

# 2016 Second Quarter Results

August, 2016

**LOTTE SHOPPING CO., LTD**

INVESTOR RELATIONS



# Disclaimer

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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 FY16Q2

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- **2Q16 Revenue 7.5 trillion KRW(+0.7% YoY), 1H16 15.0 trillion KRW(+2.3% YoY)**
  - Domestic : Dept. store operation maintained moderate SSSG(Same store sales growth)  
Hypermarket operation indicated weak SSSG trend due to sluggish industry condition
    - SSSG: [Dept. stores +2.6(2Q), +2.4%(1H)] / [Hypermarket -3.2%(2Q), -0.5%(1H)]
  - Overseas : Dept. store – Strong sales growth continued in all countries  
Hypermarket – Weak sales continued in China, but strong sales growth in Vietnam and Indonesia resulted overall SSSG growth for overseas business
    - SSSG: [Dept. store +10.0%(2Q), +9.8%(1H)] / [Hypermarket +0.7%(2Q), -0.2%(1H)]
  
- **2Q Operating Profit 171 billion KRW(-15.4% YoY), 1H 379 billion KRW(-19.2% YoY)**
  - Domestic : Dept. store – Improved operating profit margin driven by steady SSSG and SG&A stabilization ('15 2Q 5.0% →'16 2Q 5.3%)  
Hypermarket – Operating loss increased due to increased fixed cost proportion caused by weak sales performance
  - Overseas : Operating loss improved (+7bn KRW) by store efficiency enhancement in both dept. store and hypermarket business
  
- **2Q Net Profit 82.3 billion KRW(-14.0% YoY), 1H 148.3 billion KRW(-29.7% YoY)**

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# 1. Consolidated Financial Results

(Unit: billion KRW)

	2Q 2015	2Q 2016	YoY	1H 2015	1H 2016	YoY
<b>Gross Sales</b>	7,451	7,504	0.7%	14,629	14,965	2.3%
<b>Operating Profit</b>	202	171	-15.4%	469	379	-19.2%
<b>EBITDA</b>	408	371	-9.1%	878	780	-11.2%
<b>Profit before tax</b>	174	149	-14.3%	366	280	-23.7%
<b>Net Profit</b>	96	82	-14.0%	211	148	-29.7%

\* Number of consolidated affiliates: 70

## 2. Financial Summary by Division

(Unit : billion KRW, %)

	2Q 2015		2Q 2016		YoY	1H 2015		1H 2016		YoY
<b>Revenue</b>	<b>7,451</b>	<b>(100.0%)</b>	<b>7,504</b>	<b>(100.0%)</b>	<b>0.7%</b>	<b>14,629</b>	<b>(100.0%)</b>	<b>14,965</b>	<b>(100%)</b>	<b>2.3%</b>
Department stores	2,055	(27.6%)	2,126	(28.3%)	3.5%	4,151	(28.4%)	4,293	(28.7%)	3.4%
Hypermarkets	2,091	(28.1%)	2,070	(27.6%)	-1.0%	4,254	(29.1%)	4,261	(28.5%)	0.2%
Electronics	968	(13.0%)	951	(12.7%)	-1.8%	1,827	(12.5%)	1,838	(12.3%)	0.6%
Finance	473	(6.3%)	450	(6.0%)	-4.9%	883	(6.0%)	884	(5.9%)	0.1%
CVS	868	(11.6%)	942	(12.5%)	8.6%	1,570	(10.7%)	1,773	(11.8%)	12.9%
Others*	996	(13.4%)	965	(12.9%)	-3.1%	1,944	(13.3%)	1,916	(12.8%)	-1.5%
<b>Operating Profit</b>	<b>202</b>	<b>2.7%</b>	<b>171</b>	<b>2.3%</b>	<b>-15.4%</b>	<b>469</b>	<b>3.2%</b>	<b>379</b>	<b>2.5%</b>	<b>-19.2%</b>
Department Stores	75	3.7%	90	4.2%	18.7%	219	5.3%	235	5.5%	7.3%
Hypermarkets	-43	-	-63	-	-	-33	-	-61	-	-
Electronics	42	4.4%	41	4.3%	-3.2%	77	4.2%	69	3.7%	-11.3%
Finance	79	16.7%	62	13.7%	-22.0%	121	13.8%	94	10.6%	-22.5%
CVS	23	2.6%	18	1.9%	-19.7%	32	2.0%	20	1.1%	-37.7%
Others*	26	2.6%	23	2.4%	-10.4%	53	2.7%	22	1.2%	-57.9%

