

2017 Second Quarter Results

July, 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 FY17Q2

- **2Q17 Revenue 7.4 trillion KRW(-1.4% YoY), 1H17 14.9 trillion KRW(-0.5% YoY)**
 - Domestic: Dept. stores indicated weak SSSG(same store sales growth) due to sluggish industry condition and dramatic decline of inbound Chinese tourists
Hypermarkets indicated solid SSSG due to consumer sentiment improvement and promotion effort
 - SSSG: [Dept. store -5.2%(2Q), -5.0%(1H)] / [Hypermarket +4.2%(2Q), -0.7%(1H)]
 - Overseas : Weak SSSG stretched in dept. stores/hypermarkets in China due to THAAD missile conflict
However, dept. stores/hypermarkets continued steady sales growth trend in Vietnam and Indonesia
 - SSSG: [Dept. store -18.5%(2Q), -11.1%(1H)] / [Hypermarket -38.0%(2Q), -24.5%(1H)]
 - **2Q17 Operating profit 87 billion KRW(-49.0% YoY), 1H 295 billion KRW(-22.3% YoY)**
 - Domestic : Dept. store – Operating profit declined due to decreased sales revenue
Hypermarket – Improved operating loss driven by SSSG turnaround
 - Overseas : Dept. store – Operating loss contained at YoY level through strict SG&A management
Hypermarket – Operating loss increased due to continuation of store shutdowns in China
- ※ Estimated real estate tax in 2017: 99 billion KRW(+4 billion KRW YoY) (domestic operations only, non-consolidated financial statement)
→ Department store: 63 billion KRW(+3 billion KRW YoY), hypermarket: 33 billion KRW(+1 billion KRW YoY)
- **2Q17 Profit before tax 56 billion KRW(-62.6% YOY), 1H17 246 billion KRW(-12.0% YoY)**

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1. Consolidated Financial Results

(Unit : billion KRW)

	2Q 2016	2Q 2017	YoY	1H 2016	1H 2017	YoY
Gross Sales	7,504	7,401	-1.4%	14,965	14,893	-0.5%
Operating Profit	171	87	-49.0%	379	295	-22.3%
EBITDA	371	283	-23.7%	780	690	-11.6%
Profit before tax	149	56	-62.6%	280	246	-12.0%
Net Profit	82	4	-95.0%	148	116	-22.0%

*Number of consolidated affiliates: 76

2. Financial Summary by Division

(Unit : billion KRW)

		2Q 2016		2Q 2017		YoY	1H 2016		1H 2017		YoY
Revenue		7,504	(100.0%)	7,401	(100.0%)	-1.4%	14,965	(100.0%)	14,893	(100%)	-0.5%
Department stores		2,126	(28.2%)	2,008	(27.1%)	-5.6%	4,293	(28.7%)	4,081	(27.3%)	-4.9%
Hypermarkets		2,070	(27.6%)	1,906	(25.8%)	-7.9%	4,261	(28.5%)	3,981	(26.7%)	-6.6%
Electronics		951	(12.7%)	1,064	(14.3%)	11.9%	1,838	(12.3%)	1,961	(13.2%)	6.7%
Finance		450	(6.0%)	419	(5.7%)	-6.8%	884	(5.9%)	980	(6.6%)	10.9%
CVS		942	(12.6%)	976	(13.2%)	3.6%	1,773	(11.8%)	1,841	(12.4%)	3.8%
Others*		965	(12.9%)	1,028	(13.9%)	6.5%	1,916	(12.8%)	2,049	(13.8%)	107.0%
Operating Profit		171	2.3%	87	1.2%	-49.0%	379	2.5%	295	2.0%	-22.3%
Department Stores		90	4.2%	40	2.0%	-55.6%	235	5.5%	154	3.8%	-34.4%
Hypermarkets		-63	-	-77	-	-	-61	-	-96	-	-
Electronics		41	4.3%	61	5.8%	50.0%	69	3.7%	98	5.0%	42.0%
Finance		62	13.7%	28	6.8%	-53.7%	94	10.6%	84	8.5%	-10.9%
CVS		18	1.9%	21	2.1%	14.8%	20	1.1%	21	1.2%	8.7%
Others*		23	2.4%	14	1.3%	-42.5%	22	2.3%	34	3.3%	153.1%

* includes consolidation adjustments

Department Stores

(Unit : billion KRW)

