

2015 Fourth Quarter Results

February, 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 provided in this release.

Highlights FY15Q4

- **4Q Revenue 7.8 trillion KRW(+1.6% YoY), FY15 Revenue 30.2 trillion KRW (+3.5% YoY)**
 - Domestic: Dept. store sales growth led by Korea Black Friday(Oct.)/ Hypermarket showed weak sales
 - SSSG: [Dept. store +1.1%(4Q), -1.7%(FY15)] / [Hypermarket -2.4%(4Q), -2.8%(FY15)]
 - Overseas : Steady sales growth in dept. stores/ Weak SSSG trend continued in China hypermarket
 - SSSG: [Dept. store +8.5%(4Q), +16.6%(FY15)] / [Hypermarket -2.3%(4Q), -0.5%(FY15)]
- **4Q Operating profit 193.1 billion KRW(-16.7% YoY), FY15 857.8 billion KRW(-27.8% YoY)**
 - Domestic dept. store : Improved profit(+24.7% YoY) and OPM(8.4%→10.1%) driven by stabilization of profit structure and base effect
 - Domestic hypermarket : Decreased operating profit and gross profit margin due to weak sales and fresh food innovation
 - Overseas dept. store : Operating loss reduced due to improved efficiency
 - Overseas hypermarket : Improved operating loss led by store closures in Shandong area
- **4Q Net profit -582.9 billion KRW, FY15 -346.1 billion KRW**
 - 4Q15 Goodwill impairment losses : Times -249bn KRW, Lucky Pai -120bn KRW, GS Square/Mart -141bn KRW, etc.

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1. Consolidated Financial Results

(Unit : billion KRW)

	4Q 2014	4Q 2015	YoY	FY2014	FY2015	YoY
Gross Sales	7,687	7,808	1.6%	29,139	30,156	3.5%
Operating Profit	232	193	-16.7%	1,188	858	-27.8%
EBITDA	431	398	-7.6%	1,936	1,677	-13.4%
Profit before tax	55	-531	-	1,078	-80	-
Net Profit	-58	-583	-	616	-346	-

*Number of consolidated affiliates: 68

2. Financial Summary by Division

(Unit : billion KRW)

	4Q 2014		4Q 2015		YoY	FY2014		FY2015		YoY
Revenue	7,687	(100.0%)	7,808	(100.0%)	1.6%	29,139	(100.0%)	30,156	(100%)	3.5%
Department Store	2,492	(32.4%)	2,586	(33.1%)	3.8%	8,558	(29.4%)	8,666	(28.7%)	1.3%
Hypermarket	2,101	(27.3%)	2,034	(26.0%)	-3.2%	8,507	(29.2%)	8,506	(28.2%)	0.0%
Electronics	955	(12.4%)	1,006	(12.9%)	5.3%	3,754	(12.9%)	3,896	(12.9%)	3.8%
Finance	476	(6.2%)	430	(5.5%)	-9.6%	1,761	(6.0%)	1,790	(6.0%)	1.7%
CVS	699	(9.1%)	803	(10.3%)	14.9%	2,686	(9.2%)	3,315	(11.0%)	23.4%
Others*	964	(12.6%)	949	(12.2%)	-1.5%	3,873	(13.3%)	3,983	(13.2%)	2.8%
Operating Profit	232	3.0%	193	2.5%	-16.7%	1,188	4.1%	858	2.8%	-27.8%
Department Store	177	7.1%	231	8.9%	30.7%	603	7.0%	513	5.9%	-14.8%
Hypermarket	-19	-	-27	-	-	83	1.0%	-45	-	-
Electronics	30	3.1%	27	2.6%	-10.9%	144	3.8%	160	4.1%	10.9%
Finance	31	6.5%	26	6.0%	-16.2%	203	11.5%	170	9.5%	-16.2%
CVS	7	1.0%	-2	-	-	37	1.4%	46	1.4%	21.7%
Others*	6	0.7%	-62	-	-	118	3.0%	14	0.4%	-88.0%

* includes consolidation adjustments

Department Stores

(Unit : billion KRW)