\*Includes consolidated adjustments

# Department Stores

(Unit : billion KRW)

	2Q 2015			2Q 2016			1H 2015			1H 2016		
					YoY						YoY	
<b>Sales Revenue</b>	<b>2,055</b>	<b>(100.0%)</b>	<b>2,126</b>	<b>(100.0%)</b>	<b>3.5%</b>	<b>4,151</b>	<b>(100.0%)</b>	<b>4,293</b>	<b>(100.0%)</b>	<b>3.4%</b>		
Domestic	2,024	(98.5%)	2,092	(98.4%)	3.4%	4,088	(98.5%)	4,223	(98.4%)	3.3%		
Overseas	31	(1.5%)	34	(1.6%)	10.3%	63	(1.5%)	70	(1.6%)	11.5%		
<b>Operating Profit</b>	<b>75</b>	<b>3.7%</b>	<b>90</b>	<b>4.2%</b>	<b>18.7%</b>	<b>219</b>	<b>5.3%</b>	<b>235</b>	<b>5.5%</b>	<b>7.3%</b>		
Domestic	100	5.0%	111	5.3%	10.4%	269	6.6%	281	6.6%	4.2%		
Overseas	-25	-	-21	-	-	-50	-	-46	-	-		
<b>EBITDA</b>	<b>163</b>	<b>7.9%</b>	<b>176</b>	<b>8.3%</b>	<b>8.1%</b>	<b>392</b>	<b>9.5%</b>	<b>408</b>	<b>9.5%</b>	<b>3.9%</b>		
Domestic	177	8.7%	186	8.9%	5.2%	422	10.3%	431	10.2%	2.1%		
Overseas	-14	-	-10	-	-	-30	-	-23	-	-		

※ 61 Department Stores : Domestic 53 stores (including 17 Outlets) / Overseas 8 stores(China 5, Indonesia 1, Vietnam 2)

## Domestic

- ◆ **Domestic SSSG : +2.6%(2Q)/ +2.4%(1H)**
  - Total managerial revenue : +4.8%(2Q)/ +4.7%(1H)
  - Clothing +1.2%, Food +5.3%, Accessories +2.1%, Global fashion+7.6%, Home appliances/Electronics +4.0%
- ◆ **Operating profit increased (+10.4% YoY)**
  - Sales revenue increased
  - SG&A cost stabilized (advertising fee, depreciation cost, etc.)
- ◆ **Key Strategy**
  - Expansion of compact-size specialty store(Hongdae, Apgujeong, etc.)
  - Grand opening of apparel rental business (Salon de Charlotte, July)
  - 2H2016 Openings(outlets +5stores) : Uijungbu, Namak, Jinju, etc.

## Overseas

- ◆ **Overseas SSSG : +10.0%(2Q)/ +9.8%(1H)**
  - 2Q SSSG: China +5.7%, Indonesia +31.2%, Vietnam +20.8%
- ◆ **2Q Operating loss decreased by 3.6bn KRW**
  - Store efficiency improvement through SG&A optimization (advertising cost, rental cost, etc.)
- ◆ **Key strategy**
  - Improve sales revenue and operating profit margin through differentiated and innovative MD, Global B/D, promotional events, and membership program
  - Enhance profit through optimization of SG&A(labor cost, rental cost)

# Hypermarkets

(Unit : billion KRW)

	2Q 2015			2Q 2016			1H 2015			1H 2016		
					YoY						YoY	
<b>Sales Revenue</b>	<b>2,091</b>	<b>(100.0%)</b>	<b>2,070</b>	<b>(100.0%)</b>	<b>-1.0%</b>	<b>4,254</b>	<b>(100.0%)</b>	<b>4,261</b>	<b>(100.0%)</b>	<b>0.2%</b>		
Domestic	1,438	(68.8%)	1,398	(67.5%)	-2.8%	2,947	(69.3%)	2,934	(68.9%)	-0.4%		
*Overseas	653	(31.2%)	672	(32.5%)	3.0%	1,307	(30.7%)	1,327	(31.1%)	1.5%		
<b>Operating Profit</b>	<b>-43</b>	-	<b>-63</b>	-	-	<b>-33</b>	-	<b>-61</b>	-	-		
Domestic	-7	-	-30	-	-	30	1.0%	0	-	-		
*Overseas	-36	-	-33	-	-	-63	-	-61	-	-		
<b>EBITDA</b>	<b>13</b>	<b>0.6%</b>	<b>-7</b>	-	-	<b>78</b>	<b>1.8%</b>	<b>51</b>	<b>1.2%</b>	<b>-35.1%</b>		
Domestic	33	2.3%	10	0.7%	-70.6%	109	3.7%	79	2.7%	-27.9%		
*Overseas	-20	-	-17	-	-	-31	-	-28	-	-		