	2Q 2016			2Q 2017			YoY	1H 2016			1H 2017			YoY
Sales Revenue	2,126	(100.0%)		2,008	(100.0%)		-5.6%	4,293	(100.0%)		4,081	(100.0%)		-4.9%
Domestic	2,092	(98.4%)		1,981	(98.7%)		-5.3%	4,223	(98.4%)		4,022	(98.6%)		-4.8%
Overseas	34	(1.6%)		27	(1.3%)		-22.5%	70	(1.6%)		59	(1.4%)		-15.6%
Operating Profit	90	4.2%		40	2.0%		-55.6%	235	5.5%		154	3.8%		-34.4%
Domestic	111	5.3%		61	3.1%		-44.8%	281	6.6%		196	4.9%		-30.2%
Overseas	-21	-		-21	-		-	-46	-		-42	-		-
EBITDA	176	8.3%		122	6.1%		-30.8%	408	9.5%		321	7.9%		-21.4%
Domestic	186	8.9%		133	6.7%		-28.4%	431	10.2%		343	8.5%		-20.4%
Overseas	-10	-		-11	-		-	-23	-		-22	-		-

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

Domestic

- ◆ **Domestic SSSG: -5.2%(2Q)/ -5.0%(1H)**
 - Apparel -6.0%, Accessories -11.6%, Global fashion -6.2%, Food -1.3%, Home appliances/electronics +9.9%
 - Sales revenue proportion of inbound Chinese tourists (3.5% in 2016 → 1.1% as end of second quarter 2017)
- ◆ **Operating profit decreased**
 - Sluggish SSSG trend and increased SG&A expense (Increase in rents and online commission fee)
- ◆ **Key Strategy**
 - Cost optimization(Online promotion fee, general expenses, etc)
 - Reinforcement of investment review committee (Efficiency oriented investment on expansion, renovation, etc)

Overseas

- ◆ **Overseas SSSG: -18.5%(2Q)/ -11.1%(1H)**
 - China -28.6%, Indonesia +13.3%, Vietnam +16.9%
- ◆ **Contained operating loss at YoY level**
 - Strict SG&A management system in China
- ◆ **2H strategy by region**
 - China: Cost reduction to endure negative impact of THAAD issue
 - Vietnam/Indonesia: Aim to achieve turning to profit through MD enhancement (Vietnam: In 2018, Indonesia: In 2019)

Hypermarkets

(Unit : billion KRW)

	2Q 2016			2Q 2017			YoY	1H 2016			1H 2017			YoY
Sales Revenue	2,070	(100.0%)		1,906	(100.0%)		-7.9%	4,261	(100.0%)		3,981	(100.0%)		-6.6%
Domestic	1,398	(67.5%)		1,493	(78.3%)		6.8%	2,934	(68.9%)		3,006	(75.5%)		2.5%
*Overseas	672	(32.5%)		413	(21.7%)		-38.5%	1,327	(31.1%)		975	(24.5%)		-26.5%
Operating Profit	-63	-		-77	-		-	-61	-		-96	-		-
Domestic	-30	-		-22	-		-	0	-		-13	-		-
*Overseas	-33	-		-55	-		-	-61	-		-83	-		-
EBITDA	-7	-		-20	-		-	51	1.2%		15	0.4%		-70.3%
Domestic	10	0.7%		20	1.3%		107.6%	79	2.7%		68	2.3%		-13.3%
*Overseas	-17	-		-40	-		-	-28	-		-53	-		-

※ 291 Stores(as end of 2Q17): Domestic 121, Overseas 170(China 112 stores, Indonesia 45, Vietnam 13)

Domestic

- ◆ **Domestic SSSG: +4.2%(2Q)/ -0.7%(1H)**
 - Fresh food +10.8%, Processed food +5.5%, Living +2.5%, Apparel & accessories -4.2%
 - Sales Revenue increased driven by strong growth in fresh food sales through quality innovation effort and promotion effect
- ◆ **Operating loss improvement induced by solid SSSG trend**
- ◆ **New store openings**
 - Yangpyeong Seoul(April): The concept of, 'healing in the city'
 - 2nd Half : Seocho(July), KimpoHangang(Sept), DaeguChilsung(Sept), Yangpyeong Gyeonggi(Nov), PohangDoocho(Dec)