	4Q 2014		4Q 2015		YoY	FY2014		FY2015		YoY
Revenue	2,492	(100.0%)	2,586	(100.0%)	3.8%	8,558	(100.0%)	8,666	(100.0%)	1.3%
Domestic	2,463	(98.8%)	2,554	(98.8%)	3.7%	8,460	(98.9%)	8,538	(98.5%)	0.9%
Overseas	29	(1.2%)	32	(1.2%)	10.5%	98	(1.1%)	128	(1.5%)	30.2%
Operating Profit	177	7.1%	231	8.9%	30.7%	603	7.0%	513	5.9%	-14.8%
*Domestic	208	8.4%	259	10.1%	24.7%	712	8.4%	618	7.2%	-13.2%
Overseas	-31	-	-28	-	-	-109	-	-105	-	-
EBITDA	261	10.5%	320	12.4%	22.6%	906	10.6%	863	10.0%	-4.8%
Domestic	282	11.4%	337	13.2%	19.4%	984	11.6%	925	10.8%	-6.0%
Overseas	-21	-	-17	-	-	-78	-	-62	-	-

※ 61 Department Stores(as of 4Q15) : Domestic 53 stores(including 17 outlets) / Overseas 8 stores (China 5, Indonesia 1, Vietnam 2)

Domestic

- ◆ **Domestic SSSG: +1.1%(4Q) / -1.7%(FY15)**
 - Gross managerial revenue +7.9%(4Q) / +5.9%(FY15)
 - 4Q SSSG: Clothing -2.0% Food +1.0%, Accessories +0.7%, Global fashion -1.4%, Home appliances +17.6%
- ◆ **Increased 4Q OP led by stabilization of SG&A management (advertising expenses, etc.)**
- ◆ **2016 Strategy**
 - Expansion of outlet business field: city outlet, factory outlet, etc.
 - Development of new growth engine: specialized store(K-fashion shop in Hongdae)
 - Application of trend MD: Premium lifestyle store, food store

Overseas

- ◆ **Overseas SSSG: +8.5%(4Q)/ +16.6%(FY15)**
 - China +8.7%(4Q), +17.5%(FY15)/ Indonesia +7.7%(4Q), +11.4%(FY15)
- ◆ **Improved store efficiency reduced operating loss of both same stores(+2.1bn KRW) and new stores(+0.9bn KRW)**
- ◆ **2016 Strategy**
 - MD enhancement : Product differentiation, expansion of profitable product, category popular brands by district, etc.
 - SG&A cost reduction(labor fee, advertising expenses, etc.)

Hypermarkets

(Unit : billion KRW)

	4Q 2014		4Q 2015		YoY	FY2014		FY2015		YoY
Revenue	2,101	(100.0%)	2,034	(100.0%)	-3.2%	8,507	(100.0%)	8,506	(100.0%)	0.0%
Domestic	1,485	(70.7%)	1,447	(71.1%)	-2.6%	5,989	(70.4%)	5,976	(70.3%)	-0.2%
Overseas	616	(29.3%)	587	(28.9%)	-4.7%	2,518	(29.6%)	2,530	(29.7%)	0.5%
Operating Profit	-19	-	-27	-	-	83	1.0%	-45	-	-
Domestic	37	2.5%	15	1.0%	-59.3%	224	3.7%	87	1.5%	-61.2%
Overseas	-56	-	-42	-	-	-141	-	-132	-	-
EBITDA	36	1.7%	29	1.4%	-21.0%	298	3.5%	177	2.1%	-40.7%
Domestic	76	5.1%	56	3.8%	-27.3%	378	6.3%	246	4.1%	-34.8%
Overseas	-40	-	-27	-	-	-80	-	-69	-	-

※ 285 Stores: Domestic 117, Overseas 168(China 116 stores(including 16 supermarkets), Indonesia 41, Vietnam 11)