※ 288 Stores: Domestic 117 stores, Overseas 171 stores(China 116, Indonesia 43, Vietnam 13)

## Domestic

- ◆ **Domestic SSSG: -3.2%(2Q)/ -0.5%(1H)**
  - Gross managerial revenue -2.1%(2Q)/ 0.7%(1H)
  - 2Q SSSG: Fresh food -4.2%, Processed food&Living -3.9%, Apparel -0.1%
- ◆ **Increased OP loss due to weak sales trend**
- ◆ **2H2016 Key Strategy**
  - Expansion of specialty section renewal stores(1H- 3 stores/2- 12 stores)
    - ※ 1H renewal stores sales growth +20.6% YoY
  - GPM improvement through product life-cycle management by category
  - Early stabilization of online distribution center(opened in May '16)

## Overseas

- ◆ **2Q SSSG: China -7.6%, Indonesia +7.5%, Vietnam +6.1%**
  - China : Industry slowdown due to intensifying competition and increased consumption via online channel
  - Indonesia/Vietnam : Strong sales growth with favorable condition
- ◆ **Decreased OP loss +3bn KRW**
  - China : ①Improved sales in Beijing area and ②store closures in Shandong('15) reduced operating loss. ③Weak trend in Huadong province continued due to poor sales and increase in operation cost of low-temperature distribution center, etc.)
  - Indonesia/Vietnam : Profit increased due to improved GPM despite new store openings



# Electronics

(Unit : billion KRW)

	2Q 2015		2Q 2016		YoY	1H 2015		1H 2016		YoY
<b>Sales Revenue</b>	<b>968</b>	<b>100.0%</b>	<b>951</b>	<b>100.0%</b>	<b>-1.8%</b>	<b>1,827</b>	<b>100.0%</b>	<b>1,838</b>	<b>100.0%</b>	<b>0.6%</b>
<b>Operating Profit</b>	<b>42</b>	<b>4.4%</b>	<b>41</b>	<b>4.3%</b>	<b>-3.2%</b>	<b>77</b>	<b>4.2%</b>	<b>69</b>	<b>3.7%</b>	<b>-11.3%</b>
<b>EBITDA</b>	<b>55</b>	<b>5.6%</b>	<b>53</b>	<b>5.5%</b>	<b>-3.7%</b>	<b>103</b>	<b>5.6%</b>	<b>93</b>	<b>5.0%</b>	<b>-9.8%</b>
<b>Net Profit</b>	<b>29</b>	<b>3.0%</b>	<b>29</b>	<b>3.0%</b>	<b>0.4%</b>	<b>53</b>	<b>2.9%</b>	<b>48</b>	<b>2.6%</b>	<b>-9.9%</b>

※ 442 Stores(End of 2Q15)

## Key Factors

### ◆ 2Q Gross revenue growth : -1.8% YoY

- Total : 442 stores, (+4 road shop in 2Q)
- Weak sales trend of large home appliances (refrigerator, TV, etc.)
- Strong growth from seasonal products(AC/fan, etc.)

### ◆ 2Q Operating profit growth : -3.2% YoY

- OP decreased due to weak sales and slightly increased SG&A cost

### ◆ 2H Outlook

- Benefit from gov't policy to provide subsidies to energy efficient electronics (July to September)
- Steady growth in seasonal products in 3Q
- New mobile products(Galaxy note 7, Iphone 7) launch
- Strong growth in online/mobile shopping sales along with SKU expansion
- Online/offline synergy (Smartpick, omni-sales, etc.) enhancement

# Finance

## Income Statement Summary

	2Q FY'15	2Q FY'16	YoY	1H FY'15	1H FY'16	YoY
<b>Operating Revenue</b>	473	449	▲4.9	883	884	0.1
Credit Purchase	215	223	3.6	422	435	3.3
Card Loan & Cash Advance	134	135	0.7	268	270	0.9
Others	123	91	▲26.0	193	179	▲7.8
<b>Operating Expense</b>	394	388	▲1.5	762	790	3.7
Labor costs	30	33	8.6	62	64	3.8
Finance Expense	42	43	2.1	85	87	1.9
Loan Loss Provision	50	54	7.1	102	113	11.3
Card Expense	205	225	9.9	392	430	9.8
General Expense	66	33	▲50.7	121	96	▲21.2
<b>Operating Profit</b>	79	62	▲22.0	121	94	▲22.5

