

# 2013 Second Quarter Results

August, 2013

**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 provided in this release.

# Highlights for Q2 FY13

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- **Despite unfavorable business conditions, sales increased by +19.7% YoY**

- Department Stores: Moderate revenue growth along with domestic consumption recovery, SSSG +3.3%
- Hypermarkets: Regulatory issues continued to harm same store sales growth, SSSG -3.9%
- Hi mart: Posted strong revenue growth(+25.3%) due to pent-up demand for air-conditioners

- **Operating profit up by +14.8% YoY**

- Domestic dept. stores: Steady revenue growth and efficient expense control led to increased OP by+3.8%
- Domestic hypermarkets: Improvement of new stores & reduced mktg. expenses increased OP by +8.3%
- Credit card: Increased marketing expense related to promotion with Hi mart decreased OP by -3.5%
- Hi mart: Strong operating profit increase driven by high revenue growth and low base effect

- **Net profit up by 32.3% YoY**

- Merger of Midopa resulted in corporate tax adjustment related to deferred tax liabilities

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# 1. Consolidated Financial Results

(Unit : billion KRW)

	Q2 FY'12	Q2 FY'13	YoY	H1 FY'12	H1 FY'13	YoY
<b>Gross Sales</b>	<b>6.1</b> Trillion	<b>7.3</b> Trillion	<b>+19.7%</b>	<b>12.3</b> Trillion	<b>14.4</b> Trillion	<b>+17.1%</b>
<b>Operating Profit (EBITDA)</b>	<b>361</b> <b>(501)</b>	<b>414</b> <b>(586)</b>	<b>+14.8%</b> <b>(+17.0)</b>	<b>725</b> <b>(997)</b>	<b>759</b> <b>(1,098)</b>	<b>+4.7%</b> <b>(+10.1%)</b>
<b>Profit before tax</b>	<b>307</b>	<b>342</b>	<b>+11.3</b>	<b>751</b>	<b>635</b>	<b>-15.4%</b>
<b>Net Profit</b>	<b>212</b>	<b>280</b>	<b>+32.3</b>	<b>538</b>	<b>479</b>	<b>-11.0%</b>

\*Number of consolidated affiliates: 55

## 2. Financial Summary by Division

(Unit : billion KRW)

	Q2 2012		Q2 2013		YoY	1H 2012		1H 2013		YoY
<b>Revenue</b>	<b>6,061</b>	<b>(100%)</b>	<b>7,256</b>	<b>(100%)</b>	<b>19.7%</b>	<b>12,258</b>	<b>(100%)</b>	<b>14,353</b>	<b>(100%)</b>	<b>17.1%</b>
Department Stores	2,120	(35.0%)	2,095	(28.9%)	-1.2%	4,255	(34.7%)	4,220	(29.4%)	-0.8%
Hypermarkets	2,117	(34.9%)	2,248	(31.0%)	6.2%	4,462	(36.3%)	4,612	(32.2%)	3.4%
Hi mart**	-		921	(12.7%)	-	-		1,650	(11.5%)	-
Finance	370	(6.1%)	452	(6.2%)	22.0%	765	(6.2%)	877	(6.1%)	14.6%
Others*	1,454	(24.0%)	1,540	(20.2%)	5.9%	2,776	(22.7%)	2,994	(20.8%)	7.9%
<b>Operating Profit</b>	<b>361</b>	<b>6.0%</b>	<b>414</b>	<b>5.7%</b>	<b>14.8%</b>	<b>725</b>	<b>5.9%</b>	<b>759</b>	<b>5.3%</b>	<b>4.7%</b>
Department Stores	184	8.7%	179	8.5%	-2.6%	378	8.9%	356	8.4%	-5.8%
Hypermarkets	67	3.2%	65	2.9%	-2.7%	162	3.6%	128	2.7%	-21.5%
Hi mart**	-		65	7.0%	-	-		95	5.8%	-
Finance	72	19.6%	70	15.5%	-3.5%	125	16.4%	115	13.1%	-8.0%
Others*	38	2.8%	35	2.7%	-7.8%	60	2.2%	65	2.2%	8.3%

\* includes consolidation adjustments

\*\* Earnings consolidated from Nov. 2012

# Department Stores

(Unit : billion KRW)