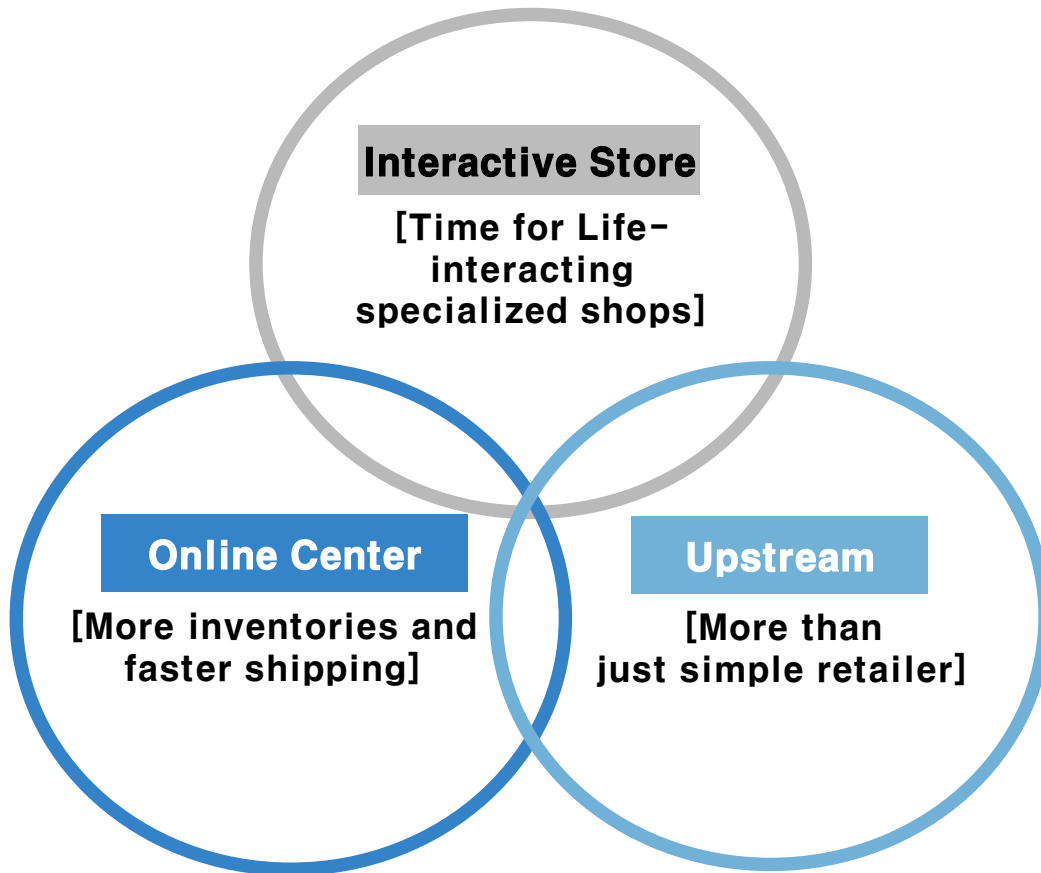
Domestic

- ◆ **Domestic SSSG: -2.4%(4Q)/-2.8%(FY15)**
 - Managerial gross revenue -0.6%(4Q)/ +1.6%(FY15)
 - 4Q SSSG: Fresh food +0.6%, Processed food -4.5%, Households -2.1%, Apparel -5.9%
- ◆ **Decreased operating profit**
 - Increased number of leased stores (48 out of 117 stores)
 - Despite the increase in customer traffic and ticket price led by fresh food innovation, OP growth delayed
- ◆ **Launching of lifestyle specialized stores (4Q)**
 - Successful opening of specialized shops in Masan (212 shops by '16)
 - Strong revenue from renewal stores(3 stores) +8.8% (Gunsan, Pangyo, Youngjong-do)

Overseas

- ◆ **4Q SSSG: China -4.7%/ Indonesia +0.8%/ Vietnam -3.0%**
 - Weak SSSG continued in China due to sluggish China economy
 - Fresh food renewal in Vietnam(South Saigon) temporarily decreased SSSG
- ◆ **Operating profit analysis by country**
 - China : Store closures in Shandong reduced operating loss +6.6bn KRW
Improved efficiency in Times reduced operating loss +10.2bn KRW
 - South-East Asia: OP loss due to new store openings (Vietnam -2.7bn KRW, Indonesia -2.5bn KRW)