Overseas

- ◆ **Overseas SSSG: -38.0%(2Q)/ -24.5%(1H)**
 - China -94.9%, Indonesia +0.8%, Vietnam +1.0%
 - THAAD issue impact in China: forced closure: 74 stores temporary closed: 13 stores (as of the end of June)
- ◆ **Operating loss increased in China due to store shutdowns**
Improved profitability continued in Vietnam/Indonesia operations
- ◆ **2H strategy by region**
 - China: Cost minimization(Labor cost and inventory reduction, etc)
 - Indonesia: Fresh food innovation(retail&wholesale joint sourcing), Expansion of PB development
 - Vietnam: PB Global sourcing enhancement, sales channel diversification

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Electronics

(Unit : billion KRW)

	2Q 2016			2Q 2017			YoY			1H 2016			1H 2017			YoY		
Sales Revenue	951	100.0%		1,064	100.0%		11.9%			1,838	100.0%		1,961	100.0%		6.7%		
Operating Profit	41	4.3%		61	5.8%		50.0%			69	3.7%		98	5.0%		42.0%		
EBITDA	53	5.5%		72	6.8%		36.7%			93	5.0%		120	6.1%		29.3%		
Net Profit	29	3.0%		45	4.3%		57.2%			48	2.6%		71	3.6%		47.9%		

※ 458 stores (as end of 2Q17)

Key Factors

◆ Gross revenue growth: +11.9% YoY

- 458 stores in total (+16 new store openings YoY)
- Strong growth from online and omni-channel related sales channels
- Continuous growth in white appliances (Laundry drying machine)
- Strong sales growth of health related small electronic home appliances (Air purifier, Vacuum, etc)

◆ Operating profit growth: +50.0% (YoY)

- Gross profit margin improvement driven by higher margin product sales growth (26.5% → 28.0%)

◆ 2H Outlook

- Sales growth expected from mobile categories through introduction of Samsung Galaxy Note 8, Iphone 8
- Expected sales growth in seasonal products due to monsoon season

◆ 2017 Strategy

- Expansion of online business through effective investment
- Differentiation through expansion of PB and global brand offerings
- Customer relationship development to become "Home & Lifestyle Retailer"

Finance

Summary Income Statement

(Unit: billion, %)	2Q FY'16	2Q FY'17	YoY	1H FY'16	1H FY'17	YoY
Operating Revenue	449	419	▲6.7	884	980	10.9
Credit Purchase	223	238	6.5	435	467	7.3
Card Loan & Cash Advance	135	131	▲2.8	270	261	▲3.5
Others	91	50	▲45.1	178	252	41.6
(Gains on Foreign Currency)	-11	-13		7	94	
Operating Expense	387	390	0.8	790	897	13.5
Labor costs	34	34	▲0.7	67	66	▲-1.7
Finance Expense	43	44	1.5	87	88	1.5
Loan Loss Provision	54	57	5.2	113	114	0.6
Card Expense	225	237	5.4	430	471	9.4
General Expense	31	18	▲41.9	93	158	69.9
(Loss on valuation of derivatives)	-11	-13		19	94	
Operating Profit	62	28	▲53.7	94	84	▲10.9

* 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'15	FY'16	1Q FY'17	2Q FY'17
Transaction Volume	56.6	61.3	16.0	16.6
No. of Holders	7,255	7,470	7,466	7,493
Delinquency Rate	1.68	1.62	1.54	1.62

Earning Asset Portfolio

(Unit: %)

	FY'15	FY'16	1Q FY'17	2Q FY'17
Credit Purchase	59.6	58.2	56.4	56.2
Card Loan	25.8	26.2	26.8	26.3
Cash Advance	9.5	7.0	7.0	6.9
Installment & lease	5.1	8.5	9.8	10.4

Key Factors

◆ Operating Profit

- Credit purchase (+14bn KRW, +6.5% YoY),
Card loan & Cash advance (-3.8bn KRW, -2.8% YoY)
- ※ Impact from merchant card transaction fee discount -4.1bn KRW
- ※ 16.2Q Gain on NPL asset sales +32 bn KRW

◆ Operating Expense

- Card expense: Customer recruitment fee (+3.1bn KRW, +10.5% YoY)
- Marketing expenses (8.2bn KRW, +7.5% YoY)

◆ 2H key strategy

- Improvement of customer recruitment structure
 - Emphasize online recruitment scheme (Development of online-only products, customer convenience improvement)
 - Membership recruitment activities utilizing affiliate store networks
- Profit structure diversification
 - Expansion of corporation credit purchase: introduction of new products and customer service improvement
 - Optimization of financial service related revenue (new biz model discovery)