	Q2 FY'12		Q2 FY'13		YoY	1H FY'12		1H FY'13		YoY
<b>Revenue</b>	<b>2,120</b>	<b>(100%)</b>	<b>2,095</b>	<b>(100%)</b>	<b>-1.2%</b>	<b>4,255</b>	<b>(100%)</b>	<b>4,220</b>	<b>(100%)</b>	<b>-0.8%</b>
Domestic	2,115	(99.8%)	2,085	(99.5%)	-1.5%	4,245	(99.8%)	4,201	(99.6%)	-1.0%
Overseas	5	-	10	(0.5%)	98.6%	10	(0.2%)	19	(0.4%)	94.4%
<b>Operating Profit</b>	<b>184</b>	<b>8.7%</b>	<b>179</b>	<b>8.6%</b>	<b>-2.6%</b>	<b>378</b>	<b>8.9%</b>	<b>356</b>	<b>8.4%</b>	<b>-5.8%</b>
Domestic	190	9.0%	197	9.5%	3.8%	392	9.2%	387	9.2%	-1.1%
Overseas	-6	-	-18	-	-	-14	-	-31	-	-
<b>EBITDA</b>	<b>236</b>	<b>11.1%</b>	<b>245</b>	<b>11.7%</b>	<b>3.9%</b>	<b>476</b>	<b>11.2%</b>	<b>484</b>	<b>11.5%</b>	<b>1.8%</b>
Domestic	241	11.4%	260	12.5%	8.0%	487	11.5%	509	12.1%	4.6%
Overseas	-5	-	-15	-	-	-11	-	-25	-	-

\*Includes 44 Lotte Department Stores : Domestic 40 stores(including 8 outlets) / Overseas 3 stores in China, 1 store in Indonesia

## Key Factors

- ◆ Domestic gross revenue grew by +4.7% due to improved consumer sentiment & well- timed seasonal promotions(based on managerial accounting)
- ◆ Domestic SSSG of +3.3%
  - High revenue growth continued for home appliances such as air conditioners and luxury goods
  - Home Appliance(+27.2%), Leisure Sports(+20.8%), Luxury Goods(+7.7%)
- ◆ Moderate revenue growth & effective management of SG&A led to steady operating profit
  - 7 - Efficient spending of advertisement & marketing expenses
- ◆ Store openings in 2Q
  - China: Weihai store(April) / Indonesia: Jarkarta store(June)
- ◆ Store opening schedule in 2H
  - Domestic: Buyeo outlet(Sept.), Icheon outlet(Dec.)
  - Overseas: Chengdu in China(Aug.)
- ◆ Store expansion of Gimhae outlet(+18.8K sqm, +70%) completed in June

# Hypermarkets

(Unit : billion KRW)

	Q2 FY'12		Q2 FY'13		YoY	1H FY'12		1H FY'13		YoY
<b>Revenue</b>	<b>2,117</b>	<b>(100%)</b>	<b>2,248</b>	<b>(100%)</b>	<b>6.2%</b>	<b>4,462</b>	<b>(100%)</b>	<b>4,612</b>	<b>(100%)</b>	<b>3.4%</b>
Domestic	1,510	(71.4%)	1,567	(69.6%)	3.8%	3,178	(71.4%)	3,217	(69.6%)	1.2%
Overseas	607	(28.6%)	681	(30.4%)	13.4%	1,284	(28.6%)	1,395	(30.4%)	9.8%
<b>Operating Profit</b>	<b>67</b>	<b>3.0%</b>	<b>65</b>	<b>2.8%</b>	<b>-2.7%</b>	<b>162</b>	<b>3.5%</b>	<b>128</b>	<b>2.8%</b>	<b>-21.5%</b>
Domestic	78	5.2%	85	5.4%	8.3%	177	5.6%	162	5.0%	-8.4%
Overseas	-12	-	-20	-	-	-14	-	-35	-	-
<b>EBITDA</b>	<b>114</b>	<b>5.4%</b>	<b>118</b>	<b>5.2%</b>	<b>3.1%</b>	<b>257</b>	<b>5.7%</b>	<b>232</b>	<b>5.0%</b>	<b>-9.4%</b>
Domestic	111	7.4%	122	7.8%	9.7%	243	7.6%	236	7.5%	-2.6%
Overseas	3	-	-4	-	-	14	-	-4	-	-