2016 Hypermarket Strategy (Domestic)



▶ Interactive Hypermarket

Renewed Masan store reached 200% of initial revenue goal
Strong sales from 3 other renewed stores (Youngjong-do, Gunsan, Pangyo) +8.8% YoY

▶ Online Distribution Center

Gimpo (March) / Gwangmyeong (2017)

▶ PB / Sourcing Differentiation

Profitable brand sourcing
Direct manufacture(farm, factory)



2016 Hypermarket Strategy (Overseas)

국가	주요 전략	세부 내용
 China	·Innovation	<ul style="list-style-type: none"> ▶ Development of new category, Improvement of profit structure ▶ Fresh food innovation(direct sourcing), Customer-oriented store
	·Localization	<ul style="list-style-type: none"> ▶ Chief staff localization → Better communication and execution
	·Mobile payment system	<ul style="list-style-type: none"> ▶ Customer convenience + Acquisition of young customers
	·O2O	<ul style="list-style-type: none"> ▶ Online/Offline synergy through O2O business
 Indonesia	·Upstream Business	<ul style="list-style-type: none"> ▶ Expansion of direct-farm → Higher OPM (+136.1% YoY) ▶ Improved product competitiveness through processed food improving validation standard
	·O2O	<ul style="list-style-type: none"> ▶ Expand channel, accumulation of online biz experience
	·Wholesale	<ul style="list-style-type: none"> ▶ Business tie-up as a wholesale provider regarding modern minimarket
 Vietnam	·Product innovation	<ul style="list-style-type: none"> ▶ Fresh food innovation : Gov't certified items(46 SKU) + Direct-sourcing ▶ PB Development : target sales ratio 1.6%→5.0%, 2bn KRW/month
	·New store	<ul style="list-style-type: none"> ▶ Product/store differentiation - Importing Korean PB products, Application of successful renewal store(ex: Masan)'s MD
	·Pre-adjustment to changing market	<ul style="list-style-type: none"> ▶ O2O service - Development of platform regarding EC, L-point

Electronics

(Unit : billion KRW)

	4Q 2014		4Q 2015		YoY	FY2014		FY2015		YoY
Revenue	955	100.0%	1,006	100.0%	5.3%	3,754	100.0%	3,896	100.0%	3.8%
Operating Profit	30	3.1%	27	2.6%	-10.9%	144	3.8%	160	4.1%	10.9%
EBITDA	42	4.4%	39	3.8%	-9.1%	195	5.2%	210	5.4%	7.3%
Net Profit	19	2.0%	14	1.4%	-26.9%	96	2.6%	107	2.7%	10.5%

※ 440 stores (as end of 2015)

Key Factors

◆ 4Q Gross revenue growth: +5.3% (YoY)

- 440 stores in total (+4 new stores YoY)
- Home appliances maintained steady sales due to expansion of SKU and related products
- Mobile category showed strong growth led by new released products and base effect

◆ 4Q Operating profit growth: -10.9% (YoY)

- Gross profit margin decreased due to strong sales from low-margin product category(mobile)
- Operating profit decreased due to increased SG&A(rent cost, etc.)

◆ 2016 Strategy

- SKU expansion and item diversification
 - Enhance global sourcing (global popular brand, mid-low price brands, etc.)
 - Strengthen product assortment(kitchen appliance, toys, etc.)
- Enhancing store competitiveness through expansion of pilot shops
 - 30 additional specialized store to open by end of 2016
- Online/omni-channel strategy
 - Improve product competitiveness(online-exclusive products, product differentiation, etc.)
 - Enhance online/offline synergy enhancement (smartpick, omni-sales, etc.)