(Unit : billion KRW)

	2Q 2016			2Q 2017			YoY	1H 2016			1H 2017			YoY
Revenue	942	100.0%		976	100.0%		3.6%	1,773	100.0%		1,841	100.0%		3.8%
Operating Profit	18	1.9%		21	2.1%		14.8%	20	1.1%		21	1.2%		8.7%
EBITDA	32	3.4%		35	3.5%		7.8%	47	2.7%		49	2.7%		3.6%

※ 8,943 stores (as end of 2Q17)

Key Factors

◆ 2Q Revenue: +3.6%(YoY)

- 8,943 stores in total (+716 new stores YoY)
- Decrease in average daily sales per store
: Decline in tobacco sales due to aversive graphic images placed on the cigarette packets

◆ 2Q Operating profit: +14.8% (YoY)

- Increased operating profit driven by improvement in general products margin and re-structuring underperforming stores

◆ 2H Strategy

- Process reengineering
 - Store enhancement activities, closure of poor performing stores
- Store transformation
 - Differentiated store openings depending on the market environment
(Ex: Café type, in-office type, complexed MD type)
- MD innovation
 - Expansion of small sized HMR items: produce portfolio diversification
 - Expand collaboration with affiliates: Development of popular dessert from department store

Other Business Units

(Unit : billion KRW)

	2Q 2016	2Q 2017	YoY	1H 2016	1H 2017	YoY
Sales Revenue	965	1,028	6.5%	1,916	2,049	7.0%
Lotte Super	577	581	0.6%	1,154	1,147	-0.6%
Lotte Homeshopping	225	254	12.8%	432	483	12.1%
Others	163	193	18.8%	330	419	26.9%
Operating Profit	23	14	-42.5%	22	34	53.1%
Lotte Super	-1	1	-	0	3	1,293.5%
Lotte Homeshopping	29	36	24.9%	39	65	69.1%
Others	-5	-23	-	-17	-34	-

3. Non-Operating Profit Analysis

(Unit : billion KRW)

	2Q 2016	2Q 2017	YoY	1H 2016	1H 2017	YoY
Operating Profit	171	87	-49.0%	379	295	-22.3%
Net Interest Income/Expense	-36	-37	-	-77	-75	-
Gains on Foreign Currency & Derivative Asset	15	-4	-	17	8	-36.3%
Other non-operating profit	-10	-19	-	-45	-31	-
Equity Method Gain & Loss	9	29	221.6%	6	49	749.0%
Profit Before Tax	149	56	-62.6%	280	246	-12.0%
Corporate tax	67	52	-22.9%	132	130	-0.6%
Net Profit	82	4	-95.0%	148	116	-22.0%

Appendix

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

Income Statement (Consolidated K-IFRS)

(Unit : billion KRW)

	2Q FY'16		2Q FY'17		YoY	1H FY'16		1H FY'17		YoY
Revenue	7,504		7,401		-1.4%	14,965		14,893		-0.5%
Gross Profit	2,280	(30.4%)	2,279	(30.8%)	-0.1%	4,501	(30.1%)	4,561	(30.6%)	1.3%
SG&A	2,109	(28.1%)	2,192	(29.6%)	3.9%	4,122	(27.5%)	4,266	(28.6%)	3.5%
Operating Profit	171	(2.3%)	87	(1.2%)	-49.0%	379	(2.5%)	295	(2.0%)	-22.3%
EBITDA	371	(5.0%)	283	(3.8%)	-23.7%	780	(5.2%)	690	(4.6%)	-11.6%
Profit before tax	149	(2.0%)	56	(0.8%)	-62.6%	280	(1.9%)	246	(1.7%)	-12.0%
Net Profit	82	(1.1%)	4	(0.1%)	-95.0%	148	(1.0%)	116	(0.8%)	-22.0%
Net Income of Controlling Company	65	(0.9%)	-33	-	-	123	(0.8%)	57	(0.4%)	-53.6%
Net income of minority interest equity	17	(0.2%)	37	(0.5%)	110.3%	25	(0.2%)	59	(0.4%)	129.8%

Balance Sheet (Consolidated K-IFRS)

(Unit : billion KRW)

	2Q '16	3Q '16	4Q '16	1Q '17	2Q '17
Total assets	40,350	40,992	41,914	42,045	41,867
Cash & Cash Equivalent	2,618	3,076	3,185	3,821	3,549
Inventories	3,289	3,414	3,324	3,221	3,124
Land & Buildings	13,041	13,124	13,115	13,092	13,150
Liabilities	23,252	23,843	24,652	24,786	24,575
Borrowings & Bonds	13,953	13,851	14,483	14,998	15,038
Equity	17,098	17,149	17,262	17,259	17,292
Share Capital	158	158	158	158	158

Regional Sales of Lotte Marts in Overseas

(Unit : billion KRW)

	No. of Stores	2Q FY'16	2Q FY'17	YoY	YoY**
China	112*	284	21	-92.6%	-94.9%
Indonesia	45	325	329	1.1%	4.7%
Vietnam	13	64	64	-0.1%	9.6%
Total	170	673	414	-38.5%	-34.6%

* 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)

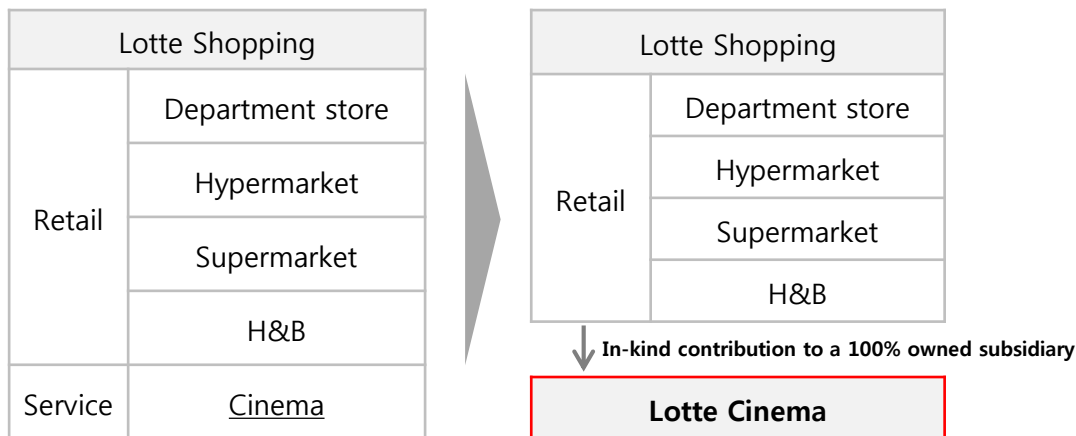
**Including equity method stores

*** Including 13 overseas supermarkets in China

Lotte Shopping: Separation of Lotte Cinema

Process

Lotte Shopping to separate its cinema business as a 100% owned subsidiary (Announced on June, 8, 2017)



Purpose

- To maximize its management effectiveness as an entertainment company
- Business diversification including content distribution and overseas business

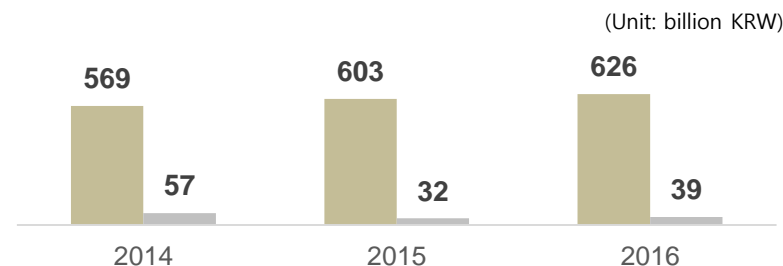
Movie Theater	Screen opening focused → qualitative growth focused
Content Distribution	Competitiveness enhancement of movie contents
New Business	Expansion of online movie distribution platform
Overseas Business	Entry into new countries (Indonesia)

<Overview>

LOTTE CINEMA

- Date of establishment: Sept, 9, 1999
- Business area
 - ① Movie theater (Lotte Cinema) : 112 locations (domestic)
 - ② Content investment and distribution(Lotte Entertainment)
 - Masterpiece: The Pirates('14), The Last Princess('16), etc

• Sales Revenue and Operating Profit (Domestic)



• Movie Theater

	2014	2015	2016
Domestic	103	107	112
Direct-managed	75	81	89
Consignment	28	26	23
*Overseas(China/Vietnam)	11/16	10/22	11/29

* Includes subsidiaries and equity method