\*246 Stores: Korea 105, China 105, Indonesia 32, Vietnam 4

## Domestic

- ◆ SSSG: -3.9% (Fresh -8.6%, Processed -3.8%, Living -1.3%, Apparel -4.0, Electronics +4.0%)
- ◆ Customers became accustomed to Sunday store closures & positive impact from low base effect led to improved SSSG trends
- ◆ No. of store closures end of 2Q(102ea: 42 voluntary closures / 60 forced closures)
- ◆ Higher revenue thanks to new stores in 2012 & efficient SG&A management led to increased operating profit

## Overseas

- ◆ Overseas SSSG improved QoQ
  - China: +3.2%, Indonesia: +8.6%, Vietnam: +10.2%
- ◆ Profit from mature stores improved while loss from 30 new stores dampened overall profit
  - Weak cost competitive due to lack of economies of scale in newly launched regions(Shenyang, Chengdu)
  - Margin improvement in progress(Sub-lease terms, cost structure, integrated procurement, etc.)

**LOTTE SHOPPING CO., LTD**



# Finance

## Summary Income Statement

(Unit : billion KRW)	2Q 2012	2Q 2013	YoY	1H FY'12	1H FY'13	YoY
<b>Operating Revenue</b>	<b>370</b>	<b>452</b>	<b>22.0</b>	<b>765</b>	<b>877</b>	<b>14.6</b>
Credit Purchase	198	217	9.5	390	415	6.5
Card Loan & Cash Advance	123	124	1.4	244	250	2.7
Others*	50	111	123.2	132	212	60.2
<b>Operating Expense</b>	<b>298</b>	<b>382</b>	<b>28.2</b>	<b>640</b>	<b>762</b>	<b>19.0</b>
SG&A	28	29	3.3	56	59	4.3
Finance Expense	55	50	▲8.5	112	102	▲8.5
Loan Loss Provision	25	17	▲32.3	70	55	▲20.8
Card Expense	154	195	26.6	300	365	21.9
General Expense*	35	90	157.5	102	180	75.7
<b>Operating Profit</b>	<b>72</b>	<b>70</b>	<b>▲3.5</b>	<b>125</b>	<b>115</b>	<b>▲8.0</b>

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'11	FY'12	Q1 FY'13	Q2 FY'13
Transaction Volume	47.1	50.7	12.9	13.7
No. of Holders	8,835	8,058	8,125	8,266
Delinquency Rate	1.96	2.23	2.22	2.19

## Earning Asset Portfolio

	FY'11	FY'12	Q1 FY'13	Q2 FY'13
Credit Purchase	60.0	61.4	60.2	50.5
Card Loan	20.5	20.8	20.7	21.8
Cash Advance	14.4	12.9	12.8	12.3
Installment & lease	5.1	4.9	6.2	4.4

## Key Factors

- ◆ Operating revenue +7.7%(excluding gains/losses on derivatives)
  - Transaction volume increased +12.3% : associated card with Hi mart (transaction volume 320 billion won) & aggressive mktg.
  - Increased inbound transactions & enhanced 'Life Service' led to increased other operating revenue
- ◆ Operating expenses
  - With the initiation of 『People's Happiness Fund』 at the end of March, accounts receivables related to the fund were sold, which lowered overall bad debt allowances(applied to all credit card industry)
  - Card expenses increased due to aggressive marketing activities such as co-promotion with Hi mart from Feb. 2013

	2Q 2012		2Q 2013		YoY	1H 2012		1H 2013		YoY
<b>Revenue</b>	<b>735</b>	<b>(100%)</b>	<b>921</b>	<b>(100%)</b>	<b>25.3%</b>	<b>1,431</b>	<b>(100%)</b>	<b>1,650</b>	<b>(100%)</b>	<b>15.3%</b>
<b>Operating Profit</b>	<b>33</b>	<b>4.5%</b>	<b>65</b>	<b>7.0%</b>	<b>96.2%</b>	<b>64</b>	<b>4.5%</b>	<b>95</b>	<b>5.8%</b>	<b>49.4%</b>
<b>EBITDA</b>	<b>44</b>	<b>6.0%</b>	<b>76</b>	<b>8.2%</b>	<b>71.8%</b>	<b>85</b>	<b>5.9%</b>	<b>117</b>	<b>7.1%</b>	<b>37.7%</b>
<b>Net Profit</b>	<b>13</b>	<b>39.4%</b>	<b>48</b>	<b>73.5%</b>	<b>266.1%</b>	<b>25</b>	<b>39.1%</b>	<b>67</b>	<b>4.1%</b>	<b>166.6%</b>