Finance

Summary Income Statement

(Unit: billion, %)	4Q FY'14	4Q FY'15	YoY	FY'14	FY'15	YoY
Operating Revenue	476	430	▲9.6	1,761	1,790	1.7
Credit Purchase	217	232	6.8	810	870	7.5
Card Loan & Cash Advance	138	138	0.4	535	542	1.3
Others*	122	61	▲50.2	416	378	▲9.3
Operating Expense	445	405	▲9.2	1,558	1,620	4.0
SG&A	35	35	0.6	124	129	3.3
Finance Expense	44	43	▲1.3	183	171	▲6.6
Loan Loss Provision	69	64	▲7.3	211	216	2.2
Card Expense	193	211	9.3	731	818	11.9
General Expense*	104	51	▲51.3	309	287	▲7.1
Operating Profit	31	26	▲16.2	203	170	▲16.2

* 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 +6.8%, Card loan&cash advance +0.4%
- Other expenses -50.2%
 - '14.4Q Reversal of allowance for bad debt(4.7bn KRW), gain from bond sale(6.6bn KRW), etc.
- General expense -51.3%
 - '14.4Q one-off subsidy for switching to IC terminal +9.6bn KRW

Transaction Volume & Other Highlights

(Unit: tr. KRW, thousand, %)	FY'14	FY'15				Total
		1Q	2Q	3Q	4Q	
Transaction Volume	53.5	13.3	14.3	14.2	14.8	56.6
No. of Holders	7,225	7,213	7,197	7,258	7,255	7,255
Delinquency Rate	1.48	1.75	1.59	1.53	1.68	1.68

Earning Asset Portfolio

	(Unit: %)		
	FY'13	FY'14	FY'15
Credit Purchase	60.3	59.6	58.6
Card Loan	24.0	25.8	27.0
Cash Advance	11.2	9.5	7.8
Installment & lease	4.5	5.1	6.6

◆ 2016 Strategy

- Mobile market dominance
 - Strategy regarding internet-only bank (enter mobile bank business (co-op with Busan bank))
 - Retain a competitive edge on mobile channel (mobile app. integration, contents personalization)
- Minimization of damage from gov'ts cutting card transaction fee
 - Gov't cut credit card fees for smaller merchants(2.01%→1.86%,▲0.15%p)
 - Credit purchase/business field diversification, Efficient SG&A management (cutting VAN fee, etc.)

	4Q 2014		4Q 2015		YoY	FY2014		FY2015		YoY
Revenue	699	100.0%	803	100.0%	14.9%	2,686	100.0%	3,315	100.0%	23.4%
Operating Profit	7	1.0%	-2	-	-	37	1.4%	46	1.4%	21.7%
EBITDA	22	3.1%	13	1.6%	-40.8%	98	3.6%	105	3.2%	7.6%

※ 8,000 stores (as end of 4Q15)

Key Factors

◆ 4Q Revenue: +14.9%(YoY)

- 8,000 stores in total (+769 new stores YoY)
- Daily sales per store grew by +14.0% (FY15 +16.2%)
- Steady sales due to increase in cigarette price and single household consumption

◆ 4Q Operating loss 2bn

- Increased SG&A cost (increase in ratio of card transaction, increase in the number of direct managed stores)
- Government prohibited receiving rebate and cash receipt fee from VAN company

◆ 2016 Strategy

- Enhance food category competitiveness
 - Develop Korean food lunchbox menu(Korean soup, etc.)
 - Develop easy-to-eat sushi and premium hamburger category
- Expand Seven Café(2,400 stores in 2015 → 4,500 stores in 2016)
 - Rebranding through marketing with Korean popular celebrity
 - Joint development of coffee beans (w/ Lotte Chilsung)

Other Business Units

(Unit : billion KRW)

	4Q 2014	4Q 2015	YoY	FY2014	FY2015	YoY
Revenue	964	949	-1.5%	3,873	3,983	2.8%
Lotte Super	563	544	-3.5%	2,332	2,332	0.0%
Lotte Home Shopping	255	245	-3.9%	914	887	-3.0%
*Others	146	160	10.4%	627	764	21.8%
Operating Profit	6	-62	-	118	14	-
Lotte Super	-3	-6	-	14	11	-17.4%
Lotte Home Shopping	21	10	-53.4%	98	72	-26.3%
Others	-12	-66	-	6	-69	-

3. Non-Operating Profit Analysis

(Unit : billion KRW)

	4Q 2014	4Q 2015	YoY	FY'14	FY'15	YoY
Operating Profit	232	193	-16.7%	1,188	858	-27.8%
Net Interest Income/Expense	-40	-39	-	-155	-161	-
Gains on Foreign Currency & Derivative Asset	-11	2	-	7	-21	-
Other non-operating profit	-95	-684	-	-14	-759	-
Equity Method Gain & Loss	-31	-3	-	52	3	-94.0%
Profit Before Tax	55	-531	-	1,078	-80	-
Corporate tax	113	52	-53.6%	462	266	-42.3%
Net Profit	-58	-583	-	616	-346	-

* 14.4Q Gain on disposition of tangible asset regarding sales&leaseback transaction +108.2bn KRW (2 dept. stores/3 hypermarkets/ 1 cinema)
 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)

Appendix

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

Income Statement (Consolidated K-IFRS)

(Unit : billion KRW)

	4Q FY'14		4Q FY'15		YoY	FY'14		FY'15		YoY
Revenue	7,687		7,808		1.6%	29,139		30,156		3.5%
Gross Profit	2,292 (29.8%)		2,243 (28.7%)		-2.2%	8,763 (30.1%)		8,911 (29.5%)		1.7%
SG&A	2,060 (26.8%)		2,050 (26.3%)		-0.5%	7,575 (26.0%)		8,053 (26.7%)		6.3%
Operating Profit	232 (3.0%)		193 (2.5%)		-16.7%	1,188 (4.1%)		858 (2.8%)		-27.8%
EBITDA	431 (5.6%)		398 (5.1%)		-7.6%	1,936 (6.6%)		1,677 (5.6%)		-13.4%
Profit before tax	55 (0.7%)		-531 -		-	1,078 (3.7%)		-80 -		-
Net Profit	-58 -		-583 -		-	616 (2.1%)		-346 -		-
Net Income of Controlling Company	-74 -		-556 -		-	527 (1.8%)		-384 -		-
Net income of minority interest equity	16 -		-27 -		-	89 (0.3%)		38 (0.1%)		-57.3%

Balance Sheet (Consolidated K-IFRS)

(Unit : billion KRW)

	3Q '14	4Q '14	1Q '15	2Q '15	3Q '15	4Q '15
Total assets	39,183	40,072	39,750	39,785	41,387	40,689
Cash & Cash Equivalent	2,183	2,671	2,096	2,117	2,934	3,033
Inventories	3,145	3,161	3,268	3,138	3,336	3,266
Land & Buildings	12,466	13,170	13,302	13,174	13,114	13,052
Liabilities	21,641	22,528	22,189	22,113	23,663	23,601
Borrowings & Bonds	12,145	12,727	12,424	13,123	13,731	14,084
Equity	17,542	17,544	17,561	17,672	17,724	17,088
Share Capital	158	158	158	158	158	158

Regional Sales of Lotte Marts in Overseas

(Unit : billion KRW)

	No. of stores	4Q FY'14	4Q FY'15	YoY	YoY**
China	116*	324	293	-9.5%	-7.2%
Indonesia	41	244	236	-3.2%	2.2%
Vietnam	11	49	59	20.8%	18.0%
Total	168	616	587	-4.7%	-1.1%

* Includes 16 supermarkets in China

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

Store Network

		2013	2014	2015				2015	2016	
		Year End	Year End	Openings				Year End	Year End	
		Total	Total	1Q	2Q	3Q	4Q	Total	Total(E)	
Domestic	Department Store	full-line store	29	31					31	*30
		franchise store	2	2			1		3	3
		young plaza	2	2					2	2
		outlet mall	10	14		1	1	1	17	21
Hypermarket		109	114	1	1		1	117	124	

* Unified operation of Jamsil & Avenuel world tower

		2013	2014	2015				2015	2016	
		Year End	Year End	Openings				Year End	Year End	
		Total	Total	1Q	2Q	3Q	4Q	Total	Total(E)	
Overseas	Department Store	Russia	1	1					1	1
		China	4	5					5	5
		Vietnam	-	1	1				2	2
		Indonesia	1	1					1	1
Hypermarket (Supermarket)	China	120	119		1	1/-5		116*	122*	
		(13)	(16)					(16)	(16)	
	Vietnam	6	10				1	11	13	
	Indonesia	36	38		1		2	41	46	
			(1)		(1)			(2)	(2)	

* Including overseas supermarkets