\* 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
Transaction Volume	53.5	56.6	14.0	15.2
No. of Holders	7,225	7,255	7,232	7,263
Delinquency Rate	1.48	1.68	1.58	1.60

## Earning Asset Portfolio

(Unit : %)

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

## Key Factors

### ◆ Operating Revenue

- Credit purchase (+7.8bn KRW, +3.6%), Card loan & Cash advance (+0.9bn KRW, +0.7%)
- Impact from gov't cutting card transaction fee -9.5 bn KRW
- Loss on derivative asset transaction -17.1 bn KRW

### ◆ Operating Expense

- Increase in marketing expenses(+11.2bn KRW), customer recruitment(+2.4bn KRW), and labor cost(2.6bn KRW)
- Derivative asset&FX transaction related expense reduced by19.5bn KRW

### ◆ 2H Key Strategy

#### - Digital payment market dominance strategy

- Expansion of RP payment service of utility bills(maintenance/gas fee)
- Introduction of fin-tech related products(Sticker-type credit card, etc.)

#### - Optimization of cost management

- Diversification of membership recruitment channel
- Efficiency improvement through process stabilization(VAN fee reduction, online billing)

**LOTTE SHOPPING CO., LTD**

	2Q 2015			2Q 2016			1H 2015			1H 2016		
					YoY						YoY	
<b>Revenue</b>	<b>868</b>	<b>100.0%</b>	<b>942</b>	<b>100.0%</b>	<b>8.6%</b>	<b>1,570</b>	<b>100.0%</b>	<b>1,773</b>	<b>100.0%</b>	<b>12.9%</b>		
<b>Operating Profit</b>	<b>23</b>	<b>2.6%</b>	<b>18</b>	<b>1.9%</b>	<b>-19.7%</b>	<b>32</b>	<b>2.0%</b>	<b>20</b>	<b>1.1%</b>	<b>-37.7%</b>		
<b>EBITDA</b>	<b>38</b>	<b>4.3%</b>	<b>32</b>	<b>3.4%</b>	<b>-14.6%</b>	<b>62</b>	<b>3.9%</b>	<b>47</b>	<b>2.7%</b>	<b>-23.2%</b>		

※ 8,227 stores (as of 2Q16)

## Key Factors

### ◆ 2Q Revenue +8.6%, YoY

- 8,227 stores in total (+743 stores)
- Improved daily sales per store
  - Steady sales growth in HMR category due to increase in single household consumption
  - Strong sales growth in PB category due to cost-effectiveness oriented consumption trend

### ◆ 2Q Operating profit -19.7%, YoY

- Increased cost due to newly opened direct/consigned stores and increased credit card transaction proportion
- high-base effect from one-off cigarette appraisal profit and VAN rebate

### ◆ 2H Key Strategy

- PB products development
  - Collaborate with top-tier B/Ds
- Establishment of "Convenience Food Store" concept
  - Develop new lunchbox lineups and improve product quality
  - Promote Seven Café
- Diversification of small-packaging product
- Promote 'smartpick' service with LOTTE affiliated companies

# Other Business Units

(Unit : billion KRW)

	2Q 2015	2Q 2016	YoY	1H 2015	1H 2016	YoY
<b>Sales Revenue</b>	<b>996</b>	<b>965</b>	<b>-3.1%</b>	<b>1,944</b>	<b>1,916</b>	<b>-1.5%</b>
Lotte Super	601	577	-4.1%	1,174	1,154	-1.7%
Lotte Homeshopping	213	225	5.9%	438	431	-1.5%
Others	182	163	-10.3%	332	331	-0.5%
<b>Operating Profit</b>	<b>26</b>	<b>23</b>	<b>-10.4%</b>	<b>53</b>	<b>22</b>	<b>-57.9%</b>
Lotte Super	10	-1	-	11	0	-
Lotte Homeshopping	23	29	22.5%	48	39	-19.8%
Others	-7	-5	-	-6	-17	-

### 3. Non-Operating Profit

(Unit : billion KRW)

	2Q 2015	2Q 2016	YoY	1H 2015	1H 2016	YoY
<b>Operating Profit</b>	<b>202</b>	<b>171</b>	<b>-15.4%</b>	<b>469</b>	<b>379</b>	<b>-19.2%</b>
Net Interest Income/Expense	<b>-39</b>	<b>-36</b>	<b>-</b>	<b>-79</b>	<b>-77</b>	<b>-</b>
Gains on Foreign Currency & Derivative Asset	<b>2</b>	<b>17</b>	<b>725.2%</b>	<b>-15</b>	<b>17</b>	<b>-</b>
Other non- operating profit	<b>-12</b>	<b>-12</b>	<b>-</b>	<b>-30</b>	<b>-45</b>	<b>-</b>
Equity Method Gain & Loss	<b>21</b>	<b>9</b>	<b>-57.6%</b>	<b>21</b>	<b>6</b>	<b>-73.1%</b>
<b>Profit Before Tax</b>	<b>174</b>	<b>149</b>	<b>-14.3%</b>	<b>366</b>	<b>280</b>	<b>-23.7%</b>
Corporate tax	<b>78</b>	<b>67</b>	<b>-14.7%</b>	<b>155</b>	<b>132</b>	<b>-15.4%</b>
<b>Net Profit</b>	<b>96</b>	<b>82</b>	<b>-14.0%</b>	<b>211</b>	<b>148</b>	<b>-29.7%</b>

# Appendix

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

# Income Statement (Consolidated K-IFRS)

(Unit : billion KRW)

	2Q FY'15		2Q FY'16		증감	1H FY'15		1H FY'16		증감
Revenue	7,451		7,504		0.7%	14,629		14,965		2.3%
Gross Profit	2,258	(30.3%)	2,280	(30.4%)	1.0%	4,428	(30.3%)	4,501	(30.1%)	1.7%
SG&A	2,056	(27.6%)	2,109	(28.1%)	2.6%	3,959	(27.1%)	4,122	(27.5%)	4.1%
Operating Profit	202	(2.7%)	171	(2.3%)	-15.4%	469	(3.2%)	379	(2.5%)	-19.2%
EBITDA	408	(5.5%)	371	(5.0%)	-9.1%	878	(6.0%)	780	(5.2%)	-11.2%
Profit before tax	174	(2.3%)	149	(2.0%)	-14.3%	366	(2.5%)	280	(1.9%)	-23.7%
Net Profit	96	(1.3%)	82	(1.1%)	-14.0%	211	(1.4%)	148	(1.0%)	-29.7%
Net Income of Controlling Company	65	(0.9%)	65	(0.9%)	0.4%	171	(1.2%)	123	(0.8%)	-28.1%
Net income of minority interest equity	31	(0.4%)	17	(0.2%)	-43.7%	40	(0.3%)	25	(0.2%)	-36.6%

# Balance Sheet (Consolidated K-IFRS)

(Unit: billion KRW)

	1Q '15	2Q '15	3Q '15	4Q '15	1Q '16	2Q '16
<b>Total assets</b>	<b>39,750</b>	<b>39,785</b>	<b>41,387</b>	<b>40,693</b>	<b>40,357</b>	<b>40,350</b>
Cash & Cash Equivalent	2,096	2,157	2,934	3,033	2,796	2,615
Inventories	3,268	3,138	3,336	3,266	3,333	3,289
Land & Buildings	13,302	13,174	13,114	13,052	13,005	13,041
<b>Liabilities</b>	<b>22,189</b>	<b>22,113</b>	<b>23,663</b>	<b>23,605</b>	<b>23,300</b>	<b>23,252</b>
Borrowings & Bonds	12,424	13,123	13,731	14,084	13,807	13,953
<b>Equity</b>	<b>17,561</b>	<b>17,672</b>	<b>17,724</b>	<b>17,088</b>	<b>17,057</b>	<b>17,098</b>
Share Capital	158	158	158	158	158	158



# Regional Sales of Lotte Marts Overseas

(Unit : billion KRW)

	No. of Stores	2Q FY'15	2Q FY'16	YoY	YoY**
<b>China</b>	116*	320	284	-11.5%	-7.3%
<b>Indonesia</b>	43	283	325	15.0%	10.8%
<b>Vietnam</b>	12	50	64	27.4%	25.0%
<b>Total</b>	<b>171</b>	<b>653</b>	<b>673</b>	<b>3.0%</b>	<b>4.1%</b>

\* 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
<b>Domestic</b>		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	3	22
Hypermarket		114	117			1	4	122

\* Unified operation of Jamsil & Avenuel world tower

		2014	2015	2016				2016
		Year End	Year End	Openings				Year End
<b>Overseas</b>		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	China	119	116*				1	117*
	(Supermarket)	(16)	(16)					(16)
	Vietnam	10	11		1	1		13
	Indonesia	38	41		2		3	46
		(1)	(2)					(2)

\* Including China supermarkets(16 stores)