



2019 Second Quarter Results

August, 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 or revise the preliminary information provided in this release.

※ **Introduction of new accounting standard (K-IFRS 1116 leases) – Effective as of 1st, Jan, 2019**

- The new lease accounting standard was applied in 2Q19 financial statements whereas 2Q18 financial statements does not reflect new lease accounting standard

※ **New accounting standards of K-IFRS 1116 leases**

- To increase the accuracy of liability measurement and comparability between companies, **the use rights of tangible&intangible assets and rents of borrowed assets under the signed contract are recognized as assets and liabilities respectively**

Highlights (FY2019 2nd Quarter)



- **2Q19 Revenue 4.5 trillion KRW (+1.0% YoY), 1H19 8.9 trillion KRW (+1.8% YoY)**
 - Domestic : Dept. stores performed moderate SSSG (Same Store Sales Growth) through strong sales growth in global fashion and home appliances & electronics categories
Hypermarkets showed weak SSSG due to sluggish industry trend & undergoing MD restructuring progress
 - SSSG: (2Q) Dept. stores +1.3%, Hypermarkets -3.6% / (1H) Dept. stores +0.9%, Hypermarkets -3.2%
 - Overseas : Sales growth continued in South-East Asia Dept. Stores & Hypermarkets
 - SSSG: (2Q) Dept. stores +3.9% [China +1.0%, Indonesia +2.8%, Vietnam +13.6%] / Hypermarkets +1.1% [Indonesia -0.5%, Vietnam +7.0%]
(1H) Dept. stores +3.6% [China 0.0%, Indonesia +3.9%, Vietnam +13.6%] / Hypermarkets +2.6% [Indonesia +0.7%, Vietnam +8.5%]
- **2Q19 Operating Profit 92 billion KRW (+5.7% YoY), 1H19 297 billion KRW (-3.5% YoY)**
 - Domestic : Dept. stores – Operating Profit increased via SSSG improvement
Hypermarkets – Operating Loss increased due to weak SSSG and increased SG&A
 - Overseas : Dept. stores – Operating Loss improved via store restructuring in China and favorable SSSG trend in South East Asia
Hypermarkets – Operating Profit increased driven by solid SSSG trend in Indonesia retail division and Vietnam
- **2Q19 Net profit 77 billion KRW, 1H19 186 billion KRW**
 - 2Q18 China Hypermarket business withdraw impact -203.7 billion KRW, etc.

- 1. Consolidated Financial Results**
- 2. Consolidated Financial Results by Divisions**
- 3. Non-Operating Profit**
- 4. Equity Method Gain & Loss (Major Companies)**

1. Consolidated Financial Results



(Unit: billion KRW)

	2Q 2018	2Q 2019	YoY	1H 2018	1H 2019	YoY
Revenue	4,413	4,456	1.0%	8,747	8,903	1.8%
(Gross Sales)	5,917	5,917	0.0%	11,806	11,867	0.5%
Operating Profit	87	92	5.7%	308	297	-3.5%
EBITDA	254	440	73.4%	641	983	53.3%
Profit Before Tax	12	82	597.5%	194	192	-0.8%
Continuing Operations (Profit/Loss)	-10	65	-	104	152	47.2%
Discontinued Operations* (Profit/Loss)	-204	12	-	-327	34	-
Net Profit	-214	77	-	-224	186	-

* 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 subsidiaries : 48

2. Consolidated Financial Results by Divisions

(Unit: billion KRW)

	2Q 2018		2Q 2019		YoY	1H 2018		1H 2019		YoY
Revenue	4,413	(100.0%)	4,456	(100.0%)	1.0%	8,747	(100.0%)	8,903	(100.0%)	1.8%
Department Stores	770	(17.4%)	764	(17.1%)	-0.7%	1,591	(18.2%)	1,536	(17.3%)	-3.5%
Hypermarkets	1,572	(35.6%)	1,596	(35.8%)	1.6%	3,111	(35.6%)	3,189	(35.8%)	2.5%
Electronics	1,087	(24.6%)	1,071	(24.0%)	-1.5%	2,039	(23.3%)	2,108	(23.7%)	3.4%
Supermarkets	503	(11.4%)	474	(10.6%)	-5.9%	993	(11.4%)	948	(10.6%)	-4.6%
Others*	482	(11.0%)	552	(12.5%)	14.5%	1,012	(11.5%)	1,123	(12.6%)	10.9%
Gross Sales	5,917	(100.0%)	5,917	(100.0%)	0.0%	11,806	(100.0%)	11,867	(100.0%)	0.5%
Department Stores	2,005	(33.9%)	1,991	(33.6%)	-0.7%	4,113	(34.8%)	4,043	(34.1%)	-1.7%
Hypermarkets	1,793	(30.3%)	1,778	(30.0%)	-0.9%	3,562	(30.2%)	3,550	(29.9%)	-0.3%
Electronics	1,087	(18.4%)	1,071	(18.1%)	-1.5%	2,039	(17.3%)	2,108	(17.8%)	3.4%
Supermarkets	534	(9.0%)	504	(8.5%)	-5.6%	1,054	(8.9%)	1,009	(8.5%)	-4.3%
Others*	497	(8.4%)	573	(9.7%)	15.3%	1,038	(8.8%)	1,158	(9.8%)	11.5%
Operating Profit	87	2.0%	92	2.1%	5.7%	308	3.5%	297	3.3%	-3.5%
Department Stores	57	7.4%	74	9.7%	30.4%	200	12.6%	233	15.2%	16.4%
Hypermarkets	-27	-	-34	-	-	-15	-	-15	-	-
Electronics	67	6.2%	46	4.3%	-31.5%	108	5.3%	70	3.3%	-35.3%
Supermarkets	-14	-	-20	-	-	-24	-	-37	-	-
Others*	4	0.9%	25	4.6%	508.0%	38	3.8%	46	4.1%	18.9%

* Includes consolidated adjustments

① Department Store

(Unit: billion KRW)

	2Q 2018		2Q 2019		YoY	1H 2018		1H 2019		YoY
Revenue	770	(100.0%)	764	(100.0%)	-0.7%	1,591	(100.0%)	1,536	(100.0%)	-3.5%
Domestic	742	(96.4%)	743	(97.3%)	0.2%	1,534	(96.4%)	1,491	(97.0%)	-2.8%
Overseas	28	(3.6%)	21	(2.7%)	-25.0%	57	(3.6%)	45	(3.0%)	-20.3%
China	18	(2.4%)	11	(1.4%)	-40.1%	38	(2.4%)	26	(1.7%)	-31.9%
Indonesia	6	(0.8%)	5	(0.7%)	-5.5%	11	(0.7%)	11	(0.7%)	-7.3%
Vietnam	4	(0.5%)	5	(0.6%)	17.0%	8	(0.5%)	9	(0.6%)	17.1%
Operating Profit	57	7.4%	74	9.7%	30.4%	200	12.6%	233	15.2%	16.4%
Domestic	73	9.9%	75	10.1%	2.6%	234	15.2%	230	15.4%	-1.6%
Overseas	-17	-	-1	-	-	-34	-	3	6.5%	-
China	-15	-	-1	-	-	-31	-	4	13.7%	-
Indonesia	-1	-	0	-	-	-2	-	-1	-	-
Vietnam	0	-	0	2.1%	-	-1	-	0	3.5%	-
EBITDA	132	17.1%	231	30.2%	75.0%	350	22.0%	543	35.4%	55.3%
Domestic	140	18.9%	225	30.2%	60.2%	367	23.9%	525	35.2%	43.1%
Overseas	-8	-	6	29.8%	-	-17	-	18	39.0%	-
China	-9	-	2	15.0%	-	-19	-	9	35.2%	-
Indonesia	0	0.6%	3	50.0%	8,312.6%	0	-	5	46.9%	-
Vietnam	1	21.6%	2	41.2%	123.3%	2	23.1%	4	40.7%	106.4%

※ 60 Department Stores (as end of 2Q19): 54 Domestic stores (including 22 outlets), 6 Overseas stores (China 2, Indonesia 1, Vietnam 2, Russia 1)
Above results do not include 2 domestic consignment stores and 2 overseas equity method stores (Moscow, Ho Chi Minh)

Domestic Department Store

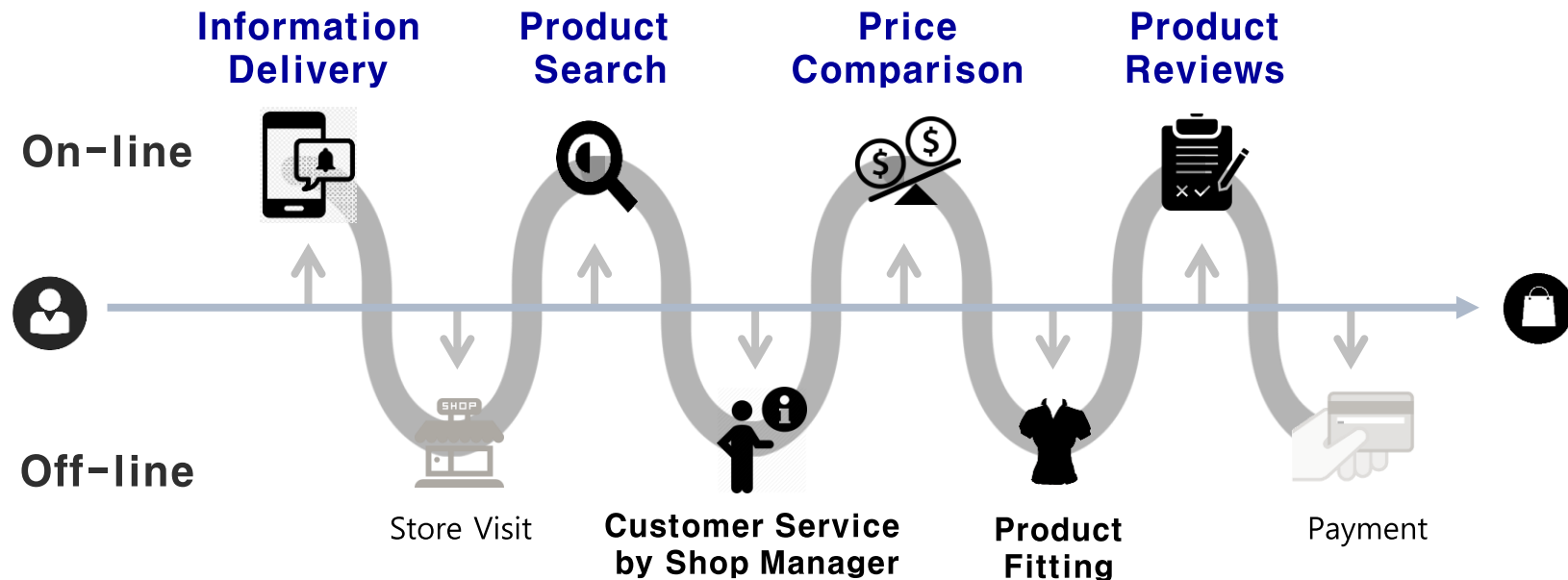
- ▶ **Domestic SSSG: +1.3% YoY (2Q) / +0.9% YoY (1H)**
 - Global Fashion +16.9%, Home Appliances & Electronics +5.2%, Men's & Sports Wear -0.3%, Women's Wear -1.8%, Food -2.2%, Accessories -3.3%
- ▶ **Despite slightly increased SG&A (+3 bn KRW YoY), Operating profit increased via moderate SSSG trend**
 - Taxes & dues and others +11.2 bn KRW YoY (2Q19 Real estate tax +5.8 bn KRW, 65.9 bn → 71.7 bn KRW, etc.) Advertising & Promotion fee +4.0 bn KRW YoY, Commission fee +2.6 bn KRW YoY, Labor Cost -3.7 bn KRW YoY
 - SG&A decline effect by -8.6 bn KRW due to new accounting standard application (K-IFRS 1116 leases)

Overseas Department Store

- ▶ **Overseas SSSG: +3.9% YoY (2Q) / +3.6% YoY (1H)**
 - China +1.0%, Indonesia +2.8%, Vietnam +13.6%
- ▶ **Operating Loss improvement**
 - China : Operating loss improvement via decreased SG&A +14.3 bn KRW YoY (-15.3 bn KRW → -1 bn KRW)
 - ※ Reversal of provisions in China : +3.7 bn KRW
 - ※ Store Closures in China : Tianjin Dongmalu(Dec, 2018), Tianjin Cultural Center(Mar, 2019), Weihai(Mar, 2019)
 - Indonesia : Operating loss improvement +0.6 bn KRW YoY (-0.9 bn KRW → -0.3 bn KRW)
 - Vietnam : Operating loss turned into profit generation +0.5 bn KRW YoY (-0.4 bn KRW → 0.1 bn KRW)

Omni-Perspective Customer Shopping Cycle

Department Store working to provide seamless shopping experience to customers by connecting online and superior offline retail infrastructure. We plan to implement convenient **omni-shopping environment by applying key online functions to offline stores** such as information delivery, product search, price comparison and product reviews



✓ **Applying Online Key Functions To Offline Shopping Experience
(Information Delivery, Product Search, Price Comparison, Product Reviews)**

① Department Store – Digital Transformation

Key Components for Omni Shopping System Establishment

- ① 1:1 Hyper customization of offerings based on digital system
- ② Product management system implementation at a single item level
- ③ Online & Offline integrated price comparison system application
- ④ Sharing and saving product reviews

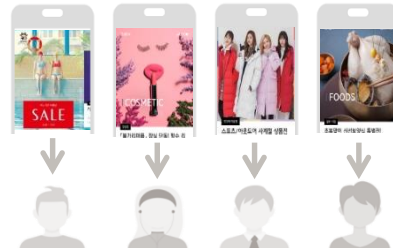
Hyper-Customized 「Information Delivery」

As-Is
[Collective Information]



App optimization
considering one's taste

To-Be
[Customized information]



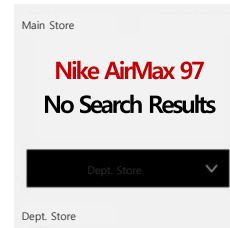
Real-time auto targeting
by personal preference
contents analysis

Providing shopping information
through customer purchasing
forecast information

※ Real-time customization and offerings at an individual level

Integrated 「Product Search」

As-Is
[Only searchable by brands]



Department Store
App Search Function

To-Be
[Searchable by single item unit]



In-stock store & Brand
Location Guidance

Provides detail
description of products

※ Individual item management implementation for the first time in the industry

Reliable 「Price Comparison」

As-Is
[Provides in-store price only]

- [Customer Needs]
- Make a purchase after comparing prices by each selling channels
 - Online and Offline price differentiation
- ▶ Low price reliability of goods in offline channel

Provides detail information
of goods through QR code
and Bar code scanning

※ Provides highly reliable price in the offline channel by providing unified price comparison of online and offline

To-Be
[Unified price comparison of online & offline]



Unified price comparison
with other companies
including Lotte affiliates

Similar products &
suggested products
recommendation in the offline

Providing 「Customer Reviews」

As-Is
< No customer review provided in the offline >

- Only available of shop manager's review
- Friends' recommendation

- ※ High reliance on product review before buying goods
- 89% respondents have checked product review before buying
 - 79% respondents have said checking review is important before buying

Online and offline
integrated customer review
database establishment

※ Customer's shopping experience improvement by sharing other people's review and shop manager's recommendation

To-Be
< Saving and sharing customer review >

- 'Fast shipping! and proper size!' ★★★★★
- 'The real color seems to be little darker than it looks in the picture!' ★★★★★

Database integration of
online customer review

Shop manager's
recommendation

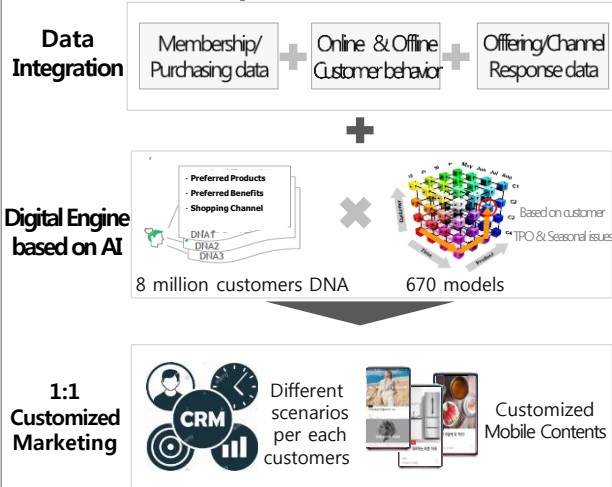
Key Components for Omni-Shopping Environment Implementation

Department Stores key strategies for omni-shopping environment implementation (Scheduled to complete in 2022)

- ① **Digital platform establishment** for data based AI analysis and customized marketing at an individual level
- ② **O4O shopping system establishment** through product management at a unit level and utilizing premium online mall
- ③ **Digital channel enhancement** for hyper-customization designed to perfectly match individual customer preference

Digital Platform Establishment

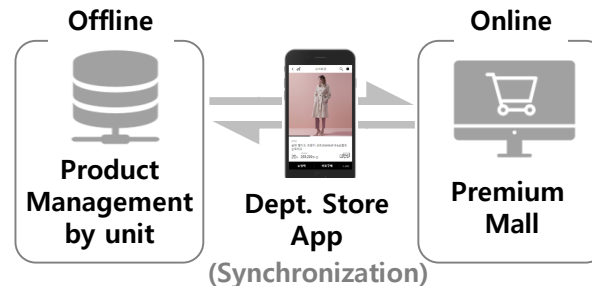
- Online & Offline integrated data lake implementation



- **Big data based digital marketing**
 - Automated customer targeting utilizing AI
 - Scenario based real-time customized marketing
- **Marketing platform establishment with cooperating brand companies**
 - Providing brand self-marketing platform within Dept. Store App

O4O Shopping System

- Omni-commerce establishment through product management implementation at an a unit level in offline stores and linkage with online premium mall



- **Online & Offline mixed channel 'Premium Mall'**
 - Premium Mall (Scheduled to open in 2020) : Online version of the offline store that syncs all products of offline products (New season items, luxury items, etc.)
 - Online & Offline synchronization of product and price by sharing product management information with partner brand companies

Digital Channel Enhancement

- Offering digital functions to all mobile based shopping to enhance customer shopping experience



- **Automatic transmission of customized shopping information through mobile**
 - Offering real-time customized marketing information based on individual purchase history
- **Providing shopping advisor service utilizing online functions**
 - Core purchasing information such as search, price comparison, review, etc.
- **In-store customer data digitalization**
 - Customer data acquisition such as customer purchasing pattern, behavior, etc.

Domestic Hypermarket Long-Term Strategy

Domestic Hypermarket working to actively cope with rapidly changing retail environment through offline store profitability improvement and product competitiveness enhancement, and online logistics innovation

[Offline] Profit Improvement & Product Competitiveness Enhancement

● Profit Oriented Store Renovation

1. Direct-managed area and SKU restructuring, customized tenants invitation considering individual store size and its location characteristics

- 21 candidate stores in 2019 (7 stores in 2Q, 9 stores in 3Q, 5 stores in 4Q)
- Planned to designate additional 20 stores in 2020

Direct-managed area & SKU optimization	Selective Tenants (Considering store size & each location characteristics)		
	Small Size Store	Mid Size Store	Large Size Store
<ul style="list-style-type: none"> • Direct-managed area reduction (8,198m² → 5,884m²) • SKU reduction (45,000 → 35,000sku) 	Living & Convenience Type	Region tailored Type	Customer Experience Type
	Beauty Care, Laundry Room, etc.	Restaurants, Education & Cultural Center, Medical Clinics, etc.	Leisure Type (VR, Entertainment), Movie Theaters, Gallery, etc.

2. Restructuring of underperforming stores

- Early termination of lease contract, asset sales, and etc.

● Core Product Categories Reinforcement

Category	Description
Fresh Food	<ul style="list-style-type: none"> • Quality enhancement through premium contents enlargement - Organic agricultural products expansion and premium livestock products innovation • Local specialty food introduction (Expansion of dedicated organization & introduction of store-specific management system)
Processed Food & Meal Solution	<ul style="list-style-type: none"> • Product R&D center operation & advanced Grocerant(Grocery+Restaurant) stores introduction
Health Food	<ul style="list-style-type: none"> • Total health care solution implementation - Pharmacy combined zone (Advanced medication curating services)
Home & Living	<ul style="list-style-type: none"> • Practical concepts reinforcement (Aim to unify product concepts such as color, material, functions, pattern, etc.)

※ SKU reduction of daily goods and fashion categories

Domestic Hypermarket Long-Term Strategy

[Online] Logistics & Delivery Innovation

● Store Reformation

(Transform to become middle fulfilment hub center)

1. Inefficient area of store

→ Transformation to online logistics dedicated space

- Introduction of conveyor facilities on fresh food, processed food, daily goods & fully automated infrastructure implementation

※ 2 candidate stores to be transformed in 2019

2. Expectation : Average delivery time within 2 hours

(100% guaranteed same day delivery)

● Delivery Innovation

1. Delivery concentration within 5km of stores (Core business area)

→ Delivery density maximization

	Delivery Area	Minimum payment amount for free delivery	# of deliveries per day	# of orders per day	Same day delivery rate
As-Is	Within 15km	40,000 KRW	4 times	300 orders	45%
To-Be	Within 5km	20,000 KRW	6 times	680 orders	85%

- Delivery type segmentation → Rapid response to core customer's needs

※ As is : Only 1 delivery type (All stores)

To be : 3 delivery types (Instant delivery, delivery within 5km, delivery within 15km)

2. Hub & Spoke network implementation

→ Gimpo online dedicated center(Hub) delivery area expansion

		Delivery Area	# of orders per day (As-Is → To-Be)
Hub	Gimpo	Nearby 17 stores in Seoul metropolitan area	4,500 → 6,000 orders
Spoke	Spoke Stores	Nearby 3~4 stores	700 → 2,000 orders

- Gimpo Center efficiency improvement (Operating ratio 45% → 80%) & delivery cost reduction per store (160 million KRW per month)

※ Spoke store expansion to 11 stores in 2019

(3 stores in May, 3 stores in Sept, 5 stores in Oct)

③ Electronics (Hi-Mart)

(Unit: billion KRW)

	2Q 2018		2Q 2019		YoY	1H 2018		1H 2019		YoY
Revenue	1,087		1,071		-1.5%	2,039		2,108		3.4%
Operating Profit	67	6.2%	46	4.3%	-31.5%	108	5.3%	70	3.3%	-35.3%
EBITDA	79	7.3%	78	7.3%	-1.2%	132	6.5%	133	6.3%	0.8%
Net Profit	50	4.6%	32	3.0%	-35.2%	79	3.9%	47	2.3%	-40.1%

※ 463 Stores (as end of 2Q19)

Analysis

▶ 2Q Revenue growth: -1.5% YoY

- Total 463 stores (+1 store YoY)
- Weak sales growth in large home appliances (TV, Refrigerator, etc.) due to high base effect
- Significant sales growth in online mall +44% YoY

▶ 2Q Operating Profit growth: -31.5% YoY

- Decline in gross profit margin due to increased online sales and aggressive promotion events
- Operating profit decreased due to increased SG&A (Labor cost, commission fee, etc.)

Key Strategy

▶ Product Competitiveness Enhancement

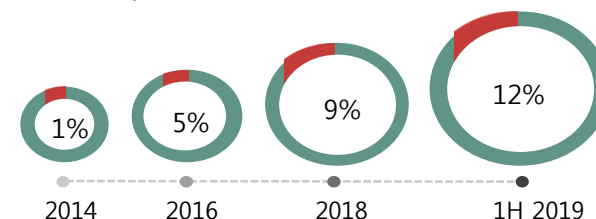
- Premium products expansion focusing on large-size home appliances (High ticket price & profit margin)
- Profitability improvement through exclusive product offerings
 - PB (HIMADE) : Product competitiveness enhancement
 - Exclusive products expansion (NPB, etc.)
- New item expansion (Collaboration with manufacturers and direct sourcing)
- Offering residential related electronics & home appliance maintenance services (Home care & Home reform services)
 - Home care service portfolio diversification (20 service items in 2018 → Aim to operate 23 service items in 2019)

▶ Sales Channel Enhancement

- Offline store competitiveness improvement through store type diversification considering each district's characteristics and consumer type
- Omni-store expansion through road shop renovation (12 stores in 2018 → Aim to expand to 42 stores in 2019)
- Premium store openings focusing on advanced products (Dec, 2018 Ansan Dept.Store)
- Online business enhancement by product portfolio diversification

[Online Mall Sales Portion]

● Offline ● Online Mall



(Unit: billion KRW)

	2Q 2018		2Q 2019		YoY	1H 2018		1H 2019		YoY
Revenue	503		474		-5.9%	993		948		-4.6%
Operating Profit	-14	-	-20	-	-	-24	-	-37	-	-
EBITDA	-8	-	3	0.7%	-	-12	-	8	0.8%	-

※ 553 Stores (as end of 2Q19)

Analysis

▶ SSSG: -2.0% YoY (2Q) / +0.1% YoY (1H)

- Fresh Food -1.2% (Fresh Meat +1.4%, Agricultural Food -1.4%, Convenience Food -1.4%, Seafood -6.1%)
- Processed Food&Household Goods -2.6% (Daily Food -1.0%, Processed Food -1.8%, Household goods -7.2%)
- Total of 553 stores (-9 stores YoY)

▶ Operating Loss increased due to decreased revenue regarding undergoing store restructuring work

(Store closures and renovation)

▶ Expected profit improvement in 2H19 via sales improvement and strict SG&A management

- SKU reduction, labor cost optimization

Key Strategy

▶ Store operation strategy differentiation by store size

	Description
Large Size Store (Above 992m ²)	<ul style="list-style-type: none"> • Store-driven operation (On-site management control including Sourcing, MD) • Food portfolio expansion → Coverage area expansion
Mid Size Store (331m ² ~992m ²)	<ul style="list-style-type: none"> • Metro Areas : Efficiency oriented operation (Standardization of MD, personnel, etc.) • Regional Areas : Hub store operation (Location customized operation through MD reorganization, etc.)
Small Size Store (Less than 331m ²)	<ul style="list-style-type: none"> • Product efficiency improvement (Profit oriented MD, SKU reduction) • Management standardization (Store operation efficiency improvement & personnel optimization)

▶ Online Business Enhancement

① Delivery area expansion

Stores in Regional Areas	Online Dedicated Center
Operation of online dedicated areas in offline stores (7 stores)	Delivery area expansion of existing online dedicated centers (12 stores)
Pohang, Changwon, Gwangyang, Jaechun, etc.	Seoul, Busan, Jeonju, Chuncheon, etc.

② Delivery service innovation

- Standard delivery
- > Night time Delivery
- > 24 hours delivery
- Preemptive implementation among high performance online logistics centers

▶ Customer service enhancement and cost optimization through semi-self check-out counters

- Reduction of labor cost & payment time
- Increase in # of payments



Check out Type	Time taken for payment (Average)	# of payments per hour
Self	80 seconds	45 people
Non-Self	56 seconds	64 people
Semi-Self	42 seconds	87 people

※ Annual Labor Cost Reduction : -710 million KRW YoY (Including Depreciation cost) ※ 27 candidate stores

⑤ Other Business Units - 1

(Unit: billion KRW)

	2Q 2018	2Q 2019	YoY	1H 2018	1H 2019	YoY
Revenue	482	552	14.5%	1,012	1,123	10.9%
Lotte Homeshopping	221	236	6.7%	452	468	3.5%
Lotte Cultureworks	150	178	18.7%	325	379	16.5%
Others	111	138	24.3%	235	276	17.5%
Operating Profit	4	25	508.0%	38	46	18.9%
Lotte Homeshopping	22	33	48.6%	54	66	22.8%
Lotte Cultureworks	-6	5	-	1	13	1,472.0%
Others	-12	-12	-	-17	-34	-

Home Shopping

- ▶ **Gross Sales +12.0% YoY** (924.4 bn KRW → 1.04 tn KRW, +111.1 bn KRW YoY)
 - TV -3.1% YoY (438.5 bn KRW → 425 bn KRW)
 - E-commerce +19.5% YoY (413.4 bn KRW → 494.2 bn KRW)
 - OneTV(TV-Commerce) +72.0% YoY (63.1 bn KRW → 108.4 bn KRW)
 - eTV (Goods sold in internet which was originally sourced for TV sales) +20.2% YoY (203.1 bn KRW → 244.1 bn KRW)
- ▶ **Operating Profit +10.9 bn KRW, +48.6% YoY** (22.3 bn KRW → 33.2 bn KRW)
 - Gross profit +7.7% YoY (190 bn KRW → 204.7 bn KRW, +14.7 bn KRW YoY)
 - SG&A +2.3% YoY (167.6 bn KRW → 171.5 bn KRW, +3.8 bn KRW YoY)
 - Promotion fee +23.2% YoY (7.3 bn KRW → 9 bn KRW)
(paid membership expansion & aggressive eTV promotions)
 - Sales commission fee +140.6% YoY (1.1 bn KRW → 2.7 bn KRW)
 - Broadcasting Fee -5.6% YoY → (69.8 bn KRW → 65.9 bn KRW)

Cultureworks (Cinema)

- ▶ **[Domestic] 2Q19 Revenue growth +18.3% YoY**
 - ※ Total 95 movie theaters (+3 theaters YoY)
 - Movie theater business : Increased box office sales (+19.9%)
(Number of visitors to domestic movie theaters in 2Q19: +20.4% YoY)
 - Investment & distribution business : Increased revenue (+4.7%)
driven by major hits from invested films, performances(musicals, concerts)
- **Operating Loss turned into profit generation driven by increased number of visitors and major hits from invested films and concerts**
(Domestic OP : -4.4 bn KRW → 5.1 bn KRW, +9.5 bn KRW YoY)
- ▶ **[Overseas] 2Q19 Revenue growth +24.1% YoY**
 - ※ Total 45 movie theaters (+9 theaters in Vietnam YoY, +1 theater in Indonesia YoY)
 - Revenue increased by +22.3% YoY in Vietnam via new branch openings
- **Operating Loss improvement via increased number of visitors in Vietnam and rise in ticket price & canteen food price**
(Overseas OP : -1.3 bn KRW → -0.7 bn KRW, +0.6 bn KRW YoY)
- ▶ **2019 3Q Outlook**
 - [Domestic] 5 new branches opening (Directly managed, Consignment)
 - [Overseas] Expected profit growth with local movie releases and 1 new branch opening

3. Non-Operating Profit

(Unit: billion KRW)

	2Q 2018	2Q 2019	YoY	1H 2018	1H 2019	YoY
Operating Profit	87	92	5.7%	308	297	-3.5%
Net Interest Income & Expense	-37	-98	-	-71	-188	-
Gains on Foreign Currency & Derivative Asset	5	0	-94.2%	-4	-6	-
Other Non-Operating Profit	-68	64	-	-70	61	-
Equity Method Gain & Loss	25	23	-6.4%	32	29	-10.6%
Profit Before Tax	12	82	597.5%	194	192	-0.8%
Corporate Tax	22	17	-23.3%	90	40	-55.8%
Discontinued Operation	-204	12	-	-327	34	-
Net Profit	-214	77	-	-224	186	-

Non-Operating Profit

▶ Interest Income & Expense

- Increased interest expense due to new accounting standard adoption(K-IFRS 1116 leases): -57.8 bn KRW YoY, etc.

▶ Other Non-Operating Profit

- Gains on equity method stock disposal 55.9 bn KRW, etc.
(Town Dongtan 36.3 bn KRW, Europe Holdings 19.6 bn KRW)

▶ Profit & Loss of Discontinued Operations

- 2Q19 : 12.2 bn KRW
 ※ Provisions reversal regarding China Hypermarket sell-off, etc.
- 2Q18 : -203.7 bn KRW
 ※ China Hypermarket business withdraw impact, etc.

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

(unit : billion KRW)

	2016	2017	2018	2Q 2018	2Q 2019	YoY	1H 2018	1H 2019	YoY	
FRL Korea* (Lotte: 49.00%)	Revenue	1,209	1,330	1,419	319	336	5.1%	565	598	6.0%
	Operating Profit	127	224	238	57	53	-7.3%	78	66	-14.5%
	Net Profit	105	168	188	50	46	-7.9%	61	56	-6.9%
	Equity Method Gain&Loss	51	82	92	25	23	-7.9%	30	28	-6.9%
ZARA Retail Korea** (Lotte: 20.00%)	Revenue	341	354	367	95	105	10.4%	177	189	6.6%
	Operating Profit	21	15	16	8	11	34.6%	3	12	231.0%
	Net Profit	17	13	15	8	10	26.4%	2	7	251.3%
	Equity Method Gain&Loss	4	3	3	2	2	26.4%	0	1	251.3%

* 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 187 stores as of the end of June 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 June 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**
- **Department Store Yeongdeungpo**
- **Stock Acquisition of Lotte Card**

Income Statement (Consolidated K-IFRS)



(Unit: billion KRW)

	2Q 2018		2Q 2019		YoY	1H 2018		1H 2019		YoY
Revenue	4,413	(100.0%)	4,456	(100.0%)	1.0%	8,747	(100.0%)	8,903	(100.0%)	1.8%
[Gross Sales]	5,917	-	5,917	-	0.0%	11,806	-	11,867	-	0.5%
Gross Profit	1,834	(41.6%)	1,891	(42.4%)	3.1%	3,687	(42.1%)	3,732	(41.9%)	1.2%
SG&A	1,747	(39.6%)	1,799	(40.4%)	3.0%	3,379	(38.6%)	3,435	(38.6%)	1.7%
Operating Profit	87	(2.0%)	92	(2.1%)	5.7%	308	(3.5%)	297	(3.3%)	-3.5%
EBITDA	254	(5.7%)	440	(9.9%)	73.4%	641	(7.3%)	983	(11.0%)	53.3%
Profit Before Tax	12	(0.3%)	82	(1.8%)	597.5%	194	(2.2%)	192	(2.2%)	-0.8%
Continuing operations	-10	-	65	(1.5%)	-	104	(1.2%)	152	(1.7%)	47.2%
Discontinued Operations	-204	-	12	(0.3%)	-	-327	-	34	(0.4%)	-
Net Profit	-214	-	77	(1.7%)	-	-224	-	186	(2.1%)	-
Net Income of Controlling Company	-242	-	51	(1.1%)	-	-278	-	140	(1.6%)	-
Net Income of Minority Interest Equity	28	(0.6%)	26	(0.6%)	-7.3%	54	(0.6%)	46	(0.5%)	-14.6%

Balance Sheet (Consolidated K-IFRS)



(Unit: billion KRW)

	2015*	2016*	2017**	2018	2Q 2019***
Total Assets	40,693	41,916	27,948	26,259	34,235
Cash & Cash Equivalent	3,036	3,185	3,711	2,710	2,344
Inventories	3,266	3,324	1,354	1,267	1,617
Land & Buildings	13,052	13,115	12,677	12,425	13,272
Lease Asset***	-	-	-	-	7,070
Liabilities	23,605	24,652	14,597	13,832	21,748
Borrowings & Bonds	14,084	14,483	7,668	7,795	8,916
Lease Liability***	-	-	-	-	6,562
Equity	17,088	17,264	13,351	12,427	12,488
Share Capital	158	158	141	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)

*** As of 1Q19, use rights of tangible & intangible assets and rents of borrowed assets under the signed contract are recognized as assets and liabilities respectively due to new accounting standard adoption(K-IFRS 1116 leases)

Despite the rise in debt-to-equity ratio, there is no concern of downgrading credit rating since global credit rating companies already have applied the above accounting policies

Store Network

Domestic		2017 Year End Total	2018 Year End Total	2019				2019 Year End Total(E)
				1Q	2Q	3Q(E)	4Q(E)	
Department Store	Full-line Store	30	31	-2				29
	Franchise Store	3	2	1	-1			2
	Young Plaza	2	2	-1				1
	Outlet	21	22					22
	Total	56	57	55	54			54
Hypermarket		123	124	126	125	126	126	126

※ Store Closures in 1H19 (Department Store Incheon, Anyang, Bupyeong, Young Plaza Daegu)

※ Department Store Incheon Terminal was transformed to direct-managed store from consignment management store by stock acquisition

※ Consignment management store : Department Store Yeongdeungpo & Daegu

Overseas		2017 Year End Total	2018 Year End Total	2019				2019 Year End Total(E)
				1Q	2Q	3Q(E)	4Q(E)	
Department Store	Russia*	1	1					1
	China	5	4	-2				2
	Vietnam*	2	2					2
	Indonesia	1	1					1
Hypermarket (Supermarket)	Vietnam	13	13	1			1	15
	Indonesia	46	47	-1			5	51
	Wholesale	29	31				5	36
	Retail	17	16	-1				15
		(2)	(1)					(1)

* Including equity method stores (Moscow, Ho Chi Minh)

※ China Hypermarket sell-off transaction completed in 3Q18

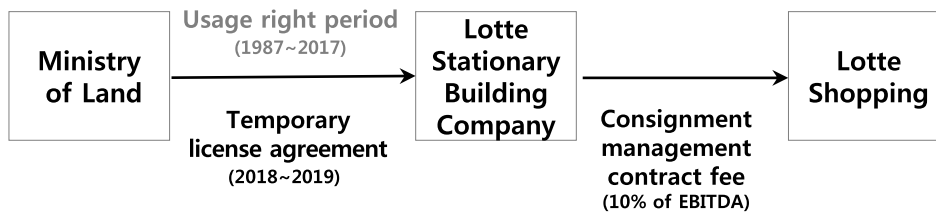
Department Store – Yeongdeungpo

Outline

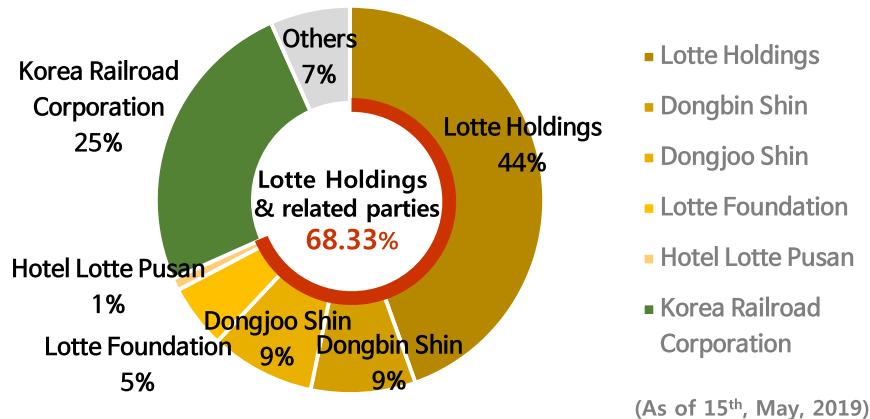
Yeongdeungpo store is located within Yeongdeungpo train station building which is part of private stationary building establishment and operation of department store. Lotte Stationary building company was originally an equity method affiliate company of Lotte Shopping, (25% shares) but it was transferred to Lotte Holding company in October 2017. Since then, Lotte Shopping has been operating the department store in accordance with its consignment management contract with Lotte stationary building company. **In return, Lotte Shopping has been receiving 10% of EBITDA generation for the operation fee of the store which is included as the revenue of other business units.**

Overview & Timeline

Business Structure



Lotte Stationary Building Company Ownership Structure



Timeline



Stock Acquisition of Lotte Card - 1

Lotte Shopping has acquired Lotte Card's stake to utilize and secure big data regarding customer's credit card payment and to prevent leakage of existing data as well as the customer fallout (Disclosed on 28th, June, 2019)

Purpose of Lotte Card Stock Acquisition

1. Sustainable partnership with Lotte Card
(Lotte Card consists of the highest proportion credit card payment amount within Lotte Shopping's sales)
2. To prevent customer migration to competitors
3. Utilize to attract new customers utilizing big data regarding credit card payment information

Stock Acquisition Details

1. Number of shares : 14,948,010 shares (Common Stock)
2. Acquisition Price (Confirmation disclosure on 30th, July, 2019) : Approximately 325.2 billion KRW (21,758 KRW per share)
※ The valuation price was 24,960 KRW per share at the time of its incorporation into Lotte holding company on 12th, October, 2017
3. Lotte Card Ownership Structure

Before stock acquisition			After stock acquisition		
Shareholder	Number of Shares	Shares ratio (%)	Shareholder	Number of Shares	Shares ratio (%)
* Korea Retail Card Holdings	59,664,814	79.83	* Korea Retail Card Holdings	59,664,814	79.83
Lotte Holdings	10,424,039	13.95	Lotte Shopping	14,948,010	20.00
Lotte Capital	3,431,309	4.59			
Hotel Lotte Pusan	762,630	1.02			
Dongbin Shin	202,797	0.27			
Dongjoo Shin	127,235	0.17			
Youngja Shin	127,235	0.17	Youngja Shin	127,235	0.17
Treasury Stock	2	0.00	Treasury Stock	2	0.00
Total	74,740,061	100.00	Total	74,740,061	100.00

- Korea Retail Card Holdings : Established by MBK Partners for investment purposes. MBK partners' rights and obligations of Lotte Card were transferred to Korea Retail Card Holdings on 17th, June, 2019

Stock Acquisition of Lotte Card - 2

Timeline

28th, June

- **Board approval and disclosure**
 - Equity investment to other corporation (Disclosed in accordance to Korea Exchange)
 - Acquisition of stocks from related parties (Disclosed in accordance to Fair Trade Commission)
- **Stock trading contract settlement**

July ~ September (Expected)

- **Major shareholder change approval application**
 - Approval required for major shareholder changes
 - Approval institution: Financial Service Commission
- **Agreement between shareholders**
 - Contract settlement after major shareholder changes approval
 - Contracting companies : Korea Retail Card Holdings – Lotte Shopping
 - Agenda: Director appointment right, management consent right, etc.

Before 11th, October

- **Transaction deadline**
 - To ward off a holding company's restrictions in terms of owning financial or insurance companies (Stipulated in the Fair Trade Act)

Lotte Card Co., Ltd.

● Overview

	Description
Establishment Date	3 rd , December, 2002
History	1 st , Dec, 2003 Merged credit card business division of Lotte Department Store 1 st , Jan, 2015 Spin-off and establishment of Lotte Members Co., Ltd. 12 th , Oct, 2017 Transferred to Lotte Holding company regarding spin-off/merger (Stock ownership before spin-off/merger: 93.78%)
Location	Sowol-ro, Jungu, Seoul
Business Type	Credit Card & Loan Finance Business
Shares Outstanding	74,740,061 shares (Common Stock)

● Key Financials (As end of FY2018)

	Billion KRW	Note
Total Assets	12,922.5	
Liabilities	10,728.8	· # of members : 7.8 million
Equity	2,193.7	
Revenue	1,717.6	· Gross Sales : 71.3 tn KRW (Based on domestic customer credit sales and cash loan)
Operating Expense	1,572.4	
Operating Profit	145.2	· Delinquent Bond Ratio: 1.37% (Overdue debt/Total debt*100)
Net profit	111.3	

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superior products and services that
our customers love and trust

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