\*Hi mart's earnings for 2Q 2013 is provided in order to compare with earnings for 2Q 2013(Earnings are consolidated from Nov.,2012)

## Key Factors

- ◆ 2Q Revenue growth: +25.3%
  - A/C: Weak sales in 1H 2012 resulted in higher sales growth
  - White goods: More demand for big-sized fridges & washing machines
- ◆ Additional bargain sale from May 3<sup>rd</sup> to 26<sup>th</sup> resulted in stronger revenue growth(3 times in 2012 → 4 times in 2013)
- ◆ Lower interest expenses due to funding structure change(reduced interest expense by 10 billion won)
- ◆ 329 stores in total, end of 2Q 2013(4 new stores)
  - includes Hi mart in Jamsil Lotte Mart(former Digital Park)
- ◆ FY2013 2H forecasts
  - Conversion of Digital park to Hi mart in Q3(4~5 stores)
  - Strong Kimchi refrigerators sales are expected(high cabbage price led to weak Kimchi refrigerator sales in 2012)
  - Bargain sale in July & November are planned
  - Decreased interest expense will continue in 2H

# Other Business Units

(Unit : billion KRW)

	Q2 FY'12	Q2 FY'13	YoY	1H FY'12	1H FY'13	YoY
<b>Revenue</b>	<b>1,454</b>	<b>1,540</b>	<b>5.5%</b>	<b>2,776</b>	<b>2,994</b>	<b>7.9%</b>
Lotte Super	580	583	0.6%	1,140	1,150	0.9%
Lotte Home Shopping	182	208	14.6%	357	409	14.7%
Korea Seven	626	647	3.3%	1,159	1,231	6.2%
Others	66	102	52.2%	120	204	70.0%
<b>Operating Profit</b>	<b>38</b>	<b>35</b>	<b>-0.3%</b>	<b>60</b>	<b>65</b>	<b>8.3%</b>
Lotte Super	19	10	-48.5%	29	18	-38.6%
Lotte Home Shopping	9	17	89.9%	26	34	28.8%
Korea Seven	24	21	-11.2%	32	28	-12.8%
Others	-14	-13	-	-27	-15	-

# 3. Non-Operating Profit Analysis

(Unit : billion KRW)

	Q2 FY'12	Q2 FY'13	YoY	1H FY'12	1H FY'13	YoY
<b>Operating Profit</b>	<b>361</b>	<b>414</b>	<b>14.7%</b>	<b>725</b>	<b>759</b>	<b>4.7%</b>
<b>Interest Income / Expense</b>	<b>-20</b>	<b>-38</b>	<b>-</b>	<b>-36</b>	<b>-77</b>	<b>-</b>
<b>Gains on Foreign Exchange &amp; Derivative Asset</b>	<b>-33</b>	<b>-23</b>	<b>-</b>	<b>6</b>	<b>-25</b>	<b>-</b>
<b>Other Financial Income / Expense</b>	<b>-12</b>	<b>16</b>	<b>-</b>	<b>24</b>	<b>3</b>	<b>-</b>
<b>Equity Method Gain &amp; Loss</b>	<b>10</b>	<b>-28</b>	<b>-</b>	<b>33</b>	<b>-25</b>	<b>-</b>
<b>Profit Before Tax</b>	<b>307</b>	<b>342</b>	<b>11.3%</b>	<b>751</b>	<b>635</b>	<b>-15.4%</b>

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# Income Statement (Consolidated K-IFRS)

(Unit: billion KRW)

	Q2 FY'12		Q2 FY'13		YoY	1H FY'12		1H FY'13		YoY
<b>Revenue</b>	<b>6,061</b>		<b>7,256</b>		<b>19.7%</b>	<b>12,258</b>		<b>14,353</b>		<b>17.1%</b>
<b>Gross Profit</b>	1,827	(30.1%)	2,170	(29.9%)	18.8%	3,620	(29.5%)	4,227	(29.4%)	16.8%
<b>SG&amp;A</b>	1,466	(24.2%)	1,756	(24.2%)	19.8%	2,895	(23.6%)	3,468	(24.2%)	19.8%
<b>Operating Profit</b>	361	(6.0%)	414	(5.7%)	14.8%	725	(5.9%)	759	(5.3%)	4.7%
<b>EBITDA</b>	<b>501</b>	<b>(8.3%)</b>	<b>586</b>	<b>(8.1%)</b>	<b>17.0%</b>	<b>997</b>	<b>(8.1%)</b>	<b>1,098</b>	<b>(7.7%)</b>	<b>10.1%</b>
<b>Profit before tax</b>	307	(5.1%)	342	(4.7%)	11.3%	751	(6.1%)	635	(4.4%)	-15.4%
<b>Net Profit</b>	<b>212</b>	<b>(3.5%)</b>	<b>280</b>	<b>(3.9%)</b>	<b>32.3%</b>	<b>538</b>	<b>(4.4%)</b>	<b>479</b>	<b>(3.3%)</b>	<b>-11.1%</b>
<b>Net Income of Controlling Company</b>	194	(3.2%)	246	(3.4%)	26.9%	504	(4.1%)	430	(3.0%)	-14.6%
<b>Net income of minority interest equity</b>	18.2	(0.3%)	34.7	(0.5%)	90.7%	34	(0.3%)	49	(0.3%)	41.6%

# Balance Sheet (Consolidated K-IFRS)

(Unit: billion KRW)

	1Q '12	2Q '12	3Q '12	4Q '12	1Q '13	2Q '13
<b>Total assets</b>	<b>32,924</b>	<b>33,235</b>	<b>35,001</b>	<b>36,857</b>	<b>37,713</b>	<b>38,105</b>
Cash & Cash Equivalent	2,205	2,277	3,160	1,675	2,057	2,050
Inventories	2,039	1,955	2,266	2,750	2,913	2,906
<b>Liabilities</b>	<b>17,952</b>	<b>18,046</b>	<b>19,639</b>	<b>21,138</b>	<b>21,787</b>	<b>21,793</b>
Borrowings & Bonds	9,834	10,167	10,973	12,125	12,342	12,761
<b>Equity</b>	<b>14,972</b>	<b>15,189</b>	<b>15,362</b>	<b>15,718</b>	<b>15,926</b>	<b>16,312</b>
Share Capital	145	145	145	145	158	158

# Lotte Marts in Overseas

(Unit : billion KRW)

	No. of stores	2Q FY'12	2Q FY'13	YoY	YoY*
<b>China</b>	<b>105</b>	<b>337</b>	<b>376</b>	<b>11.5%</b>	<b>11.1%</b>
<b>Indonesia</b>	<b>35</b>	<b>254</b>	<b>279</b>	<b>10.0%</b>	<b>16.4%</b>
<b>Vietnam</b>	<b>4</b>	<b>16</b>	<b>25</b>	<b>57.0%</b>	<b>59.8%</b>
<b>Total</b>	<b>141</b>	<b>607</b>	<b>681</b>	<b>13.4%</b>	<b>14.9%</b>

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



# Store Network

<b>Domestic</b>		2009	2010	2011	2012	2013				2013
		Year End	Year End	Year End	Year End	Openings				Year End
		Total	Total	Total	Total	Q1	Q2	Q3(E)	Q4(E)	Total(E)
Department Store	full-line store	23	23	24	*29					29
	franchise store	3	6	6	2					2
	young plaza	3	3	3	3					3
	outlet mall	3	4	6	7	1		1	1	10
Hypermarket		69	90	95	103	** -2/+2	1	3	4	111

<b>Overseas</b>		2009	2010	2011	2012	2013				2013
		Year End	Year End	Year End	Year End	Openings				Year End
		Total	Total	Total	Total	Q1	Q2	Q3(E)	Q4(E)	Total(E)
Department Store	Russia	1	1	1	1					1
	China	1	1	2	3		1	1		5
	Indonesia						1			1
Hypermarket	China	79	82	94	102	3	-2/+2		7	112
	Vietnam	1	2	2	4				2	6
	Indonesia	19	22	28	31	1		2	5	39

\* Acquired GS Square(3 stores) in August, 2012. Merged Midopa(1 store) in January, 2013

\*\* 2 old stores(Yeongdeungpo, Dobong) closed and re-opened to VIC market stores