY	2017	2018	YoY
FRL Korea* (Lotte: 49.00%)	Revenue	1,107	1,209	572	597	4.5%	1,330	1,419	6.7%
	Operating Profit	132	127	152	150	-1.6%	224	238	6.4%
	Net Profit	92	105	118	122	3.0%	168	188	11.8%
	Equity Method Gain&Loss	45	51	58	60	3.0%	82	92	11.8%
ZARA Retail Korea** (Lotte: 20.00%)	Revenue	294	341	101	101	0.2%	354	367	3.6%
	Operating Profit	-4	21	7	8	8.4%	15	16	3.5%
	Net Profit	-5	17	7	8	13.1%	13	15	17.8%
	Equity Method Gain&Loss	-1	4	1	2	13.1%	3	3	17.8%

* FRL Korea, founded on 16th Dec, 2004, imports and distributes clothes, accessories, and ornaments of UNIQLO brand in Korea. It operates through a network of 190 stores as of the end of 4Q 2018. Fast Retailing Co., Ltd.(Japanese company) and Lotte Shopping Co., LTD. own 51% and 49% stake of this company respectively.

** ZARA Retail Korea Co., Ltd. was established on 29th Oct, 2007 for clothing trades and wholesale/retail sales. It operates through a network of 41 stores as of the end of 4Q 2018. Industria de Diseno Textil, S.A.(Spanish company) and Lotte Shopping Co., LTD. own 80% and 20% stake of this company respectively.

- **Income Statement**
- **Balance Sheet**
- **Store Network**
- **Lotte Shopping Digital Transformation**

Income Statement (Consolidated K-IFRS)



(Unit: billion KRW)

	4Q 2017		4Q 2018		YoY	2017		2018		YoY
Revenue	4,761	(100.0%)	4,398	(100.0%)	-7.6%	17,926	(100.0%)	17,821	(100.0%)	-0.6%
[Gross Sales]	6,586	-	6,133	-	-6.9%	24,356	-	24,082	-	-1.1%
Gross Profit	2,079	(43.7%)	1,903	(43.3%)	-8.4%	7,627	(42.5%)	7,508	(42.1%)	-1.6%
SG&A	1,745	(36.7%)	1,813	(41.2%)	3.9%	6,826	(38.1%)	6,911	(38.8%)	1.2%
Operating Profit	334	(7.0%)	90	(2.1%)	-73.0%	801	(4.5%)	597	(3.4%)	-25.5%
EBITDA	505	(10.6%)	256	(5.8%)	-49.2%	1,519	(8.5%)	1,263	(7.1%)	-16.8%
Profit Before Tax	345	(7.3%)	-448	-	-	254	(1.4%)	-94	-	-
Continuing operations	133	(2.8%)	-459	-	-	-19	-	-254	-	-
Discontinued Operations	263	(5.5%)	11	(0.2%)	-96.0%	-1	-	-211	-	-
Net Profit	396	(8.3%)	-449	-	-	-21	-	-464	-	-
Net Income of Controlling Company	364	(7.7%)	-447	-	-	-136	-	-543	-	-
Net Income of Minority Interest Equity	31	(0.7%)	-2	-	-	116	(0.6%)	78	(0.4%)	-32.3%

Balance Sheet (Consolidated K-IFRS)



(Unit: billion KRW)

	2015*	2016*	2017**	2018
Total Assets	40,693	41,916	27,948	26,259
Cash & Cash Equivalent	3,036	3,185	3,711	2,706
Inventories	3,266	3,324	1,354	1,267
Land & Buildings	13,052	13,115	12,677	12,425
Liabilities	23,605	24,652	14,597	13,835
Borrowings & Bonds	14,084	14,483	7,668	7,795
Equity	17,088	17,264	13,351	12,425
Share Capital	158	158	141	141

* K-IFRS. 1018. (Old standard)

** Significant changes in financial numbers due to holding company establishment in 4Q17 (Investment entity of Lotte Shopping was merged into holding company)

Store Network



Domestic		2016 Year End Total	2017 Year End Total	2018				2018 Year End Total
				1Q	2Q	3Q	4Q	
Department Store	Full-line Store	30*	30	1**				31
	Franchise Store*	3	3	-1**				2
	Young Plaza	2	2					2
	Outlet	20	21		1			22
	Total	55	56		1			57
Hypermarket		120	123	1	-1		1	124

* Unified operation of Jamsil & Avenuel World Tower

** Merged with Lotte Department Store Masan (Feb, 2018)

Overseas		2016 Year End Total	2017 Year End Total	2018				2018 Year End Total
				1Q	2Q	3Q	4Q	
Department Store	Russia*	1	1					1
	China	5	5				-1	4
	Vietnam*	2	2					2
	Indonesia	1	1					1
Hypermarket (Supermarket)	China**	115 (16)	112 (13)	-4 (-2)	-8	-100 (-11)		- -
	Vietnam	13	13					13
	Indonesia	46	46				1	47
	Wholesale	28	29				2	31
	Retail	18 (2)	17 (2)				-1 (-1)	16 (1)

* Including equity method stores (Moscow, Ho Chi Minh) / ** Closed Tianjin Dongmalu store in China as end of 4Q18

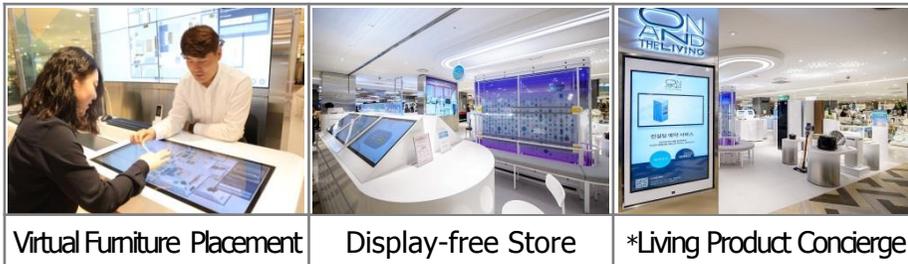
** China Hypermarket sell-off transaction completed in 3Q18

Digital Transformation of Lotte Shopping

- ▶ **Competitiveness enhancement in the retail market and internal operation efficiency improvement through digital transformation with new technology implementation**

Omni-type Living Concierge Store (Dept. Store)

Digital technology based showroom-type home furnishing store



Virtual Furniture Placement Display-free Store *Living Product Concierge

* Customized consulting is offered by specialists

Digital Transformation Flagship Store (Cultureworks)

AI voice recognition service introduction and smart watch system expansion



*Smart Kiosk Pick-up Zone **FMS (Smart Watch)

* Smart Kiosk : Voice order available for movie ticket and F&B purchase

** FMS (Field Management System) : Work efficiency improvement via integrated control that provides wireless communication between employees, HVAC management, and digitalized task distribution

Smart Store (Hypermarket)

Omni-type store with new technology to improve customer convenience



M Coupon (Application) QR code payment *Customized marketing

- Product recommendation system development through real-time communication with customers (Joint development with P&G)

Automatic Online Distribution Center (Supermarket)

Efficiency improvement utilizing GTP system with conveyor belt

* GTP system (Goods To Person) : Goods are delivered